

ANNEXURE B

PRANA BIOTECHNOLOGY LIMITED ABN 37 080 699 065

2004 EMPLOYEES', DIRECTORS' AND CONSULTANTS' SHARE AND OPTION PLAN

1. PURPOSE

The Board of Directors of the Company proposes to introduce an employee, director and consultants share and option plan, to be called the Prana Biotechnology Limited 2004 Employees', Directors' and Consultants' Share and Option Plan ("2004 ASX Plan") for the purpose of:

- (a) providing Eligible Persons with an additional incentive to work to improve the performance of the Company;
- (b) attracting and retaining Eligible Persons essential for the continued growth and development of the Company;
- (c) to promote and foster loyalty and support amongst Eligible Persons for the benefit of the Company; and
- (d) to enhance the relationship between the Company and Eligible Persons for the long term mutual benefit of all parties.

2. COMMENCEMENT

Subject to the adoption of the 2004 ASX Plan by the shareholders of the Company at the 2004 Annual General Meeting of the Company and to due compliance with the Corporations Act 2001, the 2004 ASX Plan shall take effect as of the date of the 2004 Annual General Meeting of the Company.

3. DEFINITIONS

In these Rules, unless the context otherwise requires:

"**Subsidiary**" means such term as defined in the Australian Corporations Act 2001;

"**ASX**" means Australian Stock Exchange Limited;

"**Company**" means Prana Biotechnology Limited ACN 080 699 065;

"**Board of Directors**" means the Board of Directors of the Company from time to time acting by resolution made in accordance with the Corporations Act 2001 and the Constitution of the Company;

"**Director**" means a director from time to time of the Company;

"**Eligible Person**" means a person who is:

- (i) an employee of; or
- (ii) a director of; or
- (iii) a consultant to,

the Company or any Subsidiary;

"**Listing Rules**" means the Listing Rules from time to time of the ASX;

"**Option**" means an option to purchase Shares;

"**Rules**" means the rules of the 2004 ASX Plan, as amended from time to time;

"**Share**" means an ordinary fully paid share ranking pari passu in the capital of the Company; and

"**Unexercised Options**" means Options granted under the 2004 ASX Plan from time to time which have not been exercised or expired in accordance with their terms and the terms of the 2004 ASX Plan.

4. MAXIMUM AGGREGATE NUMBER OF SHARES ISSUABLE UNDER THE 2004 ASX PLAN

The aggregate number of Shares issuable under the 2004 ASX Plan, either by the issuance of Shares or under Options granted under the 2004 ASX Plan, shall not exceed 12,000,000 ordinary shares.

5. ADMINISTRATION OF THE 2004 ASX PLAN

The 2004 ASX Plan shall be administered by a committee (the "Committee") comprised of members of the Board of Directors of the Company, selected by the Board of Directors. The majority of members shall be independent non-executive directors.

The Committee is authorised, subject to the provisions of the 2004 ASX Plan, to establish such rules and regulations as it may deem appropriate for the conduct of meetings and proper administration of the 2004 ASX Plan. All actions of the Committee shall be taken by majority vote of its members, except that the members thereof may authorise any one or more of them or any officer of the Company to execute and deliver documents on behalf of the Committee. Subject to the provisions of the 2004 ASX Plan, the Committee shall have authority, in its sole discretion, to issue securities under the 2004 ASX Plan, to interpret the provisions of the 2004 ASX Plan and to prescribe, amend, and rescind rules and regulations relating to the 2004 ASX Plan or any issue thereunder as it may deem necessary or advisable. All decisions made by the Committee pursuant to the provisions of the 2004 ASX Plan shall be final, conclusive and binding on all persons. No member of the Committee shall be liable for anything done or omitted to be done by him or by any other member of the Committee in connection with the 2004 ASX Plan, except for his own willful misconduct or as expressly provided by law.

6. APPLICATION

All Options or Shares offered to an eligible person pursuant to the 2004 ASX Plan shall be evidenced in writing by a Share or Option offer document ("Offer Document"). The Offer Document shall contain such terms and conditions as

the Committee shall determine, which are not inconsistent with the provisions of the 2004 ASX Plan, including the following:

a) QUANTITY

The quantity of Shares to be issued or Options to be granted under the Offer Document.

b) EXERCISE PRICE OF OPTIONS

The exercise price of an Option issued under the 2004 ASX Plan will be equal to less than market value of an ordinary share on the ASX at the date of grant or such other exercise price that the Committee determines to be appropriate under the circumstances.

Market value will be determined by reference to the volume weighted average market price of the Company's ordinary share during the five trading days on the ASX up to and including the date of grant of the options or such other date or period as the Committee shall consider appropriate.

c) OPTION TERMS

The term of an Option shall be determined by the Committee and set forth in the Offer Document; provided, however, that no Option shall be exercisable after the expiration of ten years from the date of its grant.

d) ESCROW TERM; VESTING PERIOD

Except as otherwise provided in the 2004 ASX Plan or determined by the Committee and set forth in an Offer Document, the issuance of Shares and exercise of Options shall be subject to either an escrow or vesting schedule, as the Committee shall determine and set forth in the Offer Document, in accordance with the following terms and conditions:

- (i) *Escrow Term.* In the event that the Committee shall determine that the issuance of Shares and exercise of Options shall be subject to an escrow, Shares issued or Options granted under the 2004 ASX Plan cannot be disposed of or exercised, respectively, within six months from the date of issue or grant (or 12 months if issued or granted to a Director). Shares issued or Options granted under the 2004 ASX Plan may be disposed of or exercised at any time from six months after the date of issuance or grant, respectively (or 12 months if issued or granted to a Director), subject to any other terms of the issuance or grant.
- (ii) *Vesting Period.* In the event that the Committee shall determine that the issuance of Shares and exercise of Options shall be subject to a vesting schedule, the issuance of Shares and exercise of Options shall become vested and issued or exercisable in accordance with the following vesting schedule:

less than one year after date of issuance or grant . . .	0% of the total number granted
one year after date of issuance or grant	25% of the total number granted
two years after date of issuance or grant	50% of the total number granted
three years after date of issuance or grant	75% of the total number granted
four years after date of issuance or grant	100% of the total number granted

Shares and options shall automatically cease to vest in accordance with the above schedule and, except as provided in Sections 9, 11, 12 and 13, shall become null and void upon the termination of employment for any reason.

e) TIME AND MANNER OF PAYMENT OF EXERCISE OF OPTIONS

Each Offer Document shall provide that Options granted under the 2004 ASX Plan shall be exercised by the Eligible Person (or nominee) as to all or any portion of the Shares covered thereby, by the giving of written notice of exercise to the Company, specifying the number of Options to be exercised. Full payment of such exercise price shall be made within ten business days following the receipt of such notice by the Company and shall be made (i) in cash or bank cheque, or (ii) in any other manner permitted in the discretion of the Committee. Such notice of exercise and full payment, shall be delivered to the Company at its principal business office or such other office as the Committee may direct, and shall be in such form, containing such further provisions consistent with the provisions of the 2004 ASX Plan, as the Committee may prescribe. The Company shall issue or cause to be issued to the Eligible Person ordinary shares of the Company as soon as practicable after an Option is exercised, and, within a reasonable time thereafter, such issuance shall be evidenced on the books of the Company. No person exercising an Option shall have any of the rights of a holder of an ordinary share prior to the date that such ordinary shares are issued following the exercise of such Option. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date of such issuance.

7. **CANCELLATION OF OFFER**

The Board of Directors retains the right to withdraw an Offer Document at any time prior to receiving an acceptance from the Eligible Person to whom the offer was made, or that Eligible Person's nominee.

8. **ACCEPTANCE**

- (a) The Company shall be obliged to accept any acceptance application made pursuant to Rule 6, provided that the application accords, in all respects, with these Rules and is for such number of Shares or Options, or part thereof, to which the Eligible Person is entitled. Upon acceptance of a duly complying application, the Company, within ten business days, shall deliver a Option Certificate or confirmation of Share issue in respect of the Shares or Options granted to the Eligible Person.
- (b) Each Eligible Person (and, if applicable, his or her nominee) will be taken to agree to be bound by these Rules upon the acceptance of the offer from the Committee to take up Shares or Options under this 2004 ASX Plan.

9. **OTHER CONDITIONS**

- (a) The Offer Document may contain any other terms and conditions that the Committee, in its sole discretion, deems appropriate; provided however that such terms or condition shall not be inconsistent with the terms of the 2004 ASX Plan, Corporations Act 2001 or ASX Listing Rules.
- (b) Subject to the terms and conditions set forth in the rules of the 2004 ASX Plan, Shares and Options may be assigned at the discretion of the Committee. The instrument of assignment shall be duly executed and shall be lodged at the registered office of the Company together with such other information as the Company may reasonably require with respect to the assignment, and the Company shall enter the name of the assignee in a register of Shares or Options as the holder of the relevant Shares or Options. The Company shall not be bound to recognise the assignment until a copy of the duly executed instrument of assignment is lodged with the Company.
- (c) Options shall not be listed for official quotation on the ASX.
- (d) Shares issued under the 2004 ASX Plan shall be listed for official quotation on the ASX. The Company shall, in accordance with the Listing Rules, apply to have Shares issued pursuant to an exercise of Options listed for official quotation by the ASX.
- (e) Options cannot be granted to Directors or their associates unless prior approval of the Company's shareholders is obtained in accordance with the Listing Rules.
- (f) The Options will not give any right to participate in dividends until Shares are issued pursuant to the exercise of the relevant Options.
- (g) In the event of the proposed dissolution or liquidation of the Company, all outstanding Options will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board of Directors. The Board of Directors may, in the exercise of its sole discretion in such instances, declare that any Option shall terminate as of a date fixed by the Board and give each Eligible Person the right to exercise his or her Options as to all or any part of the Optioned Shares, including Shares as to which the Option would not otherwise be exercisable.
- (h) In the event of a proposed sale or conveyance of all or substantially all of the assets of the Company, or the merger or consolidation of the Company with or into another corporation, each outstanding Option shall be assumed or an equivalent option shall be substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that such successor corporation refuses to assume such Option or to substitute an equivalent option, such Option may, at the discretion of the Committee, accelerate in full upon the consummation of the merger or sale of assets.
- (i) The Committee shall have the power and right, but not obligation, to accelerate the exercisability of any Options, notwithstanding any limitations in this 2004 ASX Plan, upon a Change in Control (as defined herein below). In the event of a Change in Control of the Company, whether by tender offer for more than 50% of the outstanding voting shares, proxy contest for the election of members of the Board of Directors or other means, which lacks the approval of the Board (a "Hostile Change in Control"), each outstanding Option under this 2004 ASX Plan shall automatically accelerate in full and unvested Shares shall vest in full immediately. For purposes of the 2004 ASX Plan, a "Change in Control" shall be deemed to have occurred if any person, or any two or more persons acting as a group, and all affiliates of such person or persons, who prior to such time owned less than fifty percent (50%) of the then outstanding ordinary shares of the Company, shall acquire such additional shares of the Company's ordinary shares in one or more transactions, or series of transactions, such that following such transaction or transactions, such person or group and affiliates beneficially own more than fifty percent (50%) of the Company's outstanding ordinary shares.
- (j) In the event that all or substantially all of the issued and outstanding capital of the Company is to be sold (the "Sale"), each Eligible Person shall be obligated to participate in such Sale and sell his or her Shares and/or Options in the Company, provided, however, that each such Share or Option shall be sold at a price equal to that of any other Share sold under the Sale (minus the applicable exercise price), and subject to the absolute discretion of the Board of Directors.

10. **RIGHTS OF EMPLOYEES**

The 2004 ASX Plan shall not form part of any contract of employment between the Company and any of its employees and shall not confer, directly or indirectly, on any employee any legal or equitable rights whatsoever against the Company. Without limiting the generality of the following, nothing in these Rules:

- (a) confers on any Eligible Person the right to receive any Shares and Options;
- (b) confers on any person the right to continue as an employee;
- (c) affects any rights which the Company may have to terminate the employment of any employee; or
- (d) may be used to increase damages in any action brought against the Company in respect of such termination.

11. **TERMINATION OF EMPLOYMENT**

(a) Except as otherwise determined by the Committee or provided in an Offer Document, in the event of the termination of employment or service of an Eligible Person with the Company and its Subsidiaries for any reason (other than termination for cause, death, disability or Change of Control of the Company as provided in these Rules), Options granted to him that have not previously expired or been exercised shall, to the extent vested on the date of such termination, be exercisable by the Eligible Person within 30 days after the date of such termination, unless such Option is earlier terminated pursuant to its terms. All Options that are not exercisable as of the date of such termination or which are not exercised within 30 days thereafter, shall be deemed cancelled and terminated as of such date.

(b) Except as otherwise determined by the Committee or provided in an Offer Document, in the event an Eligible Person retires from employment or service with the Company and its Subsidiaries, Options granted to them shall become 100% vested as of the effective date of the Eligible Persons retirement. Whether an Eligible Person has terminated employment on account of retirement shall be determined by the Committee in its sole discretion.

(c) Except as otherwise determined by the Committee or provided in an Offer Document, in the event that an Eligible Persons employment or service is terminated by the Company or any of its Subsidiaries for "cause," all Options, whether or not exercisable as of the date of such termination, shall be cancelled and terminated as of such date. For these purposes, termination for "cause" shall mean the following: the Eligible Person's violation of copyright, trademark and/or patent protection maintained by the Company or a Subsidiary; the Eligible Person engaging or assisting in any business in competition with the Company or a Subsidiary as employee, owner, partner, director, officer, stockholder, consultant or agent (ownership of minority interests in publicly-traded corporations, partnerships or companies or of 5% or less of the equity of privately-held corporations, partnerships or companies shall not be considered competition for purposes of this 2004 ASX Plan); the Eligible Person's dishonesty, or acting in any manner inconsistent with the utmost good faith and loyalty in the performance of the Eligible Person's duties; conviction of the Eligible Person by a court of law of competent jurisdiction for fraud, misappropriation, embezzlement, or any felony; failure of the Eligible Person to perform his duties to the reasonable satisfaction of the Company or its Subsidiaries.

12. **DEATH**

Except as otherwise determined by the Committee or provided in an Offer Document, in the event an Eligible Person dies while employed by or providing service to the Company or any of its Subsidiaries, all unvested Options shall become 100% vested and any Option granted to him that has not previously expired or been exercised shall be exercisable by the estate of such Eligible Person or by any person who acquired such Option by bequest or inheritance, at any time within one year after the date of death of the Eligible Person, unless such Option is earlier terminated pursuant to its terms. All Options not exercised within such one year period shall be deemed cancelled and terminated on the first anniversary of the Eligible Person's death.

13. **DISABILITY**

Except as otherwise determined by the Committee or provided in an Offer Document, in the event of the termination of employment of an Eligible Person due to total disability, the Eligible Person or his guardian or legal representative, shall have the right to exercise any Option which has not been previously exercised or expired and which the Eligible Person was eligible to exercise as of the first date of total disability, at any time within one year after such termination, unless such Option is earlier terminated pursuant to its terms. All Options that are not exercisable as of the date of the Eligible Person's termination or which are not exercised within one year thereafter shall be deemed cancelled and terminated as of such applicable date.

Subject to compliance with the Listing Rules (particularly but not only Listing Rule 6.23), the Committee may, in its discretion, extend the time periods in, or waive the application of any provision of Rules 11, 12 or 13.

14. **ADJUSTMENTS**

Except in the case of a Change of Control of the Company as provided in Section 9, in the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, shares, other securities, or other property), recapitalisation, share split, reverse share split, reorganisation, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of shares or other securities, the issuance of option or other rights to purchase shares or other securities, or other similar corporate transaction or event affects the shares with respect to which

Options have been or may be issued under the 2004 ASX Plan, such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the 2004 ASX Plan, then the Committee shall, in such manner as the Committee may deem equitable, adjust any or all of (i) the number and type of shares that thereafter may be made the subject of Options, (ii) the number and type of shares subject to outstanding Options, and (iii) the exercise price with respect to any Option, or, if deemed appropriate, make provision for a cash payment to the holder of any outstanding Option; provided, however, that the number of shares subject to any Option denominated in shares shall always be a whole number.

15. **RIGHT OF DISCHARGE RESERVED**

Nothing in the 2004 ASX Plan nor the issuance Shares nor the grant of Options hereunder shall confer upon any employee, officer, director, consultant, independent contractor or other individual the right to continue in the employment of or service with the Company or any of its Subsidiaries or affect any right that the Company or any Subsidiary may have to terminate the employment or service of (or to demote or to exclude from future Options under the 2004 ASX Plan) any such employee, officer, director, consultant, independent contractor or other individual at any time for any reason. Except as specifically provided by the Committee, the Company shall not be liable for the loss of existing or potential profit from an issuance or grant of securities in the event of termination of an employment or service or other relationship even if the termination is in violation of an obligation of the Company or any Subsidiary of the Company to the employee, officer, director, consultant or independent contractor.

16. **SEVERABILITY**

If any provision of the 2004 ASX Plan shall be held unlawful or otherwise invalid or unenforceable in whole or in part, such unlawfulness, invalidity or unenforceability shall not affect any other provision of the 2004 ASX Plan or part thereof, each of which remain in full force and effect. If the making of any payment or the provision of any other benefit required under the 2004 ASX Plan shall be held unlawful or otherwise invalid or unenforceable, such unlawfulness, invalidity or unenforceability shall not prevent any other payment or benefit from being made or provided under the 2004 ASX Plan, to the extent that it would not be unlawful, invalid or unenforceable, and the maximum payment or benefit that would not be unlawful, invalid or unenforceable shall be made or provided under the 2004 ASX Plan.

17. **AMENDMENT AND TERMINATION OF THE 2004 ASX PLAN**

The Board of Directors may, from time to time, alter, amend, suspend or terminate the 2004 ASX Plan with respect to Shares or Options that have not been granted, subject to any requirement for shareholder approval imposed by applicable law or any rule of any stock exchange or quotation system on which shares are listed or quoted; provided, however, that the Board of Directors may not amend the 2004 ASX Plan in any manner that would result in non-compliance with any applicable law. Neither the Board of Directors nor the Committee may, without the consent of the Eligible Person, alter or in any way impair the rights of such Eligible Person under any issue previously granted. Neither the termination of the 2004 ASX Plan nor the Change of Control of the Company shall affect any Option previously granted.

If the approval of the 2004 ASX Plan by the shareholders is not obtained, the 2004 ASX Plan shall be null and void and each issue of an Share or Options hereunder shall be null and void.

18. **GENDER AND NUMBER**

Any reference to masculine terminology used in this 2004 ASX Plan document shall also include the feminine, and the definition of any term herein in the singular shall also include the plural except when otherwise indicated by the context.

19. **GOVERNING LAW**

The 2004 ASX Plan and all determinations made and actions taken thereunder, are governed by Australian Corporations Act 2001, ASX Listing Rules and any other Federal or State laws of Australia.