walker wayland

Giaconda LIMITED

GIACONDA LIMITED

A.B.N. 68 108 088 517

FINANCIAL REPORT

YEAR ENDED

30 JUNE 2010

Contents **Page**

Directors' Report

Your Directors present their report on Giaconda Limited (Giaconda or the Company) for the financial year ended 30 June 2010 together with the financial report and the auditors' report.

Principal Activities

The principal activities during the year focused on raising funds through the sale of intellectual property to fund maintenance and further development of the Company's remaining products. As referred to throughout this annual report, on 16 August 2010, the Company entered into an agreement to sell all of the intellectual property in Myoconda, Picoconda and Heliconda.

Directors

The names of the directors of Giaconda in office at any time during the period and to the date of this report are:

Prof. Thomas Borody	Director and Chief Medical Officer
Patrick McLean	Acting Chairman and Chief Executive Officer
Trevor Moore	Director
Chris Bilkey	Director

All Directors have been in office from the 1 July 2009 to the date of this report.

Review of Operations

Below is Giaconda's progress, milestones and highlights achieved throughout the year to the date of this report.

Giaconda has been able to continue to financially operate through loans from its Directors.

Maintenance of Intellectual Property

The following product pipeline of company owned intellectual property was maintained throughout the twelve month period:

- **Myoconda®**, a triple antibiotic therapy to treat moderate to severe Crohn's Disease where infection of *Mycobacterium avium ssp. paratuberculosis* is present and standard therapy has not been effective.
  - Patents granted in United States, Australia, New Zealand, South Africa, Israel and Philippines
  - Patents pending in Argentina, Canada, Europe, Japan, Norway and Philippines (divisional application)

- **Hepaconda®**, a dual therapy to treat Hepatitis C virus, especially genotype one, where standard therapy has not been effective.
  - Patents granted in Australia and New Zealand
  - Patents pending in Canada, Europe, Japan and United States

- **Heliconda®**, a triple therapy to treat resistant *Helicobacter pylori* infection where standard therapy has failed.
  - Patents granted in United States, Australia, Europe and Canada

- **Ibaconda®**, a dual therapy to treat constipation predominant Irritable Bowel Syndrome where other therapies have failed.
  - Patents granted in United States, Europe, Australia and South Africa
  - Patent pending in Canada

- **Picoconda®**[1], a bowel preparation designed to reduce the poor taste of present bowel preparation products and provide a clear view of the bowel mucosa during colonoscopy
  - Patents granted in United States, Australia and New Zealand
  - Patents pending in Canada and Europe

These are the basis of the initial development and licensing activities of Giaconda. Giaconda was offered the opportunity, under its first right of refusal, to acquire additional intellectual property from Professor Borody and the Centre for Digestives. Giaconda declined the offer but the offer to Prof. Borody and CDD was not completed thus the additional intellectual property is still available to Giaconda.

[1] Picoconda™ was developed in conjunction with Mr Nic Shortis, whose company, Pharmatel Research and Development Pty Limited (ACN 104 997 328) retains a 50% interest in the patent. All other patents are owned solely by Giaconda

Directors' Report

Progress on the Product Pipeline

Ibaconda®

Ibaconda was the subject of an announcement made on 2 March 2010 whereby a Collaborative Research Agreement was signed with The Centre for Digestive Diseases (CDD). In this agreement CDD assumed control and the cost of ongoing research and development of Ibaconda including costs incurred by the Company from 1 September 2010. Giaconda will remain responsible for commercialization of the therapy and, if the treatment is successfully commercialized, CDD will receive 10% of all revenues received there from.

Heliconda®

The Company announced on 23 April 2010 that it had entered into an exclusive agreement with Sydney Compounding Chemist (SCC) to allow use of its Heliconda formulation for the unmet need of Helicobacter pylori infection failures in Australia. The Company is to receive a royalty on each Heliconda treatment sold by SCC.

Hepaconda®

No progress was made on the development of Hepaconda due to a lack of resources prior to the above detailed agreement for Myoconda, Picoconda and Heliconda.

Personnel

Giaconda employs one individual; the Chief Executive Officer (Patrick McLean). Professor Tom Borody is contracted as Chief Medical Officer through the Centre for Digestive Diseases.

Operating Results

The loss of the company for the financial year after providing for income tax amounted to $1,307,633 (2009: $1,092,712)

Dividends Paid

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

Environmental Regulation

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth, State or Territory of Australia.

Significant Changes in the State of Affairs

In the opinion of the Directors of Giaconda there were no significant changes in the state of affairs of the entity that occurred during the financial year under review.

Likely Developments

It is the opinion of the Directors that disclosure of information regarding likely developments in the operations of the consolidated entity and the expected results of those operations would prejudice the interest of Giaconda. On completion of any commercially sensitive issues Giaconda will adhere to its continuous disclosure policy and make timely announcements to the ASX.

After Balance Date Events

The Company entered into an agreement with RedHill Biopharma for the purchase of Myoconda, Heliconda and Picoconda for US$500,000 plus 7% of the net sales earned by RedHill from a commercialised treatment and 20% of sublicensing receipts after certain development costs have been deducted. US$100,000 was paid as an advance to the completion of the agreement and was secured by a fixed mortgage over all the intellectual property in Myoconda, Heliconda and Picoconda, as well as by a featherweight floating charge over all the assets and undertakings of the Company. Under the terms of the agreement, RedHill will assume all costs for the development of the patents through to regulatory approval and will be responsible for the commercialisation of the approved products.

Giaconda has an option to buy back the patents and the associated intellectual property at their acquisition and development cost if RedHill fails to commercialise the patents in accordance with the agreement.

In addition, RedHill assumes Giaconda's rights to future gastrointestinal treatments or therapies developed by Professor Borody or the Centre for Digestive Diseases.

Directors' Report

Information on the Board

Director	**Qualifications, Experience and Background**	**Directors' Interests**
Executive Directors		
P.L. McLean	Patrick McLean B.S. holds a Bachelor of Science degree in Chemistry from the University of Minnesota. After 4 years in protein nutrition research, he moved into sales and marketing and has spent the past 24 years in the pharmaceutical industry. In 1999 he joined Axcan Pharma, the largest dedicated gastrointestinal company in the world, as Vice President, Sales and Marketing for North America and ultimately became Senior Vice President for European Commercial Operations where he built Axcan's European business in France, Germany, the UK and Poland. In addition he established a licensing and distribution network with pharmaceutical companies across 18 countries including 3 in S.E. Asia. He is a past president and honorary lifetime member of the Pharmaceutical Marketing Club of Québec and is fluently bilingual in English and French. From June 2002 to June 2004 Patrick was a Director of Axcan Pharma S.A. *Executive Position:* Chief Executive Officer. *Special Responsibilities:* Acting Chairman, Chair of the Nomination Committee and a member of the Remuneration Committee. *Giaconda Directorship:* Patrick joined the Board on 16 November 2004 and was re-elected by the members on 30 October 2006 at the 2006 AGM. He was appointed Acting Chairman on 20 October 2008. *Directorship in other listed entities*: Nil	None
T. J. Borody	Prof. Thomas Borody MBBS, MD, PhD, FRACP, FACG, FACP, AGAF holds a doctorate in medicine from the University of New South Wales and is the founder and current Medical Director of the Centre for Digestive Diseases. He has been a recipient of the Winthrop Travelling Fellowship, the Neil Hamilton Fairly Fellowship and the Marshall & Warren Prize, and was a Clinical Fellow in Gastroenterology at the Mayo Clinic in Rochester, Minnesota. He is a member of the Australian Medical Association, the Gastroenterological Society of Australia, the European Gastroenterology Society, the Functional Brain-Gut Research Group and Fellow of the American College of Gastroenterology and the American College of Physicians. Professor Borody supervises a number of major research programs as well as being involved as a reviewer for the American Journal of Gastroenterology, Digestive Diseases and Sciences, Endoscopy, Journal of Gastroenterology and Hepatology, Medical Journal of Australia and Digestive and Liver Diseases. He has published in excess of 160 scientific papers. In 2004 he was appointed an Adjunct Professor of the Faculty of Science at the University of Technology, Sydney and in July 2005, Professor Borody was awarded his PhD from the University of Newcastle. Tom is Chief Medical Officer, under a Services Agreement between the Centre for Digestive Diseases and Giaconda Limited. *Executive Position:* Chief Medical Officer. *Special Responsibilities:* Nil *Giaconda Directorship:* Tom was the initial Director at registration of the company on 23 February 2004 was re-elected by the members on 16 November 2005 at the 2005 AGM. *Directorship in other listed entities*: Nil	49,892,714 ordinary shares 1,220,000 ordinary shares - B&F Superannuation Fund

Directors' Report

Independent Non-Executive Directors		
C Bilkey	Chris Bilkey was Vice President of Pharmacia for the Asia Pacific region and was active in the pharmaceutical industry for over 24 years with experience in a broad range of sales and marketing, operational, and corporate strategic roles. He was previously Sales and Marketing Director of Pharmacia, responsible for the identification and pursuit of business development opportunities as well as the creation and implementation of all sales and marketing plans and the operation's strategic plans. Chris played a leading role in facilitating the merging of Pharmacia and Upjohn Companies in Australia. He was then appointed the Australasian President of Pharmacia and Upjohn, delivering over-budget sales and earnings in the region for both 1998 and 1999 and establishing key commercial, research and development, and government alliances. Chris has participated in the Executive Group for Pharmacia's Asia Pacific region. *Special Responsibilities:* Chris is a member of the Remuneration, Audit, Risk & Compliance and Nomination Committees. *Giaconda Directorship:* Chris became a Director on 19 January 2009. *Directorship in other listed entities*: Nil	2,259,609 ordinary shares
T. Moore	Trevor Moore, MPS, PHC, JP a registered pharmacist, graduated from the University of Sydney in 1961. Since that time, he has owned and operated various retail pharmacies around Sydney. Trevor moved into Sales and Marketing with Burroughs Wellcome in Sydney and then progressed on to become Founder and Managing Director of Stephen Hunter Pty Ltd (of Chemist Own brand fame). In recent years, Trevor has become a full-time fund-manager and investor. *Special Responsibilities:* Trevor is Chair of the Remuneration and Audit, Risk & Compliance Committees and a member of the Nomination Committee. *Giaconda Directorship:* Trevor became a Director on 14 December 2004 and was re-elected by the members on 15 October 2007 at the 2007 AGM. *Directorship in other listed entities*: Nil	253,609 ordinary shares

Directors' Relevant Interests

The relevant interest of each director in shares and options issued by the Company as notified by the directors to the ASX in accordance with section 205G(1) of the *Corporations Act* 2001 (Cth), at the date of this reports are included in the table above.

Information on Company Secretary

Name	Qualifications, Experience and Background
M. Alvaran	Margaux Alvaran BSc (Bio), CCRC is the Clinical Research Manager at The Centre for Digestive Diseases (CDD). She has worked at CDD since March, 2004 and has been directly involved in many of the research studies on the Company's suite of therapies. She has begun working on her Certificate in Corporate Governance. She has been appointed Company Secretary by the Board since 5 February 2010.

Corporate Governance Statement

This statement outlines the corporate governance practices of Giaconda. Giaconda's corporate governance practices are in accordance with the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*, unless otherwise stated.

The Directors of Giaconda support and adhere to the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*, recognising the need for the highest standard of corporate behaviour, accountability and transparency. All the best practice recommendations of the ASX have been implemented by the Company and are reviewed periodically.

Directors' Report

Board of Directors and its Composition

Each of the Directors brings expertise, skills and experience relevant to that needed to support the nature of Giaconda's business and to manage the direction and performance of the Company. This includes significant experience in managing larger pharmaceutical companies, in the raising and management of outside funds, in the domain of medical science, in licensing pharmaceutical therapies, in dealings with suppliers and manufacturers and in establishing academic relationships that foster scientific development.

Giaconda's Board Charter outlines the composition, general responsibilities, specific powers, Board Committees, delegated responsibility and Board self-performance evaluation. The Board is ultimately responsible for the direction and performance of Giaconda. The role of management is to propose strategies and execute agreed plans.

The structure of the Board and the knowledge and experience that each Director brings to the Board is fundamental to Giaconda achieving its objectives. Giaconda's Board comprises of four directors with a two directors being non-executive independent directors; Mr Trevor Moore and Mr Chris Bilkey and two Executive Directors; Professor Tom Borody and Mr Patrick McLean.

Giaconda assesses a director as independent if they are a non-executive director (i.e. not a member of management) and:

- is not a substantial shareholder of Giaconda or an officer of, or otherwise associated directly with, a substantial shareholder of Giaconda;
- within the last three years has not been employed in an executive capacity by Giaconda;
- within the last three years has not been a principal of a material professional adviser or a material consultant to Giaconda, or an employee materially associated with the service provided;
- is not a material supplier or customer of Giaconda, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with Giaconda other than as a director of Giaconda;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of Giaconda; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of Giaconda.

The performance of Giaconda is monitored against approved Business Plans and Strategies by the Board in regular Directors' meeting including a review of the status of the licensing of Giaconda's products and evaluating alternate funding strategies, critical evaluation of the clinical, regulatory and manufacturing plans, review of the status of the Company's intellectual property and financial analysis.

Directors will avoid potential conflicts of interest that may arise from their association with organisations with which the Company might have ongoing commercial relationships by withdrawing from all deliberations. Any Director may seek independent professional advice as considered necessary at Giaconda's expense with the prior approval of the Chair. Each Director has the right to access all relevant Company information and the Company's executives.

The Board considers that the current composition of directors, including their expertise, skills and experience, and the CEO being the Acting Chairman is appropriate for the current size and operations of the Company.

Giaconda is adhering to and acting in accordance the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations, Principle 1*, *Principle 2, Principle 3 and Principle 5.*

Directors' Report

Meetings of Directors

The number of meetings of Giaconda's Board of Directors and Board Committees held during the financial year ended 30 June 2010, and the number attended by directors were:

Name	Directors' Meetings		Audit, Risk & Compliance Committee Meetings		Nomination Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B	A	B
Tom Borody	14	14	-	-	-	-	-	-
Patrick McLean	14	14	-	-	-	-	-	-
Trevor Moore	14	14	4	4	-	-	-	-
Chris Bilkey	14	14	4	4	-	-	-	-

A Number of eligible meetings held in FY10

B Number attended

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee continues to review and make recommendations to the Board on the Company's financial reporting, internal control structure, audit function and risk management systems.

The members of the Audit, Risk and Compliance Committee are:

Trevor Moore, Chair, Independent Non-Executive Director

Chris Bilkey, Independent Non-Executive Director

The composition of the Audit, Risk and Compliance Committee is that all members are non-executive directors and a majority are independent directors. The Committee invites the Auditor and Executives to meetings as required by the Committee.

Giaconda is adhering to and acting in accordance the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations, Principle 4 and Principle 7.*

Nomination Committee

The Nomination Committee reviews and makes recommendations to the Board in relation to the nomination of persons to the Board and evaluation of Board performance. No meetings of the Nomination Committee were held durint the fiscal year.

The members of the Nomination Committee are:

Patrick L. McLean, Chair, Executive Director and Acting Chairman

Chris Bilkey, Independent Non-Executive Director

Trevor Moore, Independent Non-Executive Director

The composition of the Nomination Committee is a majority of independent directors.

Giaconda is adhering to and acting in accordance the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations, Principle 8.*

Directors' Report

Remuneration Committee

Remuneration Committee reviews and makes recommendations to the Board on the Company's remuneration policy and the remuneration packages of executive officers and the Board. No meetings of the Remuneration Committee were held during the fiscal year.

The members of the Remuneration Committee are:

Trevor Moore, Chair, Independent Non-Executive Director

Chris Bilkey, Independent Non-Executive Director

Patrick L. McLean, Executive Director and Acting Chairman

The composition of the Remuneration Committee is a majority of independent directors and the Chair who is an independent director. The CEO is invited to attend the Remuneration Committee meetings as required by the Committee.

Giaconda is adhering to and acting in accordance with the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations, Principle 9.*

Ethical Standards

All directors, officers and employees are expected to act with objectivity, independence and integrity trying at all times to enhance the performance and reputation of the Company.

Giaconda has a Securities Trading Policy in place. The Policy specifies a protocol for the appropriate trading by directors, officers and employees in Giaconda securities and is available on Giaconda website.

Directors must keep the Board advised on an ongoing basis of any potential conflicts of interest.

Giaconda has a Continuous Disclosure Policy where communication to shareholders and the community occurs through notifying the ASX and posting the information on the Company's website. The identification of issues that may have a material effect on the price of Giaconda securities are part of Giaconda's Continuous Disclosure Policy and an obligation under the ASX Listing Rules which the Company takes seriously. Announcements made to the market under the continuous disclosure obligation and information provided to shareholders, the media and analysts is released to the ASX first and then posted on Giaconda's website.

Relationship with Shareholders and Stakeholders

Giaconda continues to use the internet as the main method of communicating to shareholders and stakeholders. Information is disseminated through Giaconda's continuous disclosures to the ASX and on its website www.giacondalimited.com. This provides the most cost effective method of communication but involves people interested in Giaconda going to the ASX website and Giaconda's website. Disclosures to the ASX are uploaded to Giaconda's website the same day they are posted and aim to provide ready access to balanced and understandable information about the company and its progress.

Shareholders are encouraged to attend Giaconda's Annual General Meeting and to participate with questions to the Board or the Auditor who are all present.

Due to Giaconda's size the oversight of decision-making by the Board and Management is generally determined by the Board's Code of Conduct available on the Company's website. This outlines the lawful, professional and ethical manner expected on persons representing Giaconda whilst they adhere to the corporate principles and values and the obligation to ensure business conduct in accordance with the policy is observed.

Giaconda is adhering to and acting in accordance the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations, Principle 6 and Principle 10.*

Directors' Report

Remuneration Report

Remuneration Policy

Giaconda has a Board approved Remuneration Policy for the Remuneration Committee and Board to refer to when considering remuneration levels for Directors and Executives. The Remuneration Policy allows for the Remuneration Committee to attract and retain experienced and qualified personnel with the capability to mix fixed and variable remuneration with short and long term performance incentives.

The Remuneration Committee reviews remuneration levels of directors and executives annually. Giaconda salary packages for Executives will generally have a portion of Fixed Pay and Incentive Pay. Due to the limited cash flow of the company and the agreement of the CEO, the CMO and the Directors to place all of their compensation into contingent liabilities, no meetings of the Remuneration Committee were held during the fiscal year.

Short-term Incentive Pay

Giaconda has in place a short-term incentive pay program in the form of an Executive Performance Incentive Program which is designed to achieve the following objectives:

- Focus key Executives on the achievement of key financial targets that will ultimately lead to an increase in Giaconda's business value.
- Motivate and retain key executives
- Establish a variable remuneration arrangement that links performance with reward.
- Reward and recognise superior performance if achieved

Each Executive has an Individual Performance Incentive Program (Individual PIP) which is set at the start of their employment and reviewed at the end of each fiscal year. The Incentive Pay Opportunity is linked to Performance Measures related to the Executive's position and responsibilities and to the Company's goals and objectives. A review is conducted at the end of each financial year to determine the Performance Measures that have been achieved and the corresponding Incentive Pay that has been earned from the Incentive Pay Opportunity. Due to the limited cash flow of the company and the agreement of the CEO, the CMO and the Directors to place all of their compensation into contingent liabilities, no short term compensation was reviewed during the fiscal year.

Long-term Incentive Pay -

Giaconda's executive salary packages will generally have a portion as long-term incentive pay based on the performance of Giaconda. The Executives at the start of their term may be issued with Giaconda securities that are exercisable over a number of years. The issue of securities is not based on the individual performance of the Executive. The securities are issued to encourage the Executive to work cooperatively and productively, and perform at their highest level whereby the Executive shares in the overall success of Giaconda.

Giaconda uses long-term incentive pay to:

- Attract and retain key Executives to Giaconda
- Encourage Executives to perform at their highest level which in turn will benefit the Company where the value generated may be reflected in the share price
- Encourage Executives and employees to work cooperatively and productively together that will benefit the Company where the value generated may be reflected in the share price.

Service Agreements

Remuneration levels are reviewed each year to take into account market rates, the scope of the role performed by the Executive and the financial health of the company. The Remuneration Committee with Board approval obtained an independent report that compared the levels of remuneration of Giaconda's Directors and Management with that in the Australian biotechnology industry of New South Wales, Victoria and Australia wide. The results were used to review the remuneration levels for FY10.

Directors' Report

Patrick McLean, Chief Executive Officer

Giaconda previously entered into an Executive Services Agreement without a fixed term with Mr Patrick McLean on 1 November 2004 for the role of Chief Executive Officer

Termination can occur by:

- either party on notice of a minimum of 4 months (which may be paid in lieu);
- by Giaconda for usually summary breaches;
- by Patrick if Giaconda commits a serious breach of the agreement; or
- by Giaconda if the position becomes redundant, where by Patrick is entitled to receive a redundancy slightly higher than that prescribed under the Employment Protect Act 1982 (NSW)

FY10 Remuneration

- the fixed pay remuneration is $150,000 per annum.
- No additional short-term incentive pay would be paid to Patrick in FY10. No additional long-term incentive pay would be paid to Patrick in FY10.
- The amount may be packaged in any manner agreed between Giaconda and Patrick.
- To conserve cash, Patrick agreed to place his total income into a Contingent Liability payable only if and when the Company achieves a licensing / assignment deal of $5 million or the Board believes the company can pay this liability. See Notes to the Financial Statement.

Tom Borody, Chief Medical Officer

The structure of the Chief Medical Officer being fulfilled by Professor Thomas Borody changed during FY06 in that Giaconda established a Service Agreement with the Centre for Digestive Diseases to supply Professor Borody's services as Chief Medical Officer. This contractual arrangement began on 1 January 2006 at a cost of $170,000 per annum.

- The Board approved that Professor Borody would receive $60,000 per annum in Director's Fees. Both of these amounts have been put into a Contingent Liability similar to Patrick McLean's. See Notes to the Financial Statement.

Non-Executive Directors

The Non-Executive Directors' maximum aggregate remuneration is $240,000 per annum as per Giaconda's Constitution and remained the same for FY10. The Non-Executive Directors' salary will remain at $48,000 per annum for Non-Executive Directors and $96,000 per annum for the Non-Executive Chair for FY11.

Directors' Report

FY10 Remuneration of Directors and Executives

	Name	Director's Fee Entitlement	Director's Fee Paid in Cash[2]	Director's Fee Paid in Shares[3] Number Value $	Executive's Fee	Super-annuation	Short-term Incentive Pay (achieved from Incentive Opportunity)	Long-term Incentive Pay - Options Issued[4] Number Value $	Total
Non-Executive Directors									
Independent	Trevor Moore	$48,000	-	$0	-	-	-	-	$48,000
Independent	Chris Bilkey	$48,000	-	$0	-	-	-	-	$48,000
Executive Directors									
CEO	Patrick McLean	-	-	-	$125,000[5]	-	-	-	$125,000
CMO	Tom Borody	$60,000[6]	-	-	$170,000[7]	-	-	-	$230,000

[2] For settlement of current year and prior years Directors Fees entitlements.
[3] For settlement of current year and prior years Directors Fees entitlements, and issued in accordance with the Employee Share Plan.
[4] The value of the options has been calculated pursuant to AASB 2 – Share Based Payments.
[5] The total package is recorded as a contingent liability. See Notes to the Financial Statements.
[6] $60,000 is recorded as a contingent liability. See Notes to the Financial Statements.
[7] $170,000 is recorded as a contingent liability. See Notes to the Financial Statements.

Directors' Report

Officers Who Were Previously Partners of the Audit Firm

There are no officers of Giaconda who were previously partners of the current audit firm, Walker Wayland NSW Chartered Accountants.

Indemnities

During the twelve months, Giaconda paid a premium in the sum of $27,362.23 in respect of a contract insuring the directors of Giaconda, the secretary and all officers of Giaconda, against any liability incurred by such a director, secretary or officer to the extent permitted by the Corporations Act 2001.

Giaconda has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of Giaconda against any liability incurred by such an officer or auditor.

Proceedings on Behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the twelve months.

Directors' Relevant Interests

The relevant interest of each director in shares and options issued by the company as notified by the directors to the ASX in accordance with section 205 G(1) of the *Corporations Act 2001* (Cth), at the date of this report are as follows:

Options

At the date of this report, options over unissued shares or interests of the Company are as detailed in the table. The options carry no rights to vote, participate in any future share or interest issue, or for dividends.

Grantee	Options Granted	Options Vested	Exercise Price	Expiry Date	Conditions on Vesting
Antony Wettstein	60,000	60,000	$0.50	13 Jan 2011	No

Auditors' Independence Declaration

The auditors' independence declaration for the year ended 30 June 2010 has been received and can be found on page 13.

Non Audit Services

The board of directors are satisfied that the provision of the non-audit services is compatible with the general standards of independence imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditors for the following reasons:

(a) All non-audit services are reviewed and approved by the Audit, Risk and Compliance Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor.

(b) The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

(c) All non-audit services are provided by a related entity of the external auditor, Walker Wayland Services Pty Limited and the services are provided by staff not involved in the audit engagement.

The following fees for non-audit services were paid/payable to a related entity of the external auditors during the year ended 30 June 2010:

	$
Preparation of financial statements	10,000

This statement is made on the basis of advice provided by the Audit, Risk and Compliance Committee.

This report is made in accordance with a resolution of the Board of Directors.

Patrick L. McLean

Chief Executive Officer and Acting Chairman

Trevor Moore

Director

Dated: 28th day of September 2010

walkerwayland

Walker Wayland NSW
Chartered Accountants

ABN 55 931 152 366

8th Floor,
55 Hunter Street
SYDNEY NSW 2000

GPO Box 4836
SYDNEY NSW 2001

Telephone: +61 2 9951 5400
Facsimile: +61 2 9951 5454
mail@wwnsw.com.au

Website www.wwnsw.com.au

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF GIACONDA LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Walker Wayland NSW

Walker Wayland NSW
Chartered Accountants

Tim Tyler
Partner
Dated this 29th day of September 2010
Level 8, 55 Hunter Street, Sydney NSW 2000

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 $	2009 $
INCOME			
Revenue from ordinary activities	3	493	6,690
EXPENSES			
Personnel		(113,484)	(35,033)
Finance and legal		(42,011)	(130,158)
Administration		(118,806)	(266,808)
Research and development		(99,423)	(38,056)
		(372,738)	(470,055)
Loss from continuing operations before income tax benefit(expense)	4	(373,231)	(463,365)
Income tax benefit (expense) relating to continuing operations	5	258,131	257,906
Loss from continuing operations after income tax benefit (expense) attributable to members of the Company		(115,100)	(214,639)
Loss from discontinuing operations	2	(1,192,533)	(878,073)
Loss for the year		(1,307,633)	(1,092,712)
Other comprehensive income:		-	-
Total comprehensive loss for the year		(1,307,633)	(1,092,712)
Basic earnings per share	8		
Overall operations		(0.02)	(0.01)
Continuing operations		(0.00)	(0.00)
Discontinuing operations		(0.02)	(0.01)
Diluted earnings per share	8		
Overall operations		(0.02)	(0.01)
Continuing operations		(0.00)	(0.00)
Discontinuing operations		(0.02)	(0.01)

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	2010 $	2009 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	18,256	33,965
Trade and other receivables	10	480	11,904
Assets held for sale	2	554,015	1,500,000
TOTAL CURRENT ASSETS		572,751	1,545,869
NON-CURRENT ASSETS			
Intangible assets	11	199,725	390,372
Deferred tax assets	14	-	-
TOTAL NON-CURRENT ASSETS		199,725	390,372
TOTAL ASSETS		772,476	1,936,241
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	15,727	79,012
Financial liabilities	13	789,437	447,167
Provisions	15	34,272	21,695
TOTAL CURRENT LIABILITIES		839,436	547,874
NON-CURRENT LIABILITIES			
Deferred tax liabilities	14	348,807	606,938
TOTAL NON-CURRENT LIABILITIES		348,807	606,938
TOTAL LIABILITIES		1,188,243	1,154,812
NET ASSETS (LIABILITIES)		(415,767)	781,429
EQUITY			
Contributed equity	16	7,462,832	7,352,395
Accumulated losses		(7,878,599)	(6,570,966)
TOTAL EQUITY (DEFICIENCY)		(415,767)	781,429

The accompanying notes form part of these financial statements.

CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

	Contributed Equity $	Accumulated Losses $	Options Reserve $	Total $
Balance at *01.07.08*	7,352,395	(5,478,254)	-	1,874,141
Losses attributable to members of parent entity	-		-	
Sub-total	-		-	
Balance at *30.06.2009*	7,352,395	(6,570,966)	-	781,429
Shares issued during the year	110,437	-	-	110,437
Losses attributable to members of parent entity	-	(1,307,633)	-	(1,307,633)
Sub-total	110,437	(1,307,633)	-	(1,197,196)
Balance at *30.06.2010*	7,462,832	(7,878,599)	-	(415,767)

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 $	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from operations		-	5,280
Payments to suppliers and employees		(381,429)	(448,645)
Interest received		13	1,410
Net cash used in operating activities	19b	(381,416)	(441,955)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for intangible assets		-	(49,254)
Net cash used in investing activities		-	(49,254)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares or shares to be issued		23,437	-
Proceeds from borrowings		342,270	243,931
Net cash from financing activities		365,707	243,931
NET DECREASE IN CASH HELD		(15,709)	(247,278)
Cash at beginning of year		33,965	281,243
CASH AT END OF YEAR	19a	18,256	33,965

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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 (AASB) 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 liabilities over current assets, and cash reserves at the end of the year are insufficient to support the short and long term operations of the Company.
With reference to Note 20, US$500,000 has been subsequently received by the company following settlement of the Asset Purchase Agreement with Redhill Biopharma Limited.
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 tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred 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 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) 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 transaction 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: BASIS OF PREPARATION (CONTINUED)

(c) Financial Instruments

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.

(d) 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 an infinite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(e) 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.

(f) 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.

(g) 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).

(h) 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.

(i) Comparative Figures

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

(j) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: BASIS OF PREPARATION (CONTINUED)

(k) **Adoption of New and Revised Accounting Standards**

During the current year the Company adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Sienna Cancer Diagnostics Limited.

AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Company's financial statements.

Disclosure impact

Terminology changes — the revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity — the revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income — the revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Company's financial statements now contain a statement of comprehensive income.

Other comprehensive income — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

(l) New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Company follows:

- AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

  These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Company has not yet determined the potential impact on the financial statements.

  The changes made to accounting requirements include:

  — simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;

  — simplifying the requirements for embedded derivatives;

  — removing the tainting rules associated with held-to-maturity assets;

  — removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;

  — allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and

  — reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:

    a. the objective of the entity's business model for managing the financial assets; and

    b. the characteristics of the contractual cash flows.

- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: BASIS OF PREPARATION (CONTINUED)

- AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

  These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Company.

- AASB 2009–8: Amendments to Australian Accounting Standards — Company Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

  These amendments clarify the accounting for Company cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Company.

- AASB 2009–9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

  These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Company.

- AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

  These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Company.

- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends
  AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Company.

- AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

  This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Company.

- AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

  This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Company.

The Company does not anticipate the early adoption of any of the above Australian Accounting Standards.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2: ASSETS HELD FOR SALE

The directors have resolved that the most likely method of attaining value for the shareholders will be the disposal of the intellectual property relating to Myoconda, Heliconda and Picoconda by way of a sale. The sale was finalised on 31 August 2010 upon receipt of US$500,000 as referred to in Note 20.

AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* requires assets that are classified as held for sale to be carried at the lower of carrying amount and fair value less costs to sell. As a result, the Company has recognised an impairment loss of $1,107,123 (2009: $848,895) in re-stating the assets to their expected recoverable value at 30 June 2010.

Financial information relating to the discontinued operations is set out below.

Giaconda Limited – Summary of assets held for sale with associated liabilities as at 30 June 2010

	Note	2010 $	2009 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		-	-
Trade and other receivables		-	-
Other current assets		-	-
Assets held for sale		-	-
TOTAL CURRENT ASSETS		-	-
NON-CURRENT ASSETS			
Property, plant and equipment		-	-
Intangible assets	11	554,015	1,500,000
Deferred tax assets		-	-
TOTAL NON-CURRENT ASSETS		554,015	1,500,000
TOTAL ASSETS		554,015	1,500,000
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		-	-
Financial liabilities		-	-
Provisions		-	-
TOTAL CURRENT LIABILITIES		-	-
NON-CURRENT LIABILITIES			
Deferred tax liabilities		-	-
TOTAL NON-CURRENT LIABILITIES		-	-
TOTAL LIABILITIES		-	-
NET ASSETS		554,015	1,500,000

Giaconda Limited – The financial performance of the discontinuing operations which is included in the income statement is as follows:

	2010 $	2009 $
INCOME		
Revenue from ordinary activities	-	-
EXPENSES		
Personnel	-	-
Finance and legal	-	-
Administration	(1,116,303)	(871,731)
Research and development	(76,230)	(15,522)
	(1,192,533)	(887,253)
Loss from discontinuing operations	(1,192,533)	(887,253)

Giaconda Limited – The net cash flows of the discontinuing operations which have been incorporated into the statement of cash flows are as follows:

Net cash used in operating activities	-	-
Net cash used in investing activities	(76,230)	(45,821)
Net cash from financing activities	-	-
Net cash decrease in cash generated by the discontinuing operations	(76,230)	(45,821)

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 3: REVENUE FROM CONTINUING OPERATIONS	2010 $	2009 $
Continuing operations		
— License fees	480	-
— Grants received	-	5,280
— Interest received from financial institutions	13	1,410
Total Revenue	493	6,690

NOTE 4: LOSS FROM CONTINUING OPERATIONS		
Loss from continuing operations before income tax expense has been determined after debiting (crediting):		
Expenses		
Depreciation of property, plant and equipment	-	601
Amortisation of leased plant and equipment	-	122
Amortisation of intangible assets	20,329	51,688
Rental expense on operating leases		
- minimum lease payments	-	4,787
Research and development costs	99,423	38,056
Realised foreign exchange movements	-	(67)
Unrealised foreign exchange movements	-	7
Movement in Options Reserve transferred to personnel expenses in income statement (refer note 21)	-	-

NOTE 5: INCOME TAX BENEFIT (EXPENSE)		
a. The components of the tax benefit (expense) comprise:		
Current tax	-	-
Deferred tax (Note 14)	258,131	257,906
	258,131	257,906
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% (2009: 30%)	448,273	405,185
Add (less):		
Tax effect of:		
— tax losses not brought to account as a deferred tax asset	96,918	(237,240)
— tax losses brought to account as a deferred tax asset	-	-
— non-deductible amortisation	(340,990)	(15,943)
— other non-allowable items	(43,035)	(2)
— other allowable deductions	100,738	105,906
— movement in allowances and provisions	(3,773)	-
	(190,142)	(147,279)
Income tax attributable to Company	258,131	257,906
The applicable weighted average effective tax rates are as follows:	17.3%	19.1%

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION

a. **Directors**

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

(i) *Acting Chairperson – Executive Director*

Patrick Laughlin McLean, Chief Executive Officer

(ii) *Executive Director*

Professor Thomas Julius Borody, Chief Medical Officer

(iii) *Non-executive Directors*

Trevor Moore

Christopher Robert Bilkey

All of the above persons were also key management persons during the year ended 30 June 2010 unless otherwise stated.

b. **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 6(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 2010

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

c. **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 2010					
Capacity as Director					
Trevor Moore	48,000*	-	-	-	-
Christopher Robert Bilkey	48,000*	-	-	-	-
Thomas Julius Borody	60,000*	-	-	-	-
Capacity as other key management personnel					
Patrick Laughlin McLean	150,000*	-	-	-	-
Thomas Julius Borody	170,000**	-	-	-	-
	476,000	-	-	-	-
Financial Year 30 June 2009					
Capacity as Director					
Richard Andrew Wade Woods	27,879***	-	-	-	113
Anthony Ronald Moon	26,696***	-	-	-	113
Trevor Moore	48,000***	-	-	-	113
Christopher Robert Bilkey	21,304***				
Thomas Julius Borody	60,000*	-	-	-	-
Capacity as other key management personnel					
Patrick Laughlin McLean	148,934*	-	-	82,500*	-
Thomas Julius Borody	170,000**	-	-	-	-
	502,813	-	-	82,500	339

* 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, $3,750 was paid in cash, the remainder ($120,129) has been taken up as a contingent liability.

The directors resolved on 15 September 2008 to suspend the issue of shares under the non-executive directors share plan and defer all directors' fees owing now and into the future on the same terms and conditions on which the Chief Medical officer had deferred payment of consulting fees.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

d. **Options and Rights Holdings**

Number of Options Held by Key Management Personnel

	Balance 1.07.2009	Granted as Compensation	Options Expired	Net Change* Other
Patrick Laughlin McLean	1,250,000	-	1,250,000	-
Total	1,250,000	-	1,250,000	-

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

	Balance 30.6.2010	Total Vested 30.6.2010	Total Exercisable 30.6.2010	Total Unexercisable 30.6.2010
Patrick Laughlin McLean	-	-	-	-
Total	-	-	-	-

e. **Shareholdings**

Number of Shares held by Key Management Personnel

	Balance 1.7.2009	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.6.2010
Trevor Moore	253,609	-	-	-	253,609
Thomas Julius Borody	50,620,000	-	-	492,714	51,112,714
Patrick Laughlin McLean	492,714	-	-	(492,714)	-
Total	51,366,323	-	-	-	51,366,323

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

NOTE 7: AUDITORS' REMUNERATION	2010 $	2009 $
Remuneration of the auditor for:		
- auditing or reviewing the financial report	21,300	21,000
- accounting services provided by related practice of auditor	10,000	22,475

NOTE 8: EARNINGS PER SHARE		
a. Reconciliation of earnings to loss		
Loss	(1,236,113)	(1,092,712)
Earnings used to calculate basic EPS	(1,236,113)	(1,092,712)
Earnings used in the calculation of dilutive EPS	(1,236,113)	(1,092,712)
	No.	**No.**
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	75,036,005	73,498,505
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	75,036,005	73,498,505

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 9: CASH AND CASH EQUIVALENTS	2010 $	2009 $
Cash at bank	18,256	33,965
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:		
Cash and cash equivalents	18,256	33,965

NOTE 10: TRADE & OTHER RECEIVABLES		
Other receivables	480	11,904

NOTE 11: INTANGIBLE ASSETS		
Continuing Operations		
Intellectual property at cost	80,000	80,000
Less accumulated amortisation	(28,204)	(16,814)
	51,796	63,186
Patents and trade marks at cost	224,465	224,465
Less accumulated amortisation	(93,899)	(84,961)
	130,566	139,505
Development costs	17,363	17,363
Less accumulated amortisation	-	-
	17,363	17,363
	199,725	220,053
Discontinuing Operations		
Intellectual property at cost	-	160,000
Less accumulated amortisation	-	(28,905)
	-	131,095
Patents and trade marks at cost	-	47,040
Less accumulated amortisation	-	(7,816)
	-	39,224
	-	170,319
	199,725	390,372

Continuing Operations

	Intellectual Property	Patents and Trade Marks	Development Costs	Total
	$	$	$	$
Opening value as at 01 July 2009	63,186	139,505	17,363	220,053
Additions	-	-	-	-
Amortisation charge	(11,390)	(8,939)	-	(20,328)
Closing value at 30 June 2010	51,796	130,566	17,363	199,725

Discontinuing Operations

	Intellectual Property	Patents and Trade Marks	Development Costs	Total
	$	$	$	$
Opening value as at 01 July 2009	240,900	163,353	1,265,966	1,670,219
Additions	-	-	-	-
Amortisation charge	(2,891)	(6,190)	-	(9,081)
Impairment losses	-	-	(1,107,123)	(1,107,123)
Closing value at 30 June 2010	238,009	157,163	158,843	554,015

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

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 12: TRADE & OTHER PAYABLES	2010 $	2009 $
Trade payables	-	64,012
Sundry payables	727	-
Accrued expenses	15,000	15,000
	15,727	79,012

NOTE 13: FINANCIAL LIABILITIES	Note		
CURRENT			
Borrowing from related parties - non-interest bearing	13a	789,437	387,167
Other borrowings – interest bearing	13b	-	60,000
		789,437	447,167

13a. The loan from related parties 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.

13b. A fixed and floating charge over the company's present and future interest in the assets of the company is held by the Lender.

NOTE 14: DEFERRED TAX ASSETS AND LIABILITIES	2010 $	2009 $
Deferred tax liabilities comprise:		
Capitalised development costs	(67,827)	335,738
Equity raising costs*	426,916	277,709
Deferred tax asset offset	(10,282)	(6,509)
	348,807	606,938
Deferred tax assets comprise:		
Provisions	10,282	6,509
Balance offset with deferred tax liability	(10,282)	(6,509)
	-	-

* The increase in the deferred tax liability from equity raising costs is in relation to the tax treatment of the expenditure incurred in listing the Company on the ASX.

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 $3,603,052. (2009: $3,080,673)

Reconciliations

	2010 $	2009 $
i. **Gross Movements**		
The overall movement in the deferred tax account is as follows:		
Opening balance	(606,938)	(864,844)
Charged to income statement	258,131	257,906
Closing balance	(348,807)	(606,938)
ii. **Deferred Tax Liabilities**		
The movement in deferred tax liabilitiy for each temporary difference during the year is as follows:		
Opening balance	606,938	864,844
Credited to the income statement	(258,131)	(257,906)
Closing balance	348,807	606,938

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 15: PROVISIONS	2010 $	2009 $
Employee benefits	34,272	21,695
a. Aggregate employee entitlement liability	34,272	21,695
	No.	No.
b. Number of employees at year end	1	1

Note 16: CONTRIBUTED EQUITY	2010 $	2009 $
77,436,005 (2009: 73,498,505) fully paid ordinary shares	7,390,832	7,352,395
a. **Ordinary shares**	No.	No.
At the beginning of reporting period	73,498,505	73,498,505
Shares issued during the year		
— issue of shares at $0.025 each	1,537,500	-
— Issue of shares at $0.030 each	2,400,000	-
At reporting date	77,436,005	73,498,505

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 21 Share-based Payments.

ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 21 Share-based Payments.

iii. On 05 February 2010, 7,500,000 share options were granted to an interest bearing lender under a Subscription Deed dated 22 January 2010, to take up ordinary shares at the lower of $0.025 or 40% of the lowest issue price of the company shares issued during capital raisings during the period from 9am (Sydney time) on 01 January 2010 to and including 4pm (Sydney time) on 03 July 2012.

c. **Capital Management**

Management controls the capital of the company in order to maintain a good debt to equity ratio and to ensure that the company can fund its operations and continue as a going concern

The company's debt and capital includes ordinary share capital and financial liabilities.

There are no externally imposed capital requirements.

Management effectively manages the company's capital by assessing the company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and share issues.

There have been no changes in the strategy adopted by management to control the capital of the company since the prior year.

NOTE 17: CONTINGENT LIABILITIES		
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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 17: CONTINGENT LIABILITIES	2010 $	2009 $
Executive Director Fees Professor Thomas Borody, as an executive director of the Company from 1 January 2006 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.	270,000	210,000
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 2008. $52,800 is in respect of services for the 2007 financial year and was 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.	222,354	222,354
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.	680,000	510,000
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.	335,380	210,380
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	22,380

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 17: CONTINGENT LIABILITIES	2010 $	2009 $
Non-Executive Director Fees Messrs Woods, Moon, Moore and Bilkey, as non-executive directors of the Company for the are entitled to a fee for their services. Messrs Woods, Moon, Moore and Bilkey have 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, they will release the Company from these obligations.	216,129	120,129

NOTE 18: SEGMENT REPORTING

Primary Reporting — Business Segments

	Development	
	2010 $	**2009 $**
REVENUE		
Segment income	493	6,690
RESULT		
Loss from continuing operations before income tax	(373,231)	(472,545)
Income tax benefit (expense)	258,131	257,906
Loss from continuing operations after income tax	(115,100)	(214,639)
Loss from discontinuing operations	(1,192,533)	(878,073)
Net loss attributable to members of the company	(1,307,633)	(1,092,712)
ASSETS		
Segment assets	772,446	1,936,241
LIABILITIES		
Segment liabilities	1,188,243	1,154,812

As a business segment has not been discontinued, separate segment reporting between continuing and discontinuing operations is not required.

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 2010

NOTE 19: CASH FLOW INFORMATION		2010 $	2009 $
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	18,256	33,965
		18,256	33,965
b.	**Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax**		
	Loss from ordinary activities after income tax	(1,307,633)	(1,092,712)
	Non-cash flows in loss from ordinary activities:		
	— Depreciation and amortisation of property, plant and equipment	-	723
	— Disposal of property, plant and equipment	-	23,952
	— Amortisation of intangibles	29,509	100,664
	— Impairment of intangibles	1,107,123	813,574
	— Movements in employee provisions	12,577	12,577
	— Shares issued for performance of services	87,000	-
	Changes in assets and liabilities, net of the effects of purchase and disposals of subsidiaries		
	— (Increase) decrease in receivables	11,424	(1,339)
	— Decrease in prepayments	-	20,374
	— Decrease in payables	(63,285)	(61,862)
	— Increase (decrease) in deferred tax liabilities	(258,131)	(257,906)
	Cash flows from operations	(381,416)	(441,955)

c. **Non-cash Financing and Investing Activities**

i. Share issue

600,000 shares were issued at $0.025 per share to a consultant as consideration for services provided.

2,4000,000 shares were issued at $0.030 per share to a consultant as consideration for services provided.

NOTE 20: EVENTS AFTER THE BALANCE SHEET DATE

On 16 August 2010, the company entered into a Asset Purchase Agreement to sell its Myoconda, Heliconda and Picoconda patents to Redhill Biopharma Ltd for US$500,000 plus 7% of the net sales earned by Redhill from a commercialised treatment of 20% of sublicensing receipts after certain developmental costs have been deducted. The Agreement has been finalised and $US500,000 was received by the company prior to and on 31 August 2010.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 21: SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2010:

(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. These options expired on 04 May 2010.

(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. These options expired on 23 June 2010.

(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. These options expired on 23 June 2010.

(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 05 February 2010, 600,000 shares were granted to a consultant in lieu of payment for services rendered. The value of the shares, was determined by reference to market price, of $0.025 per share.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 21: 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.

	2010		2009	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	1,460,000	0.50	1,460,000	0.50
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	(1,400,000)	0.50	-	-
Outstanding at year-end	60,000	0.50	1,460,000	0.50
Exercisable at year-end	60,000	0.50	1,360,000	0.50

The options outstanding at 30 June 2010 had a weighted average exercise price of $0.50 and a weighted average remaining contractual life of 1.07 years. The exercise price is $0.50 in respect of options outstanding at 30 June 2010.

The weighted average fair value of the options granted during the year was $nil (2009:$nil).

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	$0.03
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.

NOTE 22: FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills, leases, preference shares and derivatives.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	2010 $	2009 $
Financial Assets			
Cash and cash equivalents	9	18,256	33,965
Loans and receivables	10	480	11,904
Available-for-sale financial assets	2	554,015	1,500,000
		572,751	1,545,869
Financial Liabilities			
Financial liabilities at amortised cost			
— Trade and other payables	12	15,727	79,012
— Borrowings	13	789,437	447,167
		805,164	526,179

The Risk and Audit Committee (RAC) has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The RAC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counter party credit risk, currency risk, financing risk and interest rate risk. The RAC meets on a bi-monthly basis and minutes of the RAC are reviewed by the Board.

The RAC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 22: FINANCIAL RISK MANAGEMENT (CONTINUED)

Specific Financial Risk Exposures and Management

The main risk the group is exposed to through its financial instruments is liquidity risk.

a. **Credit risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the association.

Credit risk is managed through maintaining procedures ensuring, to the extent possible, that members and counterparties to transactions are of sound credit worthiness.

Credit risk exposures

The group is not exposed to any material credit risk.

b. **Liquidity risk**

Liquidity risk arises from the possibility that the group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The group manages this risk through the following mechanisms:

— preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities;

— only investing surplus cash with major financial institutions; and

c. **Market risk**

(i) *Interest rate risk*

Exposure to interest rate risk arises on interest earned on cash equivalents only.

(ii) *Price risk*

The Group is not exposed to price risk.

Financial liability and financial assets maturity analysis

Cash flow realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates.

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	$	$	$	$	$	$	$	$
Financial liabilities due for payment								
Trade and other payables (excluding est. annual leave)	49,999	100,707	-	-	-	-	49,999	100,707
Financial liabilities*	-	-	789,437	447,167	-	-	789,437	447,167
Total contractual outflows	49,999	100,707	789,437	447,167	-	-	839,436	547,874
Total expected outflows	49,999	100,707	789,437	447,167	-	-	839,436	547,874
Financial assets — cash flows realisable								
Cash assets	18,256	33,965	-	-	-	-	18,256	33,965
Total anticipated inflows	18,256	33,965	-	-	-	-	18,256	33,965
Net (outflow)/inflow on financial instruments	(36,743)	(66,742)	(789,437)	(447,167)	-	-	(821,180)	(513,909)

* Realisation in 1 to 5 Years is a conservative estimate based on management expectations. Management are not aware of any of the payment events noted in Note 13a being likely to occur within the coming twelve months.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 22: FINANCIAL RISK MANAGEMENT (CONTINUED)

Net Fair Values

Fair value estimation

The fair values of financial assets and financial liabilities are equal to their carrying value in the balance sheet.

The fair values have been determined based on the following methodologies:

(i) Cash and cash equivalents, trade and other receivables and trade and other payables are short term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables excludes amounts provided for relating to annual leave which is not considered a financial instrument.

Sensitivity analysis

The RAC considers that there are no material market risk requiring sensitivity analysis to be performed.

NOTE 23: RELATED PARTY TRANSACTIONS	2010 $	2009 $
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 loans from Professor Thomas Borody and Mr Patrick McLean, directors and shareholders of the company. The terms of the loans are detailed at note 13a.	805,164	387,167
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.		

NOTE 24: 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

DIRECTORS' DECLARATION

The directors of the trustee company declare that:

1. the financial statements and notes, as set out on pages 15 to 35, present fairly the unit trust's financial position as at 30 June 2010 and its performance for the year ended on that date in accordance with Australian Accounting Standards and other mandatory professional reporting requirements; and
2. In the directors' opinion there are reasonable grounds to believe that the trust will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors of the company.

Trevor Moore	**Patrick McLean**
Director	Acting Chairman & Chief Executive Officer

Dated this 28th day of September 2010

Walker Wayland NSW
Chartered Accountants

ABN 55 931 152 366

8th Floor,
55 Hunter Street
SYDNEY NSW 2000

GPO Box 4836
SYDNEY NSW 2001

Telephone: +61 2 9951 5400
Facsimile: +61 2 9951 5454
mail@wwnsw.com.au

Website www.wwnsw.com.au

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GIACONDA LIMITED

Report on the financial report

We have audited the accompanying financial report, being a special purpose financial report, of Giaconda Limited, which comprises the balance sheet as at 30 June 2010, and the income statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial report, are appropriate to meet the requirements of the *Corporations Act 2001* and are appropriate to meet the needs of the members. The directors' responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the financial report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the members. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

The financial report has been prepared for distribution to members for the purpose of fulfilling the directors' financial reporting under the *Corporations Act 2001*. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

walkerwayland

Walker Wayland NSW
Chartered Accountants

ABN 55 931 152 366

8th Floor,
55 Hunter Street
SYDNEY NSW 2000

GPO Box 4836
SYDNEY NSW 2001

Telephone: +61 2 9951 5400
Facsimile: +61 2 9951 5454
mail@wwnsw.com.au

Website www.wwnsw.com.au

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GIACONDA LIMITED

Auditors' opinion

In our opinion the financial report of Giaconda Limited is in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1; and

b. complying with Australian Accounting Standards to the extent described in Note 1 and complying with the Corporations Regulations 2001.

Material Uncertainty Regarding Long Term Ongoing Viability

Without qualifying our opinion, we draw attention to Note 1(a) in the financial report which indicates that the company had an excess of current liabilities over current assets and that cash reserves at balance date were insufficient to support the long term operations of the Company. These conditions, along with other matters as set forth in Note 1(a), indicate the existence of a material uncertainty which may cast significant doubt about the company's long term ongoing viability.

Walker Wayland NSW

Walker Wayland NSW
Chartered Accountants
Dated this 29th day of September 2010
Level 8, 55 Hunter Street, Sydney NSW 2000

Tim Tyler
Partner