

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549**

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number 000-49843

PRANA BIOTECHNOLOGY LIMITED

(Exact name of Registrant as specified in its charter
and translation of Registrant's name into English)

Australia

(Jurisdiction of incorporation or organization)

Level 2, 369 Royal Parade, Parkville, Victoria 3052 Australia

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

**American Depository Shares,
each representing ten Ordinary Shares**

Name of each exchange on which registered

NASDAQ Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, as of June 30, 2007.....151,517,978

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

This Annual Report on Form 20-F is incorporated by reference into our Registration Statement on Form F-3 File No. 333-116232.

INTRODUCTION

Prana Biotechnology Limited was incorporated under the laws of the Commonwealth of Australia on November 11, 1997. Our mission is to develop therapeutic drugs designed to treat the underlying causes of degeneration of the brain and the eye as the aging process progresses, initially focusing on Alzheimer's disease. Other potential applications for our therapies include age-related cataracts, Huntington disease, Creutzfeldt-Jakob disease (the human variant of Mad Cow disease), Motor Neuron disease, age-related macular degeneration, certain cancers and Parkinson's disease. The principal listing of our ordinary shares and listed options to purchase our ordinary shares is on the Australian Stock Exchange. Since September 5, 2002, our American Depository Receipts, or ADRs, have traded on the NASDAQ Capital Market under the symbol "PRAN." The Bank of New York, acting as depositary, issues our ADRs, each of which evidences an American Depository Share, which in turn represents ten of our ordinary shares. We have two wholly-owned subsidiaries, Prana Biotechnology Inc. and Prana Biotechnology UK Limited, incorporated in the United States and the United Kingdom, respectively, in August 2004. As used in this annual report, the terms "we," "us," "our" and "Prana" mean Prana Biotechnology Limited and its subsidiaries, unless otherwise indicated.

We have not obtained or applied for trademarks registrations. Any trademarks and trade names appearing in this annual report are owned by their respective holders.

Our consolidated financial statements appearing in this annual report are prepared in Australian dollars and in accordance with the Australian equivalents to International Financial Reporting Standards adopted by the Australian Financial Reporting Council on January 1, 2005, which became effective for our company as of our fiscal year ended June 30, 2006. In this annual report, all references to "U.S. dollars" or "US\$" are to the currency of the United States of America, and all references to "Australian dollars" or "A\$" are to the currency of Australia.

Statements made in this annual report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this annual report or to any registration statement or annual report that we previously filed, you may read the document itself for a complete description of its terms.

Except for the historical information contained in this annual report, the statements contained in this annual report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, as amended, with respect to our business, financial condition and results of operations. Such forward-looking statements reflect our current view with respect to future events and financial results. We urge you to consider that statements which use the terms "anticipate," "believe," "do not believe," "expect," "plan," "intend," "estimate," and similar expressions are intended to identify forward-looking statements. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to publicly release any update or revision to any forward-looking statements to reflect new information, future events or circumstances, or otherwise after the date hereof. We have attempted to identify significant uncertainties and other factors affecting forward-looking statements in the Risk Factors section that appears in Item 3.D. "Key Information-Risk Factors."

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Consolidated Financial Data

The following table presents our selected consolidated financial data as of the dates and for each of the periods indicated. The information set forth below should be read in conjunction with Item 5, "Operating and Financial Review and Prospects" as well as our consolidated financial statements and notes thereto appearing elsewhere in this annual report.

We prepare our consolidated financial statements in accordance with the Australian equivalents to International Financial Reporting Standards, or IFRS, adopted by the Australian Financial Reporting Council on January 1, 2005, which became effective for our company as of our fiscal year ended June 30, 2006. Under the Australian Accounting Standards Board, or AASB, Standard No.1, "First-time Adoption of Australian Equivalents to International Financial Reporting Standards," or AASB 1, a company adopting Australian IFRS, or A-IFRS for the first time is required to adopt accounting policies that comply with A-IFRS and related interpretations that are in effect at the reporting date of its first annual financial statements prepared in accordance with A-IFRS, in our case June 30, 2006. AASB 1 also requires that those policies be applied as of the date of transition to A-IFRS, in our case July 1, 2004, and consistently throughout all periods presented in the first annual financial statements prepared in accordance with A-IFRS.

The following selected consolidated financial data as of June 30, 2007 and 2006 and for the years ended June 30, 2007, 2006 and 2005 have been derived from our audited consolidated financial statements and notes thereto included elsewhere in this annual report. The selected consolidated financial data as of June 30, 2005, 2004 and 2003 and for the years ended June 30, 2004 and 2003 have been derived from our audited consolidated financial statements and notes thereto which are not included in this annual report. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to Item 5, "Operating and Financial Review and Prospects" and our consolidated financial statements and notes thereto included elsewhere in this annual report.

Statement of Operations Data:

	Year Ended June 30,				
	2007	2006	2005	2004	2003
(in A\$, except number of shares)					
A-IFRS:					
Revenue from continuing operations	507,150	762,023	892,135	-	-
Other income	287	288,263	1,760,978	-	-
Research and development expenses	(4,492,193)	(7,613,045)	(7,109,839)	-	-
Research and development expenses - related party	-	-	(577,757)	-	-
Personnel expenses	(4,554,731)	(3,418,008)	(5,750,929)	-	-
Intellectual property expenses	(600,232)	(466,426)	(729,583)	-	-
Auditor and accounting expenses	(260,117)	(205,815)	(202,032)	-	-
Travel expenses	(309,997)	(212,184)	(432,316)	-	-
Marketing expenses	(215,455)	(134,750)	(442,920)	-	-
Depreciation expenses	(58,582)	(118,196)	(65,223)	-	-
Amortization expenses	-	-	(83,200)	-	-
Other expenses	(1,008,563)	(824,625)	(1,204,930)	-	-
Foreign exchange gain (loss)	(757,578)	223,454	(1,362,572)	-	-
Impairment of intangible assets	-	-	(786,240)	-	-
Gain on fair value of financial liabilities	607,691	128,715	5,801,397		
Net loss	(11,142,320)	(11,590,594)	(10,293,031)	-	-
Loss per share - basic and diluted	(0.08)	(0.09)	(0.08)	-	-
Weighted average number of ordinary shares outstanding - basic and diluted	140,754,495	128,053,601	122,754,061	-	-
U.S. GAAP:					
Net loss	(11,142,320)	(11,590,594)	(11,998,032)	(7,243,455)	(3,244,397)
Loss per share - basic and diluted	(0.08)	(0.09)	(0.10)	(0.10)	(0.05)
Weighted average number of ordinary shares outstanding - basic and diluted	140,754,495	128,053,601	122,754,061	75,701,818	61,131,313

Balance Sheet Data:

	As at June 30,				
	2007	2006	2005	2004	2003
(in A\$)					
A-IFRS:					
Cash and cash equivalents	7,409,256	10,013,778	21,453,304	-	-
Working capital	5,564,304	7,698,283	18,370,555	-	-
Total assets	7,722,185	10,421,146	22,289,159	-	-
Net assets	5,612,195	7,800,658	18,536,769	-	-
Issued capital	53,988,412	46,274,127	45,838,897	-	-
Share based payment reserves	4,106,821	2,867,249	2,447,996	-	-
Accumulated deficit during development stage	(52,483,038)	(41,340,718)	(29,750,124)	-	-
Total equity	5,612,195	7,800,658	18,536,769	-	-
U.S. GAAP:					
Total assets	7,722,185	10,421,146	22,289,159	34,197,794	7,944,306
Accumulated deficit during development stage	(56,662,647)	(45,520,327)	(33,929,733)	(22,144,137)	(14,900,682)
Contributed equity	62,274,842	53,320,985	52,466,506	46,770,289	22,278,765
Total equity	5,612,195	7,800,658	18,536,769	24,626,152	7,378,083

Exchange Rate Information

The following tables set forth, for the periods and dates indicated, certain information regarding the rates of exchange of A\$1.00 into US\$ based on the noon market buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate.

Year Ended June 30,	At Period End	Average Rate	High	Low
2003	0.6713	0.5623	0.6729	0.5280
2004	0.6903	0.7139	0.8005	0.6345
2005	0.7620	0.7535	0.7988	0.6852
2006	0.7301	0.7478	0.7792	0.7014
2007	0.8488	0.7859	0.8521	0.7377

Month	High	Low
April 2007	0.8391	0.8056
May 2007	0.8348	0.8162
June 2007	0.8521	0.8216
July 2007	0.8870	0.8459
August 2007	0.8662	0.7672
September 2007	0.8701	0.8107

The noon buying rate on September 24, 2007 was US\$0.8671 = A\$1.00.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Investing in our American Depository Shares involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our American Depository Shares. Additional risks and uncertainties not presently known to us or that we believe to be immaterial may also adversely affect our business. If any of the following risks actually occurs, our business, prospects, financial condition and results of operations could be harmed. In that case, the daily price of our depositary shares could decline, and you could lose all or part of your investment.

Risks Related To Our Business

We are a development stage company at an early stage in the development of pharmaceutical products and our success is uncertain.

We are a development stage company at an early stage in the development of our pharmaceutical products that are designed to treat the underlying causes of degeneration of the brain and the eye as the aging process progresses. We have not sufficiently advanced the development of any of our products, including our current lead product candidate, PBT2, to market or generate revenues from their commercial application. Our current or any future product candidates, if successfully developed, may not generate sufficient or sustainable revenues to enable us to be profitable.

We may require substantial additional financing in the future to sufficiently fund our operations and research.

We have been unprofitable to date and expect to incur losses over the next several years as we expand our drug discovery and development programs and pre-clinical testing and as we conduct clinical trials of our product candidates. Our actual cash requirements may vary materially from those now planned and will depend upon numerous factors, including:

- the continued progress of our research and development programs;
- the timing, scope, results and costs of pre-clinical studies and clinical trials;
- the cost, timing and outcome of regulatory submissions and approvals;
- determinations as to the commercial potential of our product candidates;
- our ability to successfully expand our contract manufacturing services;
- our ability to establish and maintain collaborative arrangements; and
- the status and timing of competitive developments.

We anticipate that we will require substantial additional funds in order to achieve our long-term goals and complete the research and development of our pharmaceutical product candidates. In addition, we will require additional funds to pursue regulatory clearances, and defend our intellectual property rights, establish commercial scale manufacturing facilities, develop marketing and sales capabilities and fund operating expenses. We intend to seek such additional funding through public or private financings and/or through strategic alliances or other arrangements with corporate partners. However, such additional financing may not be available from any sources on acceptable terms, or at all, and we may not be able to establish new strategic alliances or other arrangements with corporate partners on acceptable terms, or at all. Any shortfall in funding could result in our having to curtail or cease our operations, including our research and development activities, which would be expected to have a material adverse effect on our business, financial condition and results of operations.

We may experience delays in our clinical trials that could adversely affect our business and operations.

We do not know whether planned clinical trials will begin on time or whether we will complete any of our clinical trials on schedule or at all. Our ability to commence and complete clinical trials may be delayed by many factors, including:

- government or regulatory delays, including delays in obtaining approvals from applicable hospital ethics committees and internal review boards;
- slower than expected patient recruitment;
- our inability to manufacture sufficient quantities of our new proprietary compound or our other product candidates or matching controls;
- unforeseen safety issues; and

- lack of efficacy or unacceptable toxicity during the clinical trials.

Patient enrollment is a function of, among other things, the nature of the clinical trial protocol, the existence of competing protocols, the size and longevity of the target patient population, and the availability of patients who comply with the eligibility criteria for the clinical trial. Delays in planned patient enrollment may result in increased costs, delays or termination of clinical trials. Moreover, we rely on third parties to assist us in managing and monitoring clinical trials. Any failure by these third parties to perform under their agreements with us may cause the trials to be delayed or result in a failure to complete the trials.

Product development costs to our collaborators and us will increase if we have delays in testing or approvals or if we need to perform more, larger or more complex clinical trials than planned. Significant delays could have a material adverse effect on the commercial prospects of our product candidates and our business, financial condition and results of operations.

There is a substantial risk that we may not be able to complete the development of PBT2 or develop other pharmaceutical products.

We may not be able to progress with the development of our current or any future pharmaceutical product candidates to a stage that will attract a suitable collaborative partner for the development of any current or future pharmaceutical product candidates. The projects initially specified in connection with any such collaboration and any associated funding may change or be discontinued as a result of changing interests of either the collaborator or us, and any such change may change the budget for the projects under the collaboration. Additionally, our research may not lead to the discovery of additional product candidates, and any of our current and future product candidates may not be successfully developed, prove to be safe and efficacious in clinical trials, meet applicable regulatory standards and receive regulatory approval, be capable of being produced in commercial quantities at reasonable costs, or be successfully or profitably marketed, either by us or a collaborative partner. The products we develop may not be able to penetrate the potential market for a particular therapy or indication or gain market acceptance among health care providers, patients and third-party payers. We cannot predict if or when the development of PBT2 or any future pharmaceutical product will be completed or commercialized, whether funded by us, as part of a collaboration or through a grant.

We may need to prioritize the development of our most promising candidates at the expense of the development of other products.

We may need to prioritize the allocation of development resources and/or funds towards what we believe to be our most promising product or products. The nature of the drug development process is such that there is a constant availability of new information and data which could positively or adversely affect a product in development. We cannot predict how such new information and data may impact in the future the prioritization of the development of our current or future product candidates or that any of our products, regardless of its development stage or the investment of time and funds in its development, will continue to be funded or developed.

We will not be able to commercialize our PBT2 therapeutic compound for Alzheimer's disease or any future product candidates if we fail to adequately demonstrate their safety, efficacy and superiority over existing therapies.

Before obtaining regulatory approvals for the commercial sale of any of our pharmaceutical products, we must demonstrate through pre-clinical testing and clinical studies that our PBT2 product candidate is safe and effective for use in humans for each target indication. Conducting pre-clinical testing and clinical studies is an expensive, protracted and time-consuming process. Likewise, results from early clinical trials may not be predictive of results obtained in large-scale, later-stage clinical testing. In addition, even though a potential drug product shows promising results in clinical trials, regulatory authorities may not grant the necessary approvals without sufficient safety and efficacy data.

We may not be able to undertake further clinical trials of our PBT2 compound as a therapeutic compound for Alzheimer's disease or other indications and any future product candidate (including one that may emerge from our vaccine program), or to demonstrate the safety and efficacy or superiority of any of these product candidates over existing therapies or other therapies under development, or enter into any collaborative arrangement to commercialize our current or future product candidates on terms acceptable to us, or at all. For example, in April 2005, we ceased clinical trials of our PBT1 compound as a treatment for Alzheimer's disease. Clinical trial results that show insufficient safety and efficacy could have a material adverse effect on our business, financial condition and results of operations.

We have limited manufacturing experience with our product candidates. Delays in manufacturing sufficient quantities of such materials to the required standards for pre-clinical and clinical trials may negatively impact our business and operations.

We may not be able to manufacture sufficient quantities of PBT2 or any other development or product candidates in a cost-effective or timely manner. Manufacturing includes the production, formulation and stability testing of an active pharmaceutical ingredient. Any delays in production would delay our pre-clinical and human clinical trials, which could have a material adverse effect on our business, financial condition and operations.

We may be required to enter into contracting arrangements with third parties to manufacture PBT2 and any other development or product candidates for large-scale, preclinical and/or clinical trials. We may not be able to make the transition from laboratory-scale to development-scale, or from development-scale to commercial production. We may need to develop additional manufacturing resources, enter into collaborative arrangements with other parties who have established manufacturing capabilities, or have third parties manufacture our products on a contract basis. We may not have access on acceptable terms to the necessary and substantial financing that would be required to scale-up production and develop effective commercial manufacturing processes and technologies. We may not be able to enter into collaborative or contracting arrangements on acceptable terms with parties that will meet our requirements for quality, quantity and timeliness.

We expect that we will be required to design and develop new synthetic pathways for most, if not all, of the products that we currently intend to develop or may develop in the future. We can not predict the success of such efforts, the purity of the products that may be obtained or the nature of the impurities that may result from such efforts. If we are not able to obtain an acceptable purity for any product candidate or an acceptable impurity profile, pre-clinical and clinical trials would be delayed, which could have a material adverse effect on the priority of the development of our product candidates, our business, financial condition and results of operations.

We are dependent upon a sole manufacturer of our lead compound, PBT2, and on a sole manufacturer to encapsulate the compound and could incur significant costs and delays if we are unable to promptly find a replacement for either of them.

We typically rely on a single manufacturer to develop Good Manufacturing Practice (GMP) synthetic processes for our lead compounds. Our lead compound, PBT2, is manufactured by the Institute of Drug Technology Australia Limited. We also rely on a sole manufacturer, Patheon Inc., to encapsulate PBT2. We intend to continue these relationships and this approach with further compounds if the relationships remains financially viable. We may not be able to promptly find a replacement manufacturer, if required, without incurring material additional costs and substantial delays.

We have a history of operating losses and may not achieve or maintain profitability in the future.

We have incurred losses in every period since we began operations in 1997. We expect to continue to incur additional operating losses over at least the next several years and to increase our cumulative losses substantially as we expand our research and development and pre-clinical activities and commence additional clinical trials of PBT2. We reported net losses of A\$11,142,320 and A\$11,590,594 during the fiscal years ended June 30, 2007 and 2006, respectively. As of June 30, 2007, our accumulated deficit was A\$52,483,038. We may never be able to achieve or maintain profitability.

Our success depends upon our ability to protect our intellectual property and our proprietary technology.

Any future success will depend in large part on whether we can:

- obtain and maintain patents to protect our own products and technologies;
- obtain licenses to the patented technologies of third parties;
- operate without infringing on the proprietary rights of third parties; and
- protect our trade secrets, know-how and other confidential information.

Patent matters in biotechnology are highly uncertain and involve complex legal and factual questions. Accordingly, the availability and breadth of claims allowed in biotechnology and pharmaceutical patents cannot be predicted. Any of the pending or future patent applications filed by us or on our behalf may not be approved, or we may not develop additional proprietary products or processes that are patentable or that we will be able to license any other patentable products or processes.

Our commercial success will also depend, in part, on our ability to avoid infringement of patents issued to others. If a court determines that we were infringing any third party patents, we could be required to pay damages, alter our products or processes, obtain licenses or cease certain activities. Licenses required under patents held by third parties may not be made available on terms acceptable to us or at all. To the extent that we are unable to obtain such licenses, we could be foreclosed from the development, export, manufacture or commercialization of the product requiring such license or encounter delays in product introductions while we attempt to design around such patents, and any of these circumstances could have a material adverse effect on our business, financial condition and results of operations.

We may have to resort to litigation to enforce any patents issued or licensed to us or to determine the scope and validity of third party proprietary rights. We may have to defend the validity of our patents in order to protect or enforce our rights against a third party. Third parties may in the future assert against us infringement claims or claims that we have infringed a patent, copyright, trademark or other proprietary right belonging to them. Any infringement claim, even if not meritorious, could result in the expenditure of significant financial and managerial resources and could negatively affect our profitability. While defending our patents, the scope of the claim may be reduced in breadth and inventorship of the claimed subject matter, and proprietary interests in the claimed subject matter may be altered or reduced. Any such litigation, regardless of outcome, could be expensive and time consuming, and adverse determinations in any such proceedings could prevent us from developing, manufacturing or commercializing our products and could have a material adverse effect on our business, financial condition and results of operations.

If we do not obtain the necessary governmental approvals we will be unable to commercialize our pharmaceutical products.

Our ongoing research and development activities are, and the production and marketing of our pharmaceutical product candidates derived therefrom will be, subject to regulation by numerous governmental authorities in Australia, principally the Therapeutics Goods Administration, or TGA, and the Food and Drug Administration, or FDA, in the United States, the Medicines and Healthcare products Regulatory Agency, or MHRA, in the United Kingdom, the Medical Products Agency, or MPA, in Sweden and the European Medicines Agency, or EMEA. Prior to marketing, any therapeutic product developed must undergo rigorous pre-clinical testing and clinical trials, as well as an extensive regulatory approval process mandated by the TGA and, to the extent that any of our pharmaceutical products under development are marketed abroad, by foreign regulatory agencies, including the FDA in the United States and the MHRA in the United Kingdom. These processes can take many years and require the expenditure of substantial resources. Delays in obtaining regulatory approvals would adversely affect the development and commercialization of our pharmaceutical product candidates. We may not be able to obtain the clearances and approvals necessary for clinical testing or for manufacturing and marketing our pharmaceutical products candidates.

Our research and development efforts will be seriously jeopardized if we are unable to retain key personnel and cultivate key academic and scientific collaborations.

Our future success depends to a large extent on the continued services of our senior management and key scientific personnel. We have entered into employment or consultancy agreements with these individuals. The loss of their services could negatively affect our business. Our success is highly dependent on the continued contributions of our scientific personnel and on our ability to develop and maintain important relationships with leading academic institutions and scientists. Competition among biotechnology and pharmaceutical companies for qualified employees is intense, and we may not be able to continue to attract and retain qualified scientific and management personnel critical to our success. We also have relationships with leading academic and scientific collaborators who conduct research at our request or assist us in formulating our research and development strategies. These academic and scientific collaborators are not our employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us. In addition, these collaborators may have arrangements with other companies to assist such companies in developing technologies that may prove competitive to ours.

If we are unable to successfully keep pace with technological change or with the advances of our competitors, our technology and products may become obsolete or non-competitive.

The biotechnology and pharmaceutical industries are subject to rapid and significant technological change. Our competitors in Australia and elsewhere are numerous and include major pharmaceutical companies, biotechnology firms, universities and other research institutions. These competitors may develop technologies and products that are more effective than any that we are developing, or which would render our technology and products obsolete or non-competitive. Many of these competitors have greater financial and technical resources and manufacturing and marketing capabilities than we do. In addition, many of our competitors have much more experience than we do in pre-clinical testing and human clinical trials of new or improved drugs, as well as in obtaining FDA, TGA, MHRA, MPA, EMEA and other regulatory approvals.

We know that competitors are developing or manufacturing various technologies or products for the treatment of diseases that we have targeted for product development. Some of these competitive products use therapeutic approaches that compete directly with our PBT2 product candidate. Our ability to further develop our products may be adversely affected if any of our competitors were to succeed in obtaining regulatory approval for their competitive products sooner than us.

Acceptance of our products in the marketplace is uncertain, and failure to achieve market acceptance will negatively impact our business and operations.

Our current or future products may not achieve market acceptance even if they are approved by the TGA, FDA or any other regulatory authority. The degree of market acceptance of such products will depend on a number of factors, including:

- the receipt and timing of regulatory approvals for the uses that we are studying;

- the establishment and demonstration to the medical community of the safety, clinical efficacy and cost-effectiveness of our product candidates and their potential advantages over existing therapeutics and technologies; and
- the pricing and reimbursement policies of governments and third-party payors.

Physicians, patients, payors or the medical community in general may be unwilling to accept, use or recommend any of our products.

The failure to establish a sales, marketing and distribution capability would materially impair our ability to successfully market and sell our pharmaceutical products.

We currently have no experience in marketing, sales or distribution of pharmaceutical products. If we develop any commercially marketable pharmaceutical products and decide to perform our own sales and marketing activities, we will require additional management, will need to hire sales and marketing personnel, and will require additional capital. Qualified personnel may not be available in adequate numbers or at a reasonable cost. Further, additional financing may not be available on acceptable terms, or at all, and our sales staff may not achieve success in their marketing efforts. Alternatively, we may be required to enter into marketing arrangements with other parties who have established appropriate marketing, sales and distribution capabilities. We may not be able to enter into marketing arrangements with any marketing partner or if such arrangements are established, our marketing partners may not be able to commercialize our products successfully. Other companies offering similar or substitute products may have well-established and well-funded marketing and sales operations in place that will allow them to market their products more successfully. Failure to establish sufficient marketing capabilities would materially impair our ability to successfully market and sell our pharmaceutical products.

If healthcare insurers and other organizations do not pay for our products, or impose limits on reimbursement, our future business may suffer.

The drugs we hope to develop may be rejected by the marketplace due to many factors, including cost. The continuing efforts of governments, insurance companies, health maintenance organizations and other payers of healthcare costs to contain or reduce healthcare costs may affect our future revenues and profitability and those of our potential customers, suppliers and collaborative partners, as well as the availability of capital. In Australia and certain foreign markets, the pricing or profitability of prescription pharmaceuticals is already subject to government control. We expect initiatives for similar government control at both the state and federal level to continue in the United States. The adoption of any such legislative or regulatory proposals could have a material adverse effect on our business and prospects.

Our ability to commercially exploit our products successfully will depend in part on the extent to which reimbursement for the cost of our products and related treatment will be available from government health administration authorities, private health coverage insurers and other organizations. Third-party payors, such as government and private health insurers, are increasingly challenging the price of medical products and services. Uncertainty exists as to the reimbursement status of newly approved health care products thereafter and in foreign markets, including the United States. If third-party coverage is not available to patients for any of the products we develop, alone or with collaborators, the market acceptance of these products may be reduced, which may adversely affect our future revenues and profitability. In addition, cost containment legislation and reductions in government insurance programs may result in lower prices for our products and could materially adversely affect our ability to operate profitably.

We may be exposed to product liability claims, which could harm our business.

The testing, marketing and sale of human health care products also entails an inherent risk of product liability. We may incur substantial liabilities or be required to limit development or commercialization of our products if we cannot successfully defend ourselves against product liability claims. We have historically obtained no fault compensation insurance for our clinical trials and intend to obtain similar coverage for future clinical trials. Such coverage may not be available in the future on acceptable terms, or at all. This may result in our inability to pursue further clinical trials or to obtain adequate protection in the event of a successful claim. We may not be able to obtain product liability insurance in the event of the commercialization of a product or such insurance may not be available on commercially reasonable terms. Even if we have adequate insurance coverage, product liability claims or recalls could result in negative publicity or force us to devote significant time, attention and financial resources to those matters.

Risks Relating to Our Securities

Our stock price may be volatile and the U.S. trading market for our American Depository Shares is limited.

The market price for our securities, like that of the securities of other pharmaceutical and biotechnology companies, has fluctuated substantially and may continue to be highly volatile in the future. During the last two fiscal years, the market price for our ordinary shares on the Australian Stock Exchange has ranged from as low as A\$0.15 to a high of A\$0.80 and the market price of our American Depository Shares on the NASDAQ Capital Market has ranged from as low as US\$1.20 to a high of US\$4.35. The market price for our securities has been affected by both broad market developments and announcements relating to actual or potential developments concerning products under development. We believe that the following factors, in addition to other risk factors described above and elsewhere in this annual report, will continue to significantly affect the market price of our ordinary shares:

- the results of pre-clinical testing and clinical trials by us and our competitors;
- developments concerning research and development, manufacturing, and marketing alliances or collaborations by us and our competitors;
- announcements of technological innovations or new commercial products by us and our competitors;
- determinations regarding our patent applications, patents and those of others;
- publicity regarding actual or potential results relating to medicinal products under development by us and our competitors;
- proposed governmental regulations and developments in Australia, the United States and elsewhere;
- litigation;
- economic and other external factors; and
- period-to-period fluctuations in our operating results.

In addition, stock markets have experienced extreme price and volume fluctuations. These fluctuations have especially affected the stock market price of many high technology and healthcare related companies, including pharmaceutical and biotechnology companies, and, in many cases, are unrelated to the operating performance of the particular companies.

Compliance with corporate governance regulations could increase the cost of our operations.

As a result of changes to the laws, regulations and standards relating to accounting, corporate governance and public disclosure, the costs of being a public company in general have increased in recent years. The Sarbanes-Oxley Act of 2002 requires changes in some of our corporate governance and securities disclosure or compliance practices. We expect that the on-going implementation of these regulations will further increase our legal compliance costs and will make some activities more time consuming. We are presently evaluating and monitoring regulatory developments and cannot estimate the magnitude of additional costs we may incur as a result of such developments. We are considered a “non-accelerated filer” under applicable rules of the Securities and Exchange Commission. As such, we are required to include a report by management under Section 404(a) of the Sarbanes-Oxley Act for the first time starting with the filing of our annual report for the year ending June 30, 2008, and an attestation report by our independent auditors under Section 404(b) of the Sarbanes-Oxley Act must first be included in our annual report on Form 20-F for the fiscal year ending June 30, 2009. The rules governing the standards that must be met for management to assess our internal controls over financial reporting are relatively new and complex and require significant documentation, testing and possible remediation to meet the detailed standards under the rules. During the course of its testing, our management may identify material weaknesses or significant deficiencies, which may not be remedied in time to meet the deadline imposed by the Sarbanes-Oxley Act. If our management cannot favorably assess the effectiveness of our internal controls over financial reporting or our auditors identify material weaknesses in our internal controls, investor confidence in our financial results may weaken, and our share price may suffer. We have expended and will need to further expend significant management time and financial resources to comply with the applicable requirements. This and other enacted and proposed legislation may increase the fees of our professional advisors and our insurance premiums.

Our accounting staff will need to be trained on the application of U.S. GAAP and the Securities and Exchange Commission accounting requirements; the failure to adequately train our accounting staff could result in a material misstatement to our annual or interim financial statements.

Our management has concluded that our company has insufficient accounting personnel that have sufficient knowledge and experience in U.S. GAAP and the SEC accounting requirements. The accounting personnel who prepare our financial statements will need to be trained on the application of U.S. GAAP accounting pronouncements and standardized reconciliation templates will need to be improved to assist in the reconciliation process between A-IFRS and U.S. GAAP. If the accounting personnel who prepare our financial statements are not adequately trained, our disclosure may be deficient and could result in a material misstatement to our annual or interim financial statements.

There is a substantial risk that we are a passive foreign investment company, or PFIC, which will subject our U.S. investors to adverse tax rules.

Holders of our ADRs who are U.S. residents face income tax risks. There is a substantial risk that we are a passive foreign investment company, commonly referred to as PFIC. Our treatment as a PFIC could result in a reduction in the after-tax return to the holders of our ADRs and would likely cause a reduction in the value of such ADRs. For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, cash is considered to be an asset, which produces passive income. As a result of our substantial cash position and the decline in the value of our stock, we believe that we became a PFIC during the taxable year ended June 30, 2005, and once again qualified as a PFIC during the taxable year ended June 30, 2006, under a literal application of the asset test described above, which looks solely to the market value. We believe that we will once again qualify as a PFIC during the taxable year ended June 30, 2007. If we are classified as a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning ADRs. Accordingly, you are urged to consult your tax advisors regarding the application of such rules. United States residents should carefully read "Item 10E. Additional Information - Taxation, United States Federal Income Tax Consequences" for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our ADRs.

We do not anticipate paying dividends on our ordinary shares.

We have never declared or paid cash dividends on our ordinary shares and do not expect to do so in the foreseeable future. The declaration of dividends is subject to the discretion of our Board of Directors and will depend on various factors, including our operating results, financial condition, future prospects and any other factors deemed relevant by our board of directors. You should not rely on an investment in our company if you require dividend income from your investment in our company. The success of your investment will likely depend entirely upon any future appreciation of the market price of our ordinary shares, which is uncertain and unpredictable. There is no guarantee that our ordinary shares will appreciate in value or even maintain the price at which you purchased your ordinary shares

Risks Relating to our Location in Australia

It may be difficult to enforce a judgment in the United States against us and most of our officers and directors or to assert U.S. securities laws claims in Australia or serve process on most of our officers and directors.

We are incorporated in Australia. All of our executive officers and directors are nonresidents of the United States. Therefore, it may be difficult for an investor, or any other person or entity, to enforce a U.S. court judgment based upon the civil liability provisions of the U.S. federal securities laws in an Australian court against us or any of those persons or to effect service of process upon these persons in the United States. Additionally, it may be difficult for an investor, or any other person or entity, to enforce civil liabilities under U.S. federal securities laws in original actions instituted in Australia.

As a foreign private issuer whose shares are listed on the NASDAQ Capital Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements.

As a foreign private issuer whose shares are listed on the NASDAQ Capital Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of NASDAQ Marketplace Rules. A foreign private issuer that elects to follow a home country practice instead of such requirements, must submit in advance to NASDAQ a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the Securities and Exchange Commission each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. As an Australian company listed on the NASDAQ Capital Market, we may follow home country practice with regard to, among other things, composition of the Board of Directors, director nomination procedures, compensation of officers and quorum at shareholders meetings. In addition, we may follow Australian law instead of the NASDAQ Marketplace Rules that require that we obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our legal and commercial name is Prana Biotechnology Limited. We were incorporated under the laws of the Commonwealth of Australia on November 11, 1997 and began limited operations shortly thereafter. Our registered office is located at Suite 2, 1233 High Street, Armadale, Victoria, 3143, Australia and our telephone number is 011-61-3-9824-8166. Our principal executive office is located at Level 2, 369 Royal Parade, Parkville, Victoria 3052, Australia and our telephone number is 011-61-3-9349-4906. Our address on the Internet is www.pranabio.com. The information in our website is not incorporated by reference into this annual report.

From our inception until our initial public offering registering our shares on the Australian Stock Exchange, or ASX, on March 28, 2000, we financed our operations with loans from two of our then directors, totaling A\$2,038,728. On March 28, 2000, we sold 16,000,000 of our ordinary shares and 8,000,000 options to purchase our ordinary shares in an initial public offering. We received net proceeds of A\$7,474,323 from the sale of shares and exercise of options. On February 15, 2001, we completed a private placement of 6,666,666 ordinary shares to institutional investors at a price per share of A\$0.75 and received net proceeds of A\$4,745,599 from the private placement. During the years ended June 30, 2003 and 2002, we received net proceeds of A\$3,569,792 and A\$580,345, respectively, for the exercise of 7,427,584 and 1,160,690 options (including the conversion of 7,289,310 listed options in March 2003), which funds were added to our working capital. In September 2003, we raised an additional A\$4,675,019 (net of issuance costs) through a private placement of 7,102,853 ordinary shares to institutional and accredited investors at a subscription price of A\$0.70 per share. In April 2004, we raised A\$26,352,147 (net of issuance costs) in a private placement in the United States (which was held in escrow pending receipt of the requisite approval of the transaction by our shareholders that was obtained on June 1, 2004), through the sale of 4,000,000 ADRs to institutional and accredited investors at a price of US\$5.00 per ADR and five-year warrants to purchase 3,000,000 ADRs at an exercise price of US\$8.00 per ADR. In the fiscal year ended June 30, 2004, we also received net proceeds of A\$757,166 for the exercise of options to purchase 1,325,000 ordinary shares, which funds were added to our working capital. Additionally, during the fiscal year ended June 30, 2004, we issued ordinary shares for nil consideration at a cost of A\$3,167 which was subtracted from our working capital. In the fiscal year ended June 30, 2005, we received net proceeds of A\$4,753,333 from the exercise of options to purchase 9,506,666 ordinary shares, which funds were added to our working capital. No options were exercised in the fiscal year ended June 30, 2006. In November 2006, we raised A\$7,740,360 (before costs) in a private placement of 21.8 million of our ordinary shares to professional investors in Australia and the United States at a price of A\$0.357 per ordinary share and three-year options to purchase an additional 4.35 million ordinary shares at an exercise price of A\$0.446 per ordinary share. Additionally, during the fiscal year ended June 30, 2007, options to purchase 758,000 ordinary shares were exercised by employees. No proceeds were received from the exercise of these options. As at June 30, 2007, we had A\$7,409,256 in cash and cash equivalents and our working capital was A\$5,564,304.

Our mission is to develop therapeutic drugs designed to treat the underlying causes of degeneration of the brain and the eye as the aging process progresses, initially focusing on Alzheimer's disease. Other potential applications for our therapies include age-related cataracts, Huntington's disease, Parkinson's disease, certain cancers and age-related macular degeneration. Our technology is the outcome of many years of intense research from some of the leading scientists in the world in the area of age-related degenerative diseases.

Since completing our initial public offering and listing process of our ordinary shares on the ASX on March 28, 2000, we have concentrated our resources toward the pursuit of our disease targets. Initially we focused on clinical trials of our proof of concept compound, PBT1, as a therapeutic for the treatment of Alzheimer's disease. We commenced our planned Phase II human clinical trial for PBT1 in August 2000. In 2004, we announced the results of our extended Phase II clinical trial of PBT1 and that we planned to pursue a Phase II/III study to examine the effect of PBT1 in moderate to severe Alzheimer's disease patients in the second quarter of 2005. On April 11, 2005, we announced that we would not proceed with the Phase II/III study. As part of our effort to manufacture Good Manufacturing Practice (GMP) grade PBT1 clinical trial material, we characterized the various impurities that occur in the synthetic process and found unacceptably high levels of a di-iodo-8-hydroxyquinoline impurity that could potentially alter the risk of side-effects and mutagenicity. We considered methods to reduce the levels of the di-iodo impurity, however, we reached the conclusion that attempts to reduce the impurity to required levels were not likely to be successful in a timely, commercially viable manner and that further development of PBT1 for the treatment of Alzheimer's disease was not appropriate. As a result of these events, we proceeded to conduct a strategic review of our pending strategic development programs.

On June 16, 2005, we announced that we had completed a review of our strategic development programs and we reaffirmed our commitment to our other lead candidate for the potential treatment of Alzheimer's disease, PBT2. Unlike PBT1, PBT2 has a structure that does not contain iodine and is therefore not capable of forming the di-iodo impurity that has been associated with mutagenicity. PBT2 was announced as a new lead metal protein attenuating compound, or MPAC, molecule for Alzheimer's disease in early August 2003. PBT2 is the result of rational drug design. It was built "from the ground up" to fulfill very specific criteria. It was designed so that it will be orally bioavailable and cross the blood brain barrier. PBT2 was selected from over 300 compounds that had been developed by us at such time on the basis of its significant effectiveness in both pre-clinical in vitro and in vivo testing. It was designed to have an improved safety and efficacy profile compared to PBT1.

In February 2005, we were awarded a research and development START grant of A\$1.35 million to take PBT2 through safety testing and Phase I clinical trials for Alzheimer's disease. Formal preclinical toxicology testing for PBT2 was completed and in March 2005, we commenced a series of Phase I clinical trials at a facility associated with the Utrecht University Hospital in Utrecht, the Netherlands. On November 7, 2005, we announced the successful completion of the first Phase I trial for PBT2, a double blind, placebo-controlled single dose escalation study, conducted on 55 healthy, male volunteers between the ages of 18 and 50, which was designed to evaluate the safety, tolerability and pharmacokinetics of PBT2. Data from the study shows that PBT2 was well tolerated with little difference in the incidence of adverse events between those receiving PBT2 and those receiving the placebo. Additionally, the pharmacokinetic analysis demonstrated that the drug exposure increased/decreased predictably and in a linear manner, both of which are desirable characteristics for a central nervous system drug. Concurrent findings in a pre-clinical mouse model indicate that PBT2 passes into the brain more extensively than its predecessor, PBT1. On February 7, 2006 we announced the completion of the second Phase I safety clinical trial for PBT2. This trial was a multi-dose escalation trial of PBT2 conducted in elderly, healthy, male and female volunteers completed in December 2005. Volunteers were dosed at a selected dose for seven days, the dose range was from 200mg to 800mg per day. Both Phase I trials demonstrated that PBT2 was well tolerated and suitable for progression to Phase II trials in Alzheimer patients.

In parallel to such clinical studies, chronic preclinical animal toxicology studies and the development work for GMP manufacture of PBT2 required for Phase II clinical studies was conducted and completed by the third calendar quarter of 2006. On July 20, 2006, while preparations for the Phase IIa clinical trial were underway, we announced key preclinical efficacy findings with PBT2 demonstrating that PBT2 could rapidly enhance memory function within five days of dosing in an Alzheimer mouse model, improve synaptic function and significantly reduce soluble beta-amyloid protein levels in mouse models of Alzheimer's disease in acute 24 hour experiments. On October 5, 2006 we announced the grant of approval from the Swedish Medical Products Agency (a Swedish regulatory authority) to undertake a Phase IIa clinical trial in elderly patients with mild Alzheimer disease in Sweden. On December 19, 2006 we announced that dosing had commenced in the Phase IIa clinical trial. The Phase IIa trial is a three month double-blind, placebo-controlled safety and tolerability study of PBT2 in 80 elderly male and female patients with mild forms of Alzheimer's disease. Tolerability, safety, cerebrospinal fluid and plasma biomarker and cognition endpoints will be measured. On August 6, 2007, we announced that 55 patients (of the planned 80) have been randomized to participate in the Phase IIa clinical trial, of which 30 patients have completed the trial, and that the independent Data Safety Monitoring Board, or DSMB, appointed by us upon the recommendation of Dr. Craig Ritchie and Quintiles Limited for the Phase IIa clinical trial of PBT2 has reviewed the data of over 50 patients and concluded there have been no treatment-related serious adverse events or withdrawals and that the trial is safe to continue in accordance with the original protocol. The Phase IIa clinical trial is expected to be completed by the end of 2007 and report its final findings by the end of first calendar quarter of 2008.

Our company is the exclusive licensee of an international patent application in the name of the General Hospital Corporation directed to a novel target for an Alzheimer's disease vaccine. The Commonwealth Government of Australia provided us with A\$227,252 Biotechnology Innovation Fund, or BIF, grant for the initial proof of concept stage of this research. The research under this BIF grant finished at the end of January 2005 having achieved the scientific milestone demonstrating that a mouse could generate antibodies that preferentially recognize dimerized 'toxic linked' forms of beta-amyloid and not the endogenous monomeric form of beta amyloid. Currently we are undertaking the screening of mouse hybridomas (hybrid cells produced by injecting a specific antigen into a mouse, collecting an antibody-producing cell from the mouse's spleen, and fusing it with a long-lived cancerous immune cell called a myeloma cell). Individual hybridoma's are being tested to try to identify a mouse monoclonal antibody candidate for use in a prospective mouse passive vaccine trial by the end of 2007. We are utilizing the resources of the Mental Health Research Institute and Monash University to conduct this research.

Since inception, we have not been required to invest material amounts for capital expenditures since our development efforts have taken place at research facilities operated by institutions with whom we have relationships. In the three fiscal years ended June 30, 2007, our capital expenditures have totaled A\$110,651. Since July 1, 2007, we have incurred A\$14,101 in capital expenditures.

B. Business Overview

Prana's Background

Medical science has made a significant number of breakthroughs over the past century. The average life span in western cultures has substantially increased. The diseases associated with aging have, however, yet to be fully understood or effectively treated. It is now believed that a number of age-related diseases may be capable of being treated.

The protein believed to be involved in the toxicity associated with Alzheimer's disease is beta amyloid. Very little was known about beta-amyloid protein until 1984 when Professors Colin Masters, Konrad Beyreuther and the late Dr. Glenner sequenced the chemistry of the protein which has since become the dominant focus world-wide of Alzheimer's disease research.

In 1987, Professors. Masters, Beyreuther and Tanzi of Harvard Medical School discovered how beta-amyloid was produced and in 1994, Professor Ashley Bush of Harvard Medical School discovered that the interaction between metals and beta-amyloid is associated with the toxicity seen in Alzheimer's disease, hopefully paving the way for the development of therapeutic drugs to treat the disease.

Our intellectual property has been developed over an extended period through the collaborative efforts of highly regarded scientists and research institutions in this field.

Research Institutions

The intellectual property owned by our company has been developed at several internationally recognized institutional research facilities and through a team of scientists employed by our company who are based at the University of Melbourne:

- The Massachusetts General Hospital, Genetics and Aging Unit in Boston. Massachusetts General Hospital is the largest teaching hospital for Harvard Medical School;
- The University of Melbourne, Department of Pathology;
- The Mental Health Research Institute; and
- The Biomolecular Research Institute in Melbourne.

Work conducted at the first three of these institutions demonstrated that clioquinol, codenamed PBT1, had potential efficacy for the treatment of Alzheimer's disease. Our research efforts led to the development of a novel MPAC within the same chemical class as PBT1, PBT2, a low molecular weight chemical entity that demonstrates a significant preclinical improvement over PBT1, and a portfolio of approximately 400 MPAC molecules in total (approximately 200 of which are of the same chemical class as PBT1 and the remaining MPACs are of other chemical classes). Our research program aims to find further and potentially more effective preferred compounds for the treatment of Alzheimer's disease as well as for our other major disease indications (such as Parkinson's disease, Huntington's disease, certain cancers and age-related macular degeneration).

Platform Technology and Research Programs

We regard our intellectual property as a "platform technology" since we believe that it addresses the causes of a broad spectrum of age related diseases based on the interrelationship of metals and proteins. To date, the majority of our research efforts have been directed at research into potential therapeutics for the treatment of Alzheimer's disease. Published data together with our initial findings have provided strong indications that the pathology for other certain age-related and degenerative disorders may also be based on the inter-relationship between certain metals and proteins, and we believe that the platform technology may also be applicable for:

- Age-related cataracts;

- Parkinson's disease;
- Huntington's disease;
- Age-related macular degeneration;
- Certain cancers, and
- other neurodegenerative diseases.

Alzheimer's Disease. Research is ongoing to increase our understanding of the neuropathology of Alzheimer's disease. Our research continues to focus on the structure and function of beta-amyloid and its precursor, and protein structural studies specifically around the sites of interaction between metals, metal complexes and our MPACs and the significant proteins in Alzheimer's disease such as APP and beta-amyloid. In July 2006, we announced key preclinical efficacy findings with PBT2 demonstrating that PBT2 could rapidly enhance memory function within five days of dosing in an Alzheimer mouse model, improve synaptic function and significantly reduce soluble beta-amyloid protein levels in mouse models of Alzheimer's disease in acute 24 hour experiments. Since such time, we have undertaken further confirmatory cognitive testing in another Alzheimer disease mouse model. For a description of the history and development of our lead PBT2 compound as a therapeutic for the treatment of Alzheimer's disease see Item 4A. "Information on the Company - History and Development of the Company."

Age-Related Cataracts. Basic research in the area of age related cataracts is being conducted by several independent groups of researchers around the world. Data to date indicates that some age-related cataracts contain the same protein aggregation as that seen in Alzheimer's disease. Preliminary animal data suggests that the deposition of some proteins in age related cataracts may be related to the inappropriate interaction of metals and amyloid species. At present, we are not undertaking active research in this area, although through the close ties with Professor Masters, a former director and Director of the Mental Health Research Institute of Melbourne, and the University of Melbourne, we retain the ability and opportunity to investigate the usefulness of its MPAC portfolio in treating and/or preventing age-related cataracts, if and when additional evidence arises to prioritize this opportunity. We can give no assurance that such research will continue or if continuing will be successful.

Parkinson's Disease. Parkinson's disease is another crippling disease of the aging population. It causes a progressive slowing of movement, tremor and the loss of fine motor control. Increasingly, dementia is being recognized as a significant component of Parkinson's disease. Existing therapies may provide some short term symptomatic relief but do not address the underlying cause of the disease. We believe that our platform technology may affect the aggregation of the proteins concerned and may provide a pathway for reversing the disease. Parkinson's disease ranks among the most common late life neurodegenerative diseases.

Our Melbourne research team is working on the role of a key protein (alpha-synuclein) that aggregates to form the diagnostic marker of this disease. We believe that the aggregated form of this protein is susceptible to the same therapeutic strategy that is being used for Alzheimer's disease, and laboratory tests are in progress to confirm this approach. The molecules already developed as part of the Alzheimer's disease program are being tested and validated as prospective agents for the treatment of Parkinson's disease, together with agents arising from the current chemistry synthetic program. Experimental animal models are being developed and integrated into the rationale drug design screening regime. During 2005, we entered into a contractual arrangement with the Integrative Neuroscience Facility based at the Howard Florey Institute in Melbourne to assist in the examination of the effect of MPACs administered to the 6-hydroxydopamine (PD) mouse model of the disease, which concluded with positive results. In addition, groups unrelated to us have published data that demonstrates the usefulness of clioquinol in treating the symptoms of Parkinson's disease generated in the alternative MPTP (1-methyl-4-phenyl-1,2,3,6-tetrahydropyridine) mouse model of the disease. Based on these positive results with clioquinol in such two mouse models , we are currently investigating the efficacy of other selected MPACs in these models to screen for possible MPAC candidates as treatment candidates for Parkinson's disease.

Huntington's Disease. Huntington's disease is a crippling genetic neurodegenerative disorder of the central nervous system caused by a mutation in a gene which encodes the huntingtin protein. The disease results in progressive deterioration of physical, cognitive and emotional abilities that lead to severe incapacitation and eventually death, generally 15-25 years after the onset of the disease. Huntington's disease primarily affects adults, usually between the ages of 30 and 50.

U.S.-based researchers have presented the effects of clioquinol in an animal model of Huntington's disease, showing evidence of improved behavior, motor skills and inhibition of the abnormal form of the huntingtin protein. Based on these findings, we have tested several proprietary MPACs in collaboration with researchers based at the Veterans Affairs Medical Center and the Department of Neurology, University of California, San Francisco, under a collaborative research agreement. PBT2 has shown good efficacy in the R6/2 mouse model of Huntington's disease.

Clinical Trials

In 2003, PBT2 successfully completed in-house preclinical screening and was selected by us as a development candidate. At such time, we initiated the initial preclinical toxicology testing required to support initial human trials, which was successfully completed in early 2005. In March 2005, we commenced a series of Phase I clinical trials at a facility associated with the Utrecht University Hospital in Utrecht, the Netherlands. On November 7, 2005, we announced the successful completion of the first Phase I trial for PBT2. In early 2006, we also successfully completed a second Phase I multi-dose escalation safety clinical trial of PBT2. On May 5, 2006, we announced that we received an expert report in respect of the Phase I trials for PBT2. The expert report was prepared by Dr. Craig Ritchie, psychiatrist and Director of Mental Health Clinical Trials at University College London and a clinical advisor to our company. Dr. Craig Ritchie concluded that the Phase I results provide the confidence needed to move forward to formal Phase II testing in people with Alzheimer's disease. On May 11, 2006, we announced our plans to move forward with a Phase IIa clinical trial for PBT2 in patients with Alzheimer's disease. On December 19, 2006 we announced that dosing had commenced in the Phase IIa clinical trial. The Phase IIa trial is a three month double-blind, placebo-controlled safety and tolerability study of PBT2 in 80 elderly male and female patients with mild forms of Alzheimer's disease. Tolerability, safety, cerebrospinal fluid and plasma biomarker and cognition endpoints will be measured. The Phase IIa clinical trial is expected to be completed by the end of 2007 and report its final findings by the end of first calendar quarter of 2008. For additional details regarding our clinical trials see Item 4.A. "Information on the Company - History and Development of the Company." No assurance can be given that future clinical studies will commence, or if initiated will be completed and prove to be successful, or that we will be able to commercialize drugs based on our beta-amyloid theory of Alzheimer's disease.

Rational Drug Design

Rational drug design employs experiment based models, which target the molecular composition of various substances (in the case of Alzheimer's disease the beta-amyloid protein) to allow the design of new chemical entities with the propensity to influence targeted substances and processes. In the case of MPACs, the targeted substances believed important are proteins and metals and the process of specific interest is believed to be metal-mediated oxyradical formation which leads to neurodegenerative changes.

Our medicinal chemistry program is based at laboratories that we lease at the University of Melbourne. To date, our scientists have developed a pipeline of compounds across multiple chemical classes that target the interaction of specific metals and certain aggregating proteins such as beta-amyloid. Compounds continue to be designed, synthesized and undergo the required early phase preclinical screening before they are available for human testing. Based on the results of initial screening, our medicinal chemists continue to develop new chemical entities with novel design features and we believe that rational drug design will provide new and specifically designed drugs which will display efficacy in disaggregating aggregation-prone proteins such as beta-amyloid, α -synuclein and huntingtin, paving the way for future therapeutics.

A series of *in vitro* assays have been established to screen compounds developed by our medicinal chemistry group. From early 2002, a program was initiated by our medicinal chemistry group to undertake preliminary *in vivo* pharmacology and kinetic studies of the new compounds demonstrating activity in the *in vitro* screens. We perform *in vivo* modeling for our lead compound candidates for Alzheimer's disease with transgenic mice expressing a similar phenotype to human Alzheimer's disease. Similarly, a transgenic mouse carrying a mutated Huntingtin gene is used to model Huntington's disease and mice treated with neuronal toxins to produce the Parkinson's phenotype are used to model Parkinson's disease. Based on the results of these studies, lead compounds are selected by our medicinal chemistry group for formal pre-clinical studies. Data generated by these *in vitro* and *in vivo* screens are incorporated into our medicinal chemistry program to further refine development strategies for new compounds.

PBT2, our current lead MPAC product candidate, was selected from this “rationally designed” pipeline in 2003 and is the first such new and specifically designed compound to move into formal development. It has been built “from the ground up” to fulfill very specific criteria. It was designed so that it will be orally bioavailable and cross the blood brain barrier. PBT2 was selected from several hundred compounds that had been developed by us at such time. It has been designed to have an improved safety and pharmacokinetic profile and has demonstrated significant effectiveness in both pre-clinical *in vitro* and *in vivo* testing. PBT2 has completed initial preclinical toxicology testing and in March 2005, we commenced a series of Phase I clinical trials at a facility associated with the Utrecht University Hospital in Utrecht, the Netherlands. On November 7, 2005, we announced the successful completion of the first Phase I trial for PBT2. In early 2006, we also successfully completed a second Phase I multi-dose escalation safety clinical trial of PBT2. On May 5, 2006 we announced that we received an expert report in respect of the Phase I trials for PBT2. The expert report was prepared by Dr. Craig Ritchie, psychiatrist and Director of Mental Health Clinical Trials at University College London and a clinical advisor to our company. Dr. Craig Ritchie concluded that the Phase I results provide the confidence needed to move forward to formal Phase II testing in people with Alzheimer’s disease. On May 11, 2006, we announced our plans to move forward with a Phase IIa clinical trial for PBT2 in patients with Alzheimer’s disease. On December 19, 2006 we announced that dosing had commenced in the Phase IIa clinical trial. The Phase IIa trial is a three month double-blind, placebo-controlled safety and tolerability study of PBT2 in 80 elderly male and female patients with mild forms of Alzheimer’s disease. Tolerability, safety, cerebrospinal fluid and plasma biomarker and cognition endpoints will be measured. The Phase IIa clinical trial is expected to be completed by the end of 2007 and report its final findings by the end of first calendar quarter of 2008. For additional details regarding our clinical trials see Item 4.A. “Information on the Company - History and Development of the Company.”

Patent Portfolio

Invention	Status	Comments
<p>“A method for assaying and treating Alzheimer’s Disease” Filed: November 12, 1992 Applicant: The University of Melbourne Assigned to Prana Biotechnology Limited</p>	Patents granted in Australia, Europe, Japan and the United States. An application in Canada is under examination.	The invention includes claims directed to the use of specified modulators in the treatment of Alzheimer’s disease. Granted European claims include the use of zinc binding agents for oral administration in the treatment of Alzheimer’s Disease
<p>“Beta amyloid peptide inhibitors” Filed: July 21, 2000 Applicant: Biomolecular Research Institute and University of Melbourne Assigned to Prana Biotechnology Limited</p>	International (PCT) application has entered national phase in Europe, Canada, Japan and the United States. A patent has been granted in Australia and examination is expected in the other jurisdictions.	The invention encompasses claims to agents capable of inhibiting binding of specified metal ions to the N-terminus of beta-amyloid and the use of these agents in the treatment of amyloid related conditions including Alzheimer’s disease.
<p>“An <i>in vitro</i> system for determining the formation of Ab Amyloid” Filed: October 19, 1994 Applicant: The General Hospital Corporation Licensed to Prana Biotechnology Limited</p>	Patents have been granted in the United States and Japan. A patent application in Canada is undergoing examination.	The invention is directed to an assay for the formation of beta-amyloid in a biological sample and inhibitors of that formation.
<p>“A diagnostic assay for Alzheimer’s Disease” Filed: October 19, 1994 Applicant: The General Hospital Corporation Licensed to Prana Biotechnology Limited</p>	Two patents have been granted in the United States and one patent granted in Canada.	The invention is directed to an antibody based diagnostic assay for the detection and quantification of beta-amyloid species.
<p>“Identification of agents for use in the treatment of Alzheimer’s Disease” Filed: March 11, 1998 Applicant: The General Hospital Corporation Licensed to Prana Biotechnology Limited</p>	Patents have been granted in Australia and United States. Applications are under examination in Japan, Europe and Canada.	The invention is directed to the use of specified metal binding agents to reduce beta-amyloid mediated neurotoxicity and assays to identify agents capable of modifying neurotoxic properties of beta-amyloid
<p>“Agents for use in the treatment of Alzheimer’s Disease” Filed: March 11, 1999 Applicant: The General Hospital Corporation Licensed to Prana Biotechnology Limited</p>	Patents have been granted in Australia and the United States. Examination is pending in Canada and Japan. Patent has been allowed in Europe and is entering national phases in the United Kingdom, Ireland, Germany, France, Italy and Belgium.	The invention is directed to compositions containing clioquinol and known metal binding agents and their use in the treatment of amyloid related diseases.
<p>“Method for Screening drugs useful for treating Alzheimer’s Disease” Filed: April 29, 1999 Applicant: The General Hospital Corporation Licensed to Prana Biotechnology Limited</p>	A continuation-in-part patent has been granted in the United States and a further U.S. divisional patent application is under examination.	The invention is primarily directed to specified assays that identify agents capable of modifying the neurotoxic properties of beta-amyloid.
<p>“Neurotoxic Oligomers” Filed: June 28, 2000 Applicants: Prana Biotechnology Limited and The General Hospital Corporation</p>	A patent has been granted in Australia. An application is under examination in the United States, New Zealand and China. Examination has been requested Canada and Japan. An application in Europe is pending examination.	The invention is directed to an immunotherapy strategy using tyrosine cross-linked protein aggregates. The approach may be used in the treatment of Alzheimer’s disease and other amyloid related conditions.

"Methods for the Identification of Agents that Inhibit or Promote Cataracts and Uses thereof"
Filed: August 18, 2000
Applicant: The General Hospital Corporation.
Licensed to Prana Biotechnology Limited

International (PCT) application has entered national phase. Applications in the United States and Europe are under examination. Applications in Japan and Canada have had examination requested. A patent has been granted in Australia and divisional patent allowed in the United States.

The invention is directed to assays for the detection of agents useful in the treatment of age-related cataracts and a method of treatment utilizing specified metal chelators.

"Methods of screening for inhibitors of Alzheimer's Disease"
Filed: December 12, 2000
Applicant: The General Hospital Corporation
Licensed to Prana Biotechnology Limited

Application has entered national phase in the United States and is under examination.

The invention encompasses claims to the identification of agents functioning as copper agonists and the use the agents in the treatment of amyloid related conditions including Alzheimer's disease.

"Treatment of Neurodegenerative Conditions"
Filed: April 3, 2003
Applicant: Prana Biotechnology Limited

Applications have entered national phase in the United States, Europe, China and Australia. Each await request for examination.

The invention encompasses the utility of the 8-hydroxyquinoline MPAC class in the treatment of neurodegenerative cognitive changes, particularly Huntington's disease.

The invention is directed to chemical structures of the 8-hydroxyquinoline MPAC class and their utility in the treatment of neurological conditions.

"8-Hydroxyquinoline derivatives"

Filed: July 16, 2003
Applicant: Prana Biotechnology Limited

International (PCT) application has entered national phase in the United States, Europe, China, Japan, Australia, Canada and eight other global jurisdictions.

The invention is directed to alternative MPAC chemical structures and their utility in the treatment of neurological conditions.

"Neurologically-Active Compounds"
Filed: October 3 , 2003
Applicant: Prana Biotechnology Limited

International (PCT) Application has entered national phase in the United States, Europe, China, Japan, Australia, Canada and eight other global jurisdictions.

The invention is directed to chemical structures of the 8-substituted quinoline MPAC class and their utility in the treatment of neurological conditions

The invention is directed to 'F4' MPAC chemical structures and their utility in the treatment of neurological conditions.

"Heterocyclic Compounds"

Filed: January 4, 2007

Applicant: Prana Biotechnology Limited

A provisional application has been filed.

The invention is directed to the use of Phanquinone for the treatment of Alzheimer's disease.

"Neurologically- Active Compounds"

Filed: April 1, 2005

Applicant: Prana Biotechnology Limited

International (PCT) application designating, United States, Europe, China, Japan, Australia, Canada and eight other global jurisdictions.

This invention is directed to the use of Phanquinone for the treatment of Alzheimer's disease.

"Use of Phanquinone for the treatment of Alzheimer's Disease".

Filed: October 19, 2000

Applicant: Prana Biotechnology Limited

Patent has been granted in the United States. An application in Japan is under examination.

This invention is directed to the use of Phanquinone for the treatment of age related memory impairment.

"Use of Phanquinone for the treatment of memory impairment".

Filed: April 3, 2003

Applicant: Prana Biotechnology Limited

Patent has been granted in the United States. An application in Japan is under examination.

This invention is directed to the use of phanquinol for the treatment of Alzheimer's disease.

"Use of Clioquinol for the treatment of Alzheimer's Disease".

Filed: February 13, 1998

Applicant: Prana Biotechnology Limited

Patent has been granted in the United States. An application in Japan is under examination.

"Pharmaceutical compositions of Clioquinol with B12 for therapeutic use". Filed: February 13, 1998 Applicant: Prana Biotechnology Limited.	Patent has been granted in the United States. An application in Japan is under examination.	This invention is directed to clioquinol pharmaceutical compositions comprising B12.
"Use of Clioquinol for the treatment of Parkinson's Disease". Filed: February 13, 1998 Applicant: Prana Biotechnology Limited.	Patent in the United States has been granted. An application in Japan is under examination.	This invention is directed to the use of clioquinol for the treatment of Parkinson's disease
"Method of treatment and prophylaxis and agents useful for same" Filed: April 13, 2007 Applicant: Prana Biotechnology Limited	A complete international (PCT) application has been filed.	This invention is directed to MPAC compounds for the treatment of age-related macular degeneration..
"A method of prophylaxis or treatment and agents for same". Filed: June 22, 2007 Applicant: Prana Biotechnology Limited	A complete international (PCT) application has been filed.	This invention is directed to MPAC compounds for treating certain cancers.

Patent Matters

Patent matters in biotechnology are highly uncertain and involve complex legal and factual questions. Accordingly, the availability and breadth of claims allowed in biotechnology and pharmaceutical patents cannot be predicted. Statutory differences in patentable subject matter may limit the protection we can obtain on some or all of our inventions outside Australia or prevent us from obtaining patent protection outside Australia, either of which could have a material adverse effect on our business, financial condition and results of operations. For example, methods of treating humans are not patentable in many countries outside Australia and the United States. Moreover, since patent applications are not published until at least 18 months from their first filing date and the publication of discoveries in the scientific literature often lags behind actual discoveries, we cannot be certain that we or any of our licensors were the first creator of inventions covered by pending patent applications or that we or our licensors were the first to file patent applications for such inventions. Additionally, the grant and enforceability of a patent is dependent on a number of factors that may vary between jurisdictions. These factors may include the novelty of the invention, the requirement that the invention not be obvious in the light of prior art (including prior use or publication of the invention), the utility of the invention, and the extent to which the patent clearly describes the best method of working the invention.

While we intend to seek patent protection for our therapeutic products and technologies, we cannot be certain that any of the pending or future patent applications filed by us or on our behalf will be approved, or that we will develop additional proprietary products or processes that are patentable or that we will be able to license any other patentable products or processes. We also cannot be certain that others will not independently develop similar products or processes, duplicate any of the products or processes developed or being developed by us or licensed to us, or design around the patents owned or licensed by us, or that any patents owned or licensed by us will provide us with competitive advantages. Furthermore, we cannot be certain that patents held by third parties will not prevent the commercialization of products incorporating the technology developed by us or licensed to us, or that third parties will not challenge or seek to narrow, invalidate or circumvent any of the issued, pending or future patents owned or licensed by us.

Our commercial success will also depend, in part, on our ability to avoid infringement of patents issued to others. If a court determines that we were infringing any third party patents, we could be required to pay damages, alter our products or processes, obtain licenses or cease certain activities. We cannot be certain that the licenses required under patents held by third parties would be made available on terms acceptable to us or at all. To the extent that we are unable to obtain such licenses, we could be foreclosed from the development, export, manufacture or commercialization of the product requiring such license or encounter delays in product introductions while we attempt to design around such patents, and any of these circumstances could have a material adverse effect on our business, financial condition and results of operations.

We may have to resort to litigation to enforce any patents issued or licensed to us or to determine the scope and validity of third party proprietary rights. Such litigation could result in substantial costs and diversion of effort by us. We may have to participate in opposition proceedings before the Australian Patent and Trademark Office or another foreign patent office, or in interference proceedings declared by the United States Patent and Trademark Office, to determine the priority of invention for patent applications filed by competitors. Any such litigation, interference or opposition proceeding, regardless of outcome, could be expensive and time consuming, and adverse determinations in any such proceedings could prevent us from developing, manufacturing or commercializing our products and could have a material adverse effect on our business, financial condition and results of operations.

In addition to patent protection, we rely on unpatented trade secrets, know-how and other confidential information as well as proprietary technological innovation and expertise that are protected in part by confidentiality and invention assignment agreements with our employees, advisors and consultants.

Competition

We believe that we will face competition in differing levels of intensity in all of the areas in which we are conducting research. Our competitors in Australia and elsewhere are numerous and include, among others, major pharmaceutical companies, biotechnology firms, universities and other research institutions. These competitors may develop technologies and products that are more effective than any that we are developing, or which would render our technology and products obsolete or non-competitive. Many of these competitors have greater financial, research and screening capabilities, technical resources and manufacturing and marketing capabilities than we do. In addition, many of our competitors have much more experience than we do in pre-clinical testing and human clinical trials of new or improved drugs, as well as in obtaining FDA, TGA and other regulatory approvals.

Regulatory Considerations

Our ongoing research and development activities are, and the production and marketing of our pharmaceutical product candidates derived therefrom will be, subject to regulation by numerous governmental authorities in Australia, principally the Therapeutic Goods Administration, or TGA, the Federal Drug Authority, or FDA, in the United States, the Medicines Control Agency, or MHRA, in the United Kingdom, the Medical Products Agency, or MPA, in Sweden and the European Medicines Evaluation Authority, or EMEA. Prior to marketing, any therapeutic product developed must undergo rigorous pre-clinical testing and clinical trials, as well as an extensive regulatory approval process mandated by the TGA and, to the extent that any of our pharmaceutical products under development are marketed abroad, by foreign regulatory agencies, including the FDA, EMEA and MHRA. Clinical trials are conducted in three sequential phases but the phases may overlap.

Pre-clinical studies involve laboratory evaluation of product characteristics and animal studies to assess the initial efficacy and safety of the product. Clinical trials involve the administration of the investigational product to humans under the supervision of a qualified principal investigator. Phase I clinical trials may be performed in healthy human subjects or, depending on the disease, in patients. The goal of Phase I clinical trials is to establish initial data about the safety, tolerance and pharmacokinetics of the product in humans. In Phase II clinical trials, in addition to safety, the efficacy of the product is evaluated in limited patients with the target disease. Phase III trials typically involve additional testing for safety and clinical efficacy in expanded, large-scale, multi-center studies of patients with the target disease.

Clinical trials can take many years to complete and require the expenditure of substantial resources. The length of time varies substantially according to the type, complexity, novelty and intended use of the product candidate. Delays in obtaining regulatory approvals could adversely affect the development and commercialization of our pharmaceutical product candidates and could have a material adverse impact on our business, financial condition and results of operations.

We completed the initial preclinical toxicology testing of PBT2 that is required to move a compound into human trials and in March 2005, we commenced a series of Phase I clinical trials at a facility associated with the Utrecht University Hospital in Utrecht, the Netherlands. On November 7, 2005, we announced the successful completion of the first Phase I trial for PBT2. In early 2006, we also successfully completed a second Phase I multi-dose escalation safety clinical trial of PBT2. On May 5, 2006, we announced that we received an expert report in respect of the Phase I trials for PBT2. The expert report was prepared by Dr. Craig Ritchie, psychiatrist and Director of Mental Health Clinical Trials at University College London and a clinical advisor to our company. Dr. Craig Ritchie concluded that the Phase I results provide the confidence needed to move forward to formal Phase II testing in people with Alzheimer's disease. On May 11, 2006, we announced our plans to move forward with a Phase IIa clinical trial for PBT2 in patients with Alzheimer's disease. On December 19, 2006 we announced that dosing had commenced in the Phase IIa clinical trial. The Phase IIa trial is a three month double-blind, placebo-controlled safety and tolerability study of PBT2 in 80 elderly male and female patients with mild forms of Alzheimer's disease. Tolerability, safety, cerebrospinal fluid and plasma biomarker and cognition endpoints will be measured. The Phase IIa clinical trial is expected to be completed by the end of calendar 2007 and to report its final findings in the first calendar quarter of 2008. For additional details regarding our clinical trials see Item 4.A. "Information on the Company - History and Development of the Company."

We cannot make any assurances that we will be able to enter into a collaborative arrangement with a large pharmaceutical or biotechnology company to commercialize PBT2. Nor can we make any assurances that once clinical trials are completed by us or a collaborative partner, we will be able to submit as scheduled a marketing approval request to the applicable governmental regulatory authority, or that such request and application will be reviewed and cleared by such governmental authority in a timely manner, or at all. Although we intend to make use of fast-track and abbreviated regulatory approval programs when possible and commercially appropriate, we cannot be certain that we will be able to obtain the clearances and approvals necessary for clinical testing or for manufacturing and marketing our pharmaceutical products candidates.

During the course of clinical trials and toxicology studies, product candidates may exhibit unforeseen and unacceptable drug-related toxicities or side effects. If any unacceptable toxicities or side effects were to occur, we may, or regulatory authorities may require us to, interrupt, limit, delay or abort the development of our potential products. In addition, unacceptable toxicities could ultimately prevent the clearance of our product candidates by the TGA, EMEA, FDA or other regulatory authority for any or all targeted indications. Even after being cleared by a regulatory authority, any of our products may later be shown to be unsafe or not to have its purported effect, thereby preventing widespread use or requiring withdrawal from the market. We cannot make any assurances that PBT2 or any other development or product candidate will be safe or effective when administered to patients.

Manufacturing and Raw Materials

We have used third party manufacturers to produce the primary drug product (API) and secondary drug forms for our large-scale, preclinical and clinical PBT1 and PBT2 trials, and we expect that we will use third party manufacturers for any future product candidates. Despite some difficulties in producing PBT1 API with an appropriate impurity profile, we have not faced the same difficulties in producing PBT2 API for our research and development activities or our clinical studies to date. We cannot make any assurances that we will be able to manufacture sufficient quantities of PBT2 or any other development or product candidate in a cost-effective or timely manner. Any delays in production would delay our pre-clinical and human clinical trials, which could have a material adverse effect on our business, financial condition and results of operations. We also cannot make any assurances that we will be able to enter into collaborative or contracting arrangements on acceptable terms with third party manufacturers that will meet our requirements for quality, quantity and timeliness.

We expect that we will be required to design and develop new synthetic pathways for most, if not all, of the products that we currently intend to develop or may develop in the future. We can not predict the success of such efforts, the purity of the products that may be obtained or the nature of the impurities that may result from such efforts. If we are not able to obtain an acceptable purity for any product candidate or an acceptable impurity profile, pre-clinical and clinical trials would be delayed, which could have a material adverse effect on the priority of the development of our product candidates, our business, financial condition and results of operations.

Government Grants

In May 2003, the Australian Industry Research and Development Board, or IR&D Board, approved our application for funding under the Biotechnology Innovation Fund (BIF) grant in the amount of A\$227,252 for research into the development of an immunotherapy for Alzheimer's disease. The research under this grant finished at the end of January 2005 having achieved the scientific milestone demonstrating that a mouse could generate antibodies that preferentially recognize dimerized 'toxic linked' forms of beta-amyloid and not the endogenous monomeric form of beta amyloid.

In the first quarter of 2004, we were granted a START grant from the IR&D Board to support further development of PBT2 and other Alzheimer's disease research up to an amount of A\$1.35 million. The grant was payable, in arrears, on the achievement of pre-specified milestones. The research under this grant was initially to be completed over a two year period and such period was subsequently extended until the end of 2005. This grant was completed in December 2005 and we have received the entire amount of this grant.

Under the terms of the IR&D Board grants, we are required to submit reports to the IR&D Board in December 2006, December 2007 and December 2010 regarding any progress towards commercialization of our compounds and the nature of that commercialization that occurred as a result of the federal government funding.

Commercial Collaboration

In August 2003, utilizing the grant we received from the Commonwealth Government of Australia under the BIF, we entered into an agreement with Prima Biotechnology Limited, or Prima, through its collaborative research partner, the Macfarlane Burnet Institute for Medical Research and Public Health, known as the Burnet Research Institute at Austin, together with the University of Melbourne and the Mental Health Research Institute, to undertake proof of concept research for our prospective Alzheimer's disease vaccine target. This collaboration enabled us to access Prima's adjuvant vaccine technology, known as DCtag, in the design of candidate vaccine fragments. Under the terms of our contractual relationship with Prima, we retained all intellectual property rights to our monoclonal antibodies that were used for the collaboration. In May 2006, we terminated our collaboration with Prima due to a delay in reaching certain milestones. The scientists who worked on the project on behalf of Prima have since been hired by Monash University and we have retained their services to characterize selective monoclonal antibodies under a research agreement that we entered into with Monash University in January 2007.

C. Organizational Structure

In August 2004, we established two wholly owned subsidiaries, Prana Biotechnology Inc., incorporated in the United States, and Prana Biotechnology UK plc, incorporated in the United Kingdom. Prana Biotechnology Inc. was established in the United States due to the increase in our U.S. operations and U.S. investors in our company at such time. Prana Biotechnology UK plc was established in the United Kingdom to allow us to conduct commercial and clinical operations in the United Kingdom. Both of the subsidiaries are currently inactive.

D. Property, Plants and Equipment

We own computer equipment, office furniture and laboratory equipment, the major item being a mass spectrometer that is being used at the University of Melbourne.

We were party to a three year property lease signed in May 2004 that expired in May 2007 under which we leased executive office space at 369 Royal Parade, Parkville, Victoria 3052, Australia, at an initial annual rental of A\$105,551, which increased by 3.5% on a cumulative basis on the May anniversary of the lease. Although this lease expired in May 2007, the parties have continued to act in accordance with its terms on a month-to-month periodic lease basis and are currently in the process of negotiating a new lease for the office space.

ITEM 4A. UNRESOLVED STAFF COMMENTS

We have received comment letters from the Securities and Exchange Commission dated June 21, 2007 and August 21, 2007 in respect of our annual report on Form 20F and Amendment No. 1 to Form 20-F for the year ended June 30, 2006. We have submitted a response to both of these letters and to date, has not received further comments.

ITEM 5. Operating and FINANCIAL review and Prospects

The following discussion and analysis includes certain forward-looking statements with respect to the business, financial condition and results of operations of our company. The words "estimate," "project," "intend," "expect" and similar expressions are intended to identify forward-looking statements within the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated by such forward-looking statements, including those Risk Factors contained in Item 3D of this annual report. You should read the following discussion and analysis in conjunction with our consolidated financial statements and the notes thereto included in this annual report.

A. Operating Results

Background

We were incorporated under the laws of the Commonwealth of Australia on November 11, 1997. Our mission is to develop therapeutic drugs designed to treat the underlying cause of degeneration of the brain and the eye as the aging process progresses. The principal listing of our ordinary shares and listed options to purchase our ordinary shares is on the Australian Stock Exchange, or ASX. Since September 5, 2002, our American Depository Receipts, or ADRs, have traded on the NASDAQ Capital Market under the symbol "PRAN." We have two wholly-owned subsidiaries, Prana Biotechnology Inc. and Prana Biotechnology UK Limited, incorporated in the United States and the United Kingdom, respectively, in August 2004.

Our consolidated financial statements appearing in this annual report are prepared in Australian dollars and in accordance with the Australian equivalents to International Financial Reporting Standards adopted by the Australian Financial Reporting Council on January 1, 2005, which became effective for our company as of our fiscal year ended June 30, 2006. In this annual report, all references to "U.S. dollars" or "US\$" are to the currency of the United States of America, and all references to "Australian dollars" or "A\$" are to the currency of Australia.

All of our revenues are generated in Australian dollars, except for interest earned on foreign currency bank accounts, and the majority of our expenses are incurred in Australian dollars.

Overview

We are a development stage enterprise at an early stage in the development of our pharmaceutical products that are designed to treat the underlying causes of degeneration of the brain and the eye as aging progresses. We have incurred net losses since inception and expect to incur substantial and increasing losses for the next several years as we expand our research and development activities and move our product candidates into later stages of development. All of our product candidates are in early stages of development and we face the risks of failure inherent in developing drugs based on new technologies. The process of carrying out the development of our products to later stages of development may require significant additional research and development expenditures, including pre-clinical testing and clinical trials, as well as for obtaining regulatory approval. To date, we have funded our operations primarily through the sale of equity securities, proceeds from the exercise of options, government grants, licensing and research collaborations and interest income.

Since completing our initial public offering and listing process on the ASX on March 28, 2000, we have concentrated our resources toward the pursuit of our disease targets. Initially we focused on clinical trials of our PBT1 compound as a therapeutic for the treatment of Alzheimer's disease and in early August 2003, our PBT2 compound was announced as a new lead metal protein attenuating compound, or MPAC, molecule for Alzheimer's disease.

On April 11, 2005, we announced that we would not proceed with the scheduled Phase II/III study of PBT1 and that we had re-evaluated our further work on the PBT1 program. As part of our effort to manufacture Good Manufacturing Practice (GMP) grade PBT1 clinical trial material, we found unacceptably high levels of a di-iodo-8-hydroxyquinoline impurity that could potentially increase the risk of side-effects and mutagenic potential. We reached the conclusion that attempts to reduce the impurity to safe levels were not likely to be successful in a timely, commercially viable manner and that further development of PBT1 for the treatment of Alzheimer's disease was not appropriate. On June 30, 2005, our Board of Directors determined that the core intellectual property relating to PBT1 had been impaired and the carrying value was written-off.

As a result of these events, we proceeded to conduct a strategic review of our pending strategic development programs. On June 16, 2005, we announced that we had completed a review of our strategic development programs and we reaffirmed our commitment to our lead candidate for the potential treatment of Alzheimer's disease, PBT2. We completed two Phase I studies of PBT2 (for details see Item 4A. "Information on the Company - History and Development of the Company") and on May 11, 2006, we announced our plans to move forward with a Phase IIa clinical trial for PBT2 in patients with Alzheimer's disease. On December 19, 2006 we announced that dosing had commenced in the Phase IIa clinical trial. The Phase IIa trial is a three month double-blind, placebo-controlled safety and tolerability study of PBT2 in 80 elderly male and female patients with mild forms of Alzheimer's disease. Tolerability, safety, cerebrospinal fluid and plasma biomarker and cognition endpoints will be measured. The Phase IIa clinical trial is expected to be completed by the end of 2007 and report its final findings by the end of first calendar quarter of 2008. For additional details regarding our clinical trials see Item 4.A. "Information on the Company - History and Development of the Company."

Differences Between Australian Accounting Standards and U.S. Accounting Standards

We prepare our consolidated financial statements in accordance with A-IFRS which, differ in certain significant respects from U.S. GAAP. The following table sets forth a comparison of our net loss and total equity in accordance with A-IFRS and U.S. GAAP as of the dates and for the periods indicated:

	As of and for the years ended June 30,		
	2007	2006	2005
Net loss in accordance with:			
A-IFRS	(11,142,320)	(11,590,594)	(10,293,031)
U.S. GAAP	(11,142,320)	(11,590,594)	(11,998,032)
Total equity in accordance with:			
A-IFRS	5,612,195	7,800,658	
U.S. GAAP	5,612,195	7,800,658	

See Note 27 to our consolidated financial statements for a description of the differences between A-IFRS and U.S. GAAP as they relate to us, and a reconciliation of net loss and total equity for the dates and periods indicated therein. Differences between A-IFRS and U.S. GAAP that have a material effect on net loss and total equity relate to share-based compensation and intangible assets.

Critical Accounting Policies

We prepare our financial statements in accordance with A-IFRS. As such, we are required to make certain estimates, judgments, and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The significant accounting policies listed in Note 1 to the consolidated financial statements that management believes are the most critical to aid in fully understanding and evaluating our financial condition and results of operations under A-IFRS are discussed below.

Share-based payments. Equity-settled share-based payments granted after November 7, 2002 that were unvested as of January 1, 2005 are measured at fair value at the date of grant. Fair value is measured by use of the Black-Scholes model (for options without market conditions) or the Barrier Pricing model (for options with market conditions). The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The date used to value share-based payments for non-employees may be different to the grant date used to value employee share-based payments where service conditions apply. The fair value of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period for each tranche of equity, based on our estimate of shares that will eventually vest.

Revenue recognition from continuing operations. We recognize revenue from continuing operations to the extent that it is probable that the economic benefits will flow to us and the revenue from continuing operations can be reliably measured. To date our revenue from continuing operations has consisted of interest income, which is recognized as earned when collectibility is reasonably assured.

Other income recognition. We recognize other income to the extent that it is probable that the economic benefits will flow to us and the other income can be reliably measured.

- Government grants are recorded as income when key milestones set within each agreement are achieved and accepted by all parties to the grant. The agreements provide for payments at different phases based on product development. Milestones are based on the phases of each product development, for example Phase 1, Phase 2 and Phase 3. Other income is not recognized prior to acceptance that the milestones have been achieved, as collectibility is not assured until this point is reached. Once each milestone is reached and approved, the grantor is obligated to pay and there are no further significant obligations as to that part of the milestone. Grant income for achievement of such milestones is agreed between the parties in legally binding contracts. Other income for each milestone achieved is fixed at the initiation of the program.
- Reimbursements of expenses are recognized as income when the reimbursement is received and the related expenses have been incurred.
- Corporate partner income is comprised of amounts received for certain research and development activities under the licensing and research collaboration we entered into with Schering A.G. and Neurosciences Victoria Ltd. in March 2003., which was concluded in June 2005. Such income was recognized as earned on a straight line basis over the lives of the respective agreements that we entered into with Neurosciences Victoria Ltd. in connection with the collaboration. The straight line basis is considered appropriate as such agreements do not contain clearly defined milestones. Such agreements were performed on a "best efforts" basis with no guarantee of either technological or commercial success.

Recoverable amount of non-current assets. Each reporting period, our Board of Directors assesses the recoverable amount of all non-current assets to ensure its carrying value does not exceed its recoverable amount. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is revalued down to its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

On June 30, 2005, following our announcement regarding the cessation of our PBT1 program in April 2005, our Board of Directors determined that the core intellectual property relating to PBT1 had been impaired and the carrying value was written-off.

Intangible assets and patents, research and development expense. Prior to our April 2005 announcement of the cessation of our PBT1 program, our core intellectual property was amortized on a straight-line basis over a period of 15 years, the period in which the future benefits were expected to arise. On June 30, 2005, our Board of Directors determined that our core intellectual property relating to PBT1 had been impaired and the carrying value was written-off.

Significant Costs and Expenses

Research and development expenses. Our research and development expenses consist primarily of compensation and related costs for expenses for testing facilities and payments under our research agreements. Research and development expenses also include costs associated with the acquisition and development of patents, which have been expensed subsequent to December 1999.

Personnel expenses. Our personnel expenses consist of directors' fees, consultancy fees paid to clinicians and scientists, share-based payments, and payments for benefits provided to our employees and officers for their services.

Intellectual property expenses. Our intellectual property expenses consist of fees paid to our outside counsel for legal fees associated with patent applications and for the defense of patents.

Auditor and accounting expenses. Our auditor and accounting expenses fees consist of the fees paid to our auditors for services related to annual reports and interim reports filed or submitted in Australia and the United States and fees paid to other accounting firms in respect of tax and other accounting advice.

Travel expenses. Our travel expenses consist primarily of expenses associated with air travel, accommodation and associated consumables both locally and overseas by directors and employees.

Marketing expenses. Our marketing expenses consist of public relations and marketing expenses incurred with outside consultants in relation to ASX and NASDAQ announcements and presentations.

Depreciation expense. Depreciation of property and equipment is provided on a straight-line basis over the estimated useful lives of three to 20 years.

• Furniture and fittings:	5-33%
• Computer equipment:	33%
• Laboratory equipment:	10-33%
• Leasehold improvements:	33%

Amortization expense. Prior to the impairment of our core intellectual property relating to PBT1 as of June 30, 2005, amortization of our core intellectual property was provided on a straight-line basis over the estimated useful lives of 15 years.

Due to our implementation of A-IFRS and our subsequent inability to recognize our core intellectual property relating to PBT1, our amortization expenses have been adjusted accordingly, retroactively as of July 1, 2004.

Other expenses. Other expenses consist of corporate compliance, insurance, computer and overhead expenses.

Foreign exchange gain (loss). Foreign exchange gains (loss) includes the net unrealized gain or loss on cash balances held in foreign currencies as well as net realized gains and losses on foreign currency transactions.

Impairment of intangible assets. Each reporting period, our Board of Directors reviews the carrying value of each non-current asset to ensure its carrying value does not exceed its recoverable amount. Where the carrying amount of the asset is greater than its recoverable amount, the asset is revalued down to its recoverable amount and an impairment charge is recorded.

Gain on fair value of financial liabilities. Each reporting period, we are required to revalue financial liabilities. Our financial liabilities consist of warrants that were issued to the investors in our private placement in the United States in June 2004. The warrants permit the investors to purchase an aggregate 3,000,000 ADRs at an exercise price of US\$8.00 per ADR on or before June 4, 2009. Because the warrants are exercisable in a currency that is not the functional currency of our company, they are classified as a financial liability. When the fair value of the outstanding warrants increases or decreases, the difference is recorded as a gain or loss, as applicable, on the fair value of financial liabilities.

Results of Operations

Year ended June 30, 2007 compared to year ended June 30, 2006

Revenue from continuing operations

Revenue from continuing operations decreased to A\$507,150 for the year ended June 30, 2007 from A\$762,023 for the year ended June 30, 2006, a decrease of A\$254,873, or 33%. Revenue from continuing operations consisted of A\$507,150 and A\$762,023 in interest income in the years ended June 30, 2007 and 2006, respectively. The decrease in revenue from continuing operations in the 2007 fiscal year was primarily attributable to lower interest income as a result of a reduction in cash and cash equivalents.

Other Income

Other income decreased to A\$287 for the year ended June 30, 2007 from A\$288,263 for the year ended June 30, 2006, a decrease of A\$287,976, or 100%. Other income in the year ended June 30, 2006 consisted of A\$288,173 in government grant income that was directed to the early clinical development of PBT2, Phase I trials for PBT2 and other clinical and pre clinical development activities. We received the final amount under this grant in the year ended June 30, 2006. We did not receive any government grants in fiscal 2007.

Research and development expenses

Research and development expenses (including research and development expenses paid to related parties) decreased to A\$4,492,193 for the year ended June 30, 2007 from A\$7,613,045 for the year ended June 30, 2006, a decrease of A\$3,120,852, or 41%. The decrease in research and development expenses in the year ended June 30, 2007, was primarily attributable to a delay in the initiation of the Phase IIa trial for our PBT2 lead compound as a result of which other than costs attributable to first patient dosing in December 2006, most of the substantive patient costs and clinical research organization costs for the Phase IIa clinical trial were not incurred until April 2007. Research and development expenses in the year ended June 30, 2006 consisted of expenses associated with two Phase I clinical trials for our PBT2 lead compound, pre-clinical chronic toxicology programs and the pre-clinical research programs for our other compounds. Research and development expenses in the year ended June 30, 2007 consisted of expenses associated with the Phase IIa clinical trial for PBT2 and the pre-clinical research programs for our other compounds. In fiscal year 2008, our research and development will be primarily directed at our PBT2 compound, including the completion of the Phase IIa study and manufacture of PBT2 for Phase IIb studies in Alzheimer's disease or clinical trials in other indications. In addition, further expenditure is expected in developing our other potential lead compounds at a pre-clinical level, including a possible formal chronic toxicology program for a new lead compound.

Personnel expenses

Personnel expenses increased to A\$4,554,731 for the year ended June 30, 2007 from A\$3,418,008 for the year ended June 30, 2006, an increase of A\$1,136,723 or 33%. The increase in personnel expenses in the 2007 fiscal year was primarily attributable to a A\$1,386,243 expense relating to grants of options and shares in the 2007 fiscal year to directors, consultants and employees. Additional research and development consultants were also engaged in such period. Personnel expenses in the 2007 fiscal year consisted of payments to employees, directors and consultants, including cash and equity-based payments. Personnel expenses in the 2007 included a portion of the total fair value of options granted to our directors and employees in the 2005 and 2006 fiscal years of A\$192,890. Personnel expenses in the 2006 fiscal year consisted of payments to employees, directors and consultants and included a portion of the total fair value of options granted to our directors and employees at the beginning of the 2006 calendar year.

Intellectual property expenses

Intellectual property expenses increased to A\$600,232 for the year ended June 30, 2007 from A\$466,426 for the year ended June 30, 2006, an increase of A\$133,806, or 26%. The increase in intellectual property expenses in the 2007 fiscal year was primarily due to certain patent applications entering more expensive phases of their prosecution, including maturation into national phase examination.

Auditor and accounting expenses

Auditor and accounting expenses increased to A\$260,117 for the year ended June 30, 2007 from A\$205,815 for the year ended June 30, 2006, an increase of A\$54,302, or 26%. The increase in auditor and accounting expenses in the 2007 fiscal year was primarily attributable to additional audit services required for the reclassification of the warrants issued in connection with the June 2004 private placement in the United States as a financial liability because the warrants are exercisable in a currency that is not the functional currency of our company.

Travel expenses

Travel expenses increased to A\$309,997 for the year ended June 30, 2007 from A\$212,184 for the year ended June 30, 2006, an increase of A\$97,813, or 46%. The increase in travel expenses in the 2007 fiscal year was primarily attributable to additional travel expenses of consultants associated with their visit to the Phase IIa clinical trial sites in Sweden, travel expenses associated with the inaugural meeting of the Research and Development Advisory Board in New York in March 2007 and travel expenses of our U.S.-based chief strategic advisor associated with his visit to our company in Australia to assist with developing company objectives.

Marketing expenses

Marketing expenses increased to A\$215,455 for the year ended June 30, 2007 from A\$134,750 for the year ended June 30, 2006, an increase of A\$80,705, or 60%. The increase in marketing expenses in the 2007 fiscal year was primarily attributable to costs associated with the preparation and filing of an increased number of market announcements.

Depreciation expenses

Depreciation expenses decreased to A\$58,582 for the year ended June 30, 2007 from A\$118,196 for the year ended June 30, 2006, a decrease of A\$59,614, or 50%. The decrease in depreciation expenses in the 2007 fiscal year was primarily attributable to previously acquired fixed assets reaching the end of their depreciable life during such period, while we acquired a small amount of new fixed assets during the same period.

Amortization expenses

We did not incur any amortization expenses relating to our intellectual property in the 2006 and 2007 fiscal years.

Other expenses

Other expenses (including other expenses paid to related parties) increased to A\$1,008,563 for the year ended June 30, 2007 from A\$824,625 for the year ended June 30, 2006, an increase of A\$183,938, or 22%. The increase in other expenses in the 2007 fiscal year was primarily attributable to an increase in the fees of an external consultant that provides corporate compliance services to our company on a regular basis and increased expenses associated with the distribution of the 2006 annual report.

Foreign exchange gain

We recorded a foreign exchange loss of A\$757,578 for the year ended June 30, 2007 compared to a foreign exchange gain of A\$223,454 for the year ended June 30, 2006. In fiscal 2007, we incurred a foreign exchange loss of \$763,797 attributable to the cash balances that we held in U.S. dollars, a foreign exchange loss of A\$6,499 attributable to the cash balances that were held in Great British Pounds, a foreign exchange loss of A\$7,839 attributable to cash balances that were held in Euro and a foreign exchange gain of A\$20,554 attributable to foreign currency transactions. In fiscal 2006, we incurred a foreign exchange gain of A\$1,135,003 attributable to the cash balances that we held in U.S. dollars, a foreign exchange gain of A\$75,005 attributable to the cash balances that were held in Great British Pounds, a foreign exchange loss of A\$941,047 attributable to cash balances that were held in Euro and a foreign exchange loss of A\$45,507 attributable to foreign currency transactions.

Impairment of intangible assets

We did not record any impairment of intangible assets in the 2006 and 2007 fiscal years.

Gain on fair value of financial liabilities

Gain on fair value of financial liabilities increased to A\$607,691 for the year ended June 30, 2007 compared to a gain on fair value of financial liabilities A\$128,715 for the year ended June 30, 2006, an increase of A\$478,976 or 372%. The increase in gain on fair value of financial liabilities is attributable to the changes in the market price of our ADRs and the volatility of the ADR market price.

Year ended June 30, 2006 compared to year ended June 30, 2005

Revenue from continuing operations

Revenue from continuing operations decreased to A\$762,023 for the year ended June 30, 2006 from A\$892,135 for the year ended June 30, 2005, a decrease of A\$130,112, or 14.6%. Revenue from continuing operations consisted of A\$762,023 and A\$892,135 in interest income in the years ended June 30, 2006 and 2005 respectively. The decrease in revenue from continuing operations in the 2006 fiscal year was attributable to lower interest income as a result of a reduction in cash and cash equivalents.

Other Income

Other income decreased to A\$288,263 for the year ended June 30, 2006 from A\$1,760,978 for the year ended June 30, 2005, a decrease of A\$1,472,715, or 83.6%. Other income in the year ended June 30, 2006 consisted of A\$288,173 government grant income. Other income in the year ended June 30, 2005 consisted of A\$629,692 government grant income and A\$1,125,000 received under the licensing and research collaboration we entered into with Schering A.G. and Neurosciences Victoria Ltd. in March 2003. The decrease in other income in the 2006 fiscal year was attributable to the reduction in funding from Schering A.G. and Neurosciences Victoria Ltd. due to the completion of the contracts in connection with our collaboration with Schering A.G and Neurosciences Ltd in June 2005.

Research and development expenses

Research and development expenses (including research and development expenses paid to related parties) remained substantially consistent at A\$7,613,045 for the year ended June 30, 2006 from A\$7,687,596 for the year ended June 30, 2005. Research and development expenses in the year ended June 30, 2005 consisted of expenses related to clinical trials for our PBT1 compound as a treatment for Alzheimer's disease that ceased in April 2005 and A\$911,250 of expenses associated with our licensing and research collaboration with Schering A.G. and Neurosciences Victoria Ltd. that was concluded in June 2005. Research and development expenses in the year ended June 30, 2006 consisted of expenses associated with two Phase I clinical trials for our PBT2 lead compound and the pre-clinical research programs for our other compounds. In fiscal year 2007, our research and development will be primarily directed at PBT2, including the Phase IIa clinical trial for PBT2. In addition, further expenditure is expected in developing our other potential lead compounds at a pre-clinical level.

Personnel expenses

Personnel expenses decreased to A\$3,418,008 for the year ended June 30, 2006 from A\$5,750,929 for the year ended June 30, 2005, a decrease of A\$2,332,921, or 40.6%. The decrease in personnel expenses in the 2006 fiscal year was primarily due to the closure of our U.S. office in August 2005 and a reduction in staff in the United States and Australia. Personnel expenses in the 2005 fiscal year include A\$2,211,792 in cash and equity payments (including the expensing of options grants) made to Dr. Jon Alsenas, our former U.S. based director and Chief Executive Officer, and A\$449,800 in equity issued to a consultant. The decrease in personnel expenses in the 2006 fiscal year was offset in-part by employee salary increases and the grant of options to directors and employees at the beginning of the 2006 calendar year. Only a portion of the total fair value of such options granted to our directors and employees was recognized as personnel expenses for the fiscal year ended June 30, 2006 and a further A\$924,782 will be recognized in future fiscal years.

Intellectual property expenses

Intellectual property expenses decreased to A\$466,426 for the year ended June 30, 2006 from A\$729,583 for the year ended June 30, 2005, a decrease of A\$263,157, or 36.1%. The decrease in intellectual property expenses in the 2006 fiscal year was primarily due to our company handling more of the work associated with patent applications in-house in the 2006 fiscal year, while we engaged more external consultants in the 2005 fiscal year. In addition, in the 2005 fiscal year a new patent application was filed at a cost of approximately A\$100,000.

Auditor and accounting expenses

Auditor and accounting expenses remained substantially consistent at A\$205,815 for the year ended June 30, 2006 from A\$202,032 for the year ended June 30, 2005, an increase of A\$3,783, or 1.9%.

Travel expenses

Travel expenses decreased to A\$212,184 for the year ended June 30, 2006 from A\$432,316 for the year ended June 30, 2005, a decrease of A\$220,132, or 50.1%. The decrease in travel expenses in the 2006 fiscal year was due, in part, to the cessation of travel between the United States and Australia of Dr. Jon Alsenas, our former U.S. based director and Chief Executive Officer, following his resignation in June 2005, which expenses amounted to A\$141,683 in the 2005 fiscal year.

Marketing expenses

Marketing expenses decreased to A\$134,750 for the year ended June 30, 2006 from A\$442,920 for the year ended June 30, 2005, a decrease of A\$308,170, or 69.6%. The decrease in marketing expenses in the 2006 fiscal year was primarily due to the cessation of services provided to our U.S. subsidiary by a public relations and marketing consultant following the closure of our U.S. office in August 2005.

Depreciation expenses

Depreciation expenses increased to A\$118,196 for the year ended June 30, 2006 compared to A\$65,223 for the year ended June 30, 2005, an increase of A\$52,973, or 81.2%. The increase in depreciation expenses in the 2006 fiscal year is the result of the acceleration of leasehold improvement depreciation in line with the life of the lease agreement.

Amortization expenses

We recorded amortization expenses relating to PBT1 core intellectual property of A\$83,200 for the year ended June 30, 2005. As a result of the impairment of the carrying value of our core intellectual property relating to PBT1 to nil recoverable amount on June 30, 2005, we did not incur any amortization expenses relating to our intellectual property in the 2006 fiscal year.

Other expenses

Other expenses (including other expenses paid to related parties) decreased to A\$824,625 for the year ended June 30, 2006 from A\$1,204,930 for the year ended June 30, 2005, a decrease of A\$380,305, or 46.1%. The decrease in other expenses in the 2006 fiscal year is primarily due to reduced expenditures following the closure of our U.S. office in August 2005.

Foreign exchange gain (losses)

We recorded a foreign exchange gain of A\$223,454 for the year ended June 30, 2006 compared to a foreign exchange loss of A\$1,362,572 for the year ended June 30, 2005. In fiscal 2006, we incurred a foreign exchange gain of A\$1,135,003 attributable to the cash balances that we held in U.S. dollars, a foreign exchange gain of A\$75,005 attributable to the cash balances that were held in Great British Pounds, a foreign exchange loss of A\$941,047 attributable to cash balances that were held in Euro and a foreign exchange loss of A\$45,507 attributable to foreign currency transactions. In fiscal 2005, we incurred a foreign exchange loss of A\$1,297,790 attributable to the cash balances that we held in U.S. dollars, a foreign exchange loss of A\$50,574 attributable to the cash balances that were held in Great British Pounds and a foreign exchange loss of A\$14,208 attributable to foreign currency transactions. In 2005, the Australian dollar appreciated by 4.3% against the U.S. dollar, while the Australian dollar depreciated by 9.4% against the U.S. dollar in 2006.

Impairment of intangible assets

Impairment of intangible assets was A\$786,240 for the year ended June 30, 2005. This was a one-off non-cash expense incurred as a result of our decision to impair the core intellectual property carrying value to nil recoverable amount based on expected future discounted cash flows. The impairment occurred following the announcement in April 2005 regarding the cessation of the PBT1 clinical trial due to toxicity issues and the decision to continue research into PBT2 as the lead compound. The core intellectual property related primarily to externally acquired patents for PBT1.

Gain on fair value of financial liabilities

Gain on fair value of financial liabilities decreased to A\$128,715 for the year ended June 30, 2006 compared to a gain on fair value of financial liabilities A\$5,801,397 for the year ended June 30, 2005, a decrease of A\$5,672,682 or 97.8%. The decrease in the gain on fair value of financial liabilities is attributable to changes in the market price of our ADRs and the volatility of the ADR market price.

Inflation and Seasonality

Management believes inflation has not had a material impact on our company's operations or financial condition and that our operations are not currently subject to seasonal influences.

Recently Issued Accounting Pronouncements Applicable To Us

Australian Pronouncements

Certain new accounting standards and interpretations of the Australian Accounting Standards Board Urgent Issue Group have been published that are not mandatory for June 30, 2007 reporting periods.

AASB 7 Financial Instruments: Disclosures and ASSB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023, and AASB 1038] - AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after January 1, 2007. Application of the standards will not effect any of the amounts recognized in our financial statements, but will impact the type of information disclosed in relation to our financial instruments.

AASB-I 10 Interim Financial Reporting and Impairment - AASB-I 10 is applicable to reporting periods commencing on or after November 1, 2006. We have not recognized an impairment loss in relation to goodwill in an interim reporting period, but subsequently reversed the impairment loss in the annual report. Application of the interpretation therefore does not have an impact on our financial statements.

Revised AASB 101 Presentation of Financial Statements - A revised AASB 101 was issued in October 2006 and is applicable to annual reporting periods beginning on or after January 1, 2007. Application of the revised standard will not have any impact on our financial statements.

AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments and AASB 2007-7 Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128] - AASB 2007-4 is applicable to annual reporting periods beginning on or after July 1, 2007. We do not intend to apply any of the new options now available. As a consequence, application of the revised standards will not affect any of the amounts recognized in our financial statements, but it may remove some of the disclosures that are currently required. In relation to the discount rates used in the measurement of employee benefit obligations, we have not yet reached a conclusion as to whether there is a deep market in corporate bonds in Australia and hence have not yet determined the financial effect, if any, on the obligations from the adoption of AASB 2007-4. This is not expected to have a material impact on our financial statements.

AASB 2007 - 7 Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]- AASB 2007-7 amendments to AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 and AASB 128 are applicable to annual reporting periods beginning on or after July 1, 2007. Application of the standards will not affect any of the amounts recognized in our financial statements, but may impact the type of information disclosed in relation to the company's financial statements.

United States Pronouncements

In July 2006, the Financial Accounting Standards Board, or the FASB, issued Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes*,” or FIN 48, as an interpretation of SFAS 109. This Interpretation clarifies the accounting for uncertainty in income taxes recognized by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition of tax benefits previously recognized and additional disclosures for *unrecognized* tax benefits, interest and penalties. The evaluation of a tax position in accordance with this Interpretation begins with a determination as to whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. A tax position that meets the more-likely-than-not recognition threshold is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement for recognition in the financial statements. FIN 48 is effective no later than fiscal years beginning after December 15, 2006, and is required to be adopted by us on July 1, 2007. We are currently assessing the impact of the adoption of FIN 48.

In September 2006, the FASB issued SFAS No. 157, “*Fair Value Measurements*” or SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This Statement is required to be adopted by us on July 1, 2008. We are currently assessing the impact of the adoption of this Statement.

In February 2007, the FASB issued SFAS No. 159, “*The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115*,” or SFAS 159. This Statement permits entities to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other generally accepted accounting principles. The fair value measurement is irrevocable and subsequent changes in fair value must be recorded in earnings. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. This Statement is required to be adopted by us on July 1, 2008. At this time, we believe that the adoption of SFAS 159 will not have a material effect on our financial position or results of operations.

B. Liquidity and Capital Resources

We are a development stage company and have had no sales income to date, and as of June 30, 2007 our accumulated deficit totaled A\$52,483,038. From inception until our initial public offering in March 2000 we financed our operations primarily through borrowings from two of our then directors, which were repaid from the proceeds of such offering. Since our initial public offering we have financed our operations primarily through sales of equity securities, proceeds from the exercise of options, government grants, licensing and research collaborations and interest earned on investments.

In March 2003, we completed the conversion of our 7,289,310 outstanding listed options into ordinary shares. As a result of the conversion, we received approximately A\$3.5 million in net proceeds, which were added to our working capital.

In September 2003, we raised an additional approximately A\$4.7 million, net of issuance costs, through a private placement of 7.1 million ordinary shares to institutional and accredited investors at a subscription price of A\$0.70 per share.

In April 2004, we raised approximately US\$20 million before issuance costs (\$26.4 million net of issuance costs) in a private placement in the United States, which amount was held in escrow pending receipt of the requisite approval of the transaction by our shareholders that was obtained on June 1, 2004. The private placement was for 4,000,000 ADRs to institutional and professional investors at a price of US\$5.00 per ADR. The private placement also involved the acquisition by the investors of five-year warrants to purchase an additional 3,000,000 ADRs at an exercise price of US\$8.00 per ADR. Should these warrants be exercised in full, we would raise an additional US\$24 million (approximately A\$32 million). To date, no warrants have been exercised.

In December 2004, we raised approximately A\$4.7 million in net proceeds through the exercise of options to purchase 9,506,666 ordinary shares having an exercise price of A\$0.50 per share.

In November 2006, we raised approximately A\$7.4 million net of issuance costs in a private placement of our securities to new institutional investors in Australia, institutional investors in the United States and one of our founders. The private placement was for 21.8 million ordinary shares (equivalent to 2.18 million ADRs) at a price of A\$0.357 per ordinary share (approximately US\$2.80 per ADR). The private placement also involved the acquisition by the investors of three-year options to purchase an additional 4.35 million ordinary shares (equivalent to 435,000 ADRs) at an exercise price of A\$0.446 per ordinary share (approximately US\$3.40 per ADR). To date, no warrants have been exercised.

On September 12, 2006, we issued a notice of special general meeting of shareholders, the purpose of which is to obtain shareholder approval to raise up to A\$10 million in a private placement of our ordinary shares in Australia. The meeting is scheduled for October 15, 2007.

We had A\$7,409,256 of cash and cash equivalents at June 30, 2007, compared to A\$10,013,778 at June 30, 2006.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Year ended June 30,		
	2007	2006	2005
(A\$)			
Net cash used in operating activities	(9,199,750)	(11,651,215)	(11,418,813)
Net cash used in investing activities	(4,259)	(55,251)	(50,466)
Net cash provided by (used in) financing activities	7,374,725	(2,020)	4,704,757
Net decrease in cash and cash equivalents	(1,829,284)	(11,708,486)	(6,764,522)
Cash and cash equivalents at beginning of period	10,013,778	21,453,304	29,580,398
Exchange rate adjustments on cash held in foreign currencies	(775,238)	(268,960)	(1,362,572)
Cash and cash equivalents at end of period	7,409,256	10,013,778	21,453,304

Net cash used in operating activities was A\$9,199,750, A\$11,651,215 and A\$11,418,813 during the years ended June 30, 2007, 2006 and 2005, respectively. Our payments to suppliers and employees during the years ended June 30, 2007, 2006 and 2005 were A\$9,726,197, A\$12,647,636 and A\$13,959,679, respectively. The decrease in payments from the year ended June 30, 2006 to the year ended June 30, 2007 was primarily due to a reduction in research and development expenses. The decrease in payments from the year ended June 30, 2005 to the year ended June 30, 2006 was due to the closure of our U.S. office in August 2005 as well as a reduction in interest received on our bank deposits and government grant income. During the years ended June 30, 2007, 2006 and 2005, our payments to suppliers and employees were offset by government grants of A\$nil, A\$231,710 and A\$532,283, respectively, and interest income of A\$526,447, A\$764,711 and A\$883,583, respectively. Additionally, during the year ended June 30, 2005, our payments to suppliers and employers was further offset by A\$1,125,000 for research funding attributable to our collaboration with Schering A.G. and Neurosciences Victoria Ltd. that was concluded in June 2005.

Net cash used in investing activities was A\$4,259, A\$55,251 and A\$50,466 during the years ended June 30, 2007, 2006 and 2005, respectively.

Net cash provided by financing activities was A\$7,374,725 during the year ended June 30, 2007, compared to net cash used in financing activities of A\$2,020 during the year ended June 30, 2006, compared to net cash provided by financing activities of A\$4,704,757 during the year ended June 30, 2005. Cash flows provided by financing activities during the year ended June 30, 2007 are attributable to a private placement in November 2006 of 21.8 million ordinary shares (equivalent to 2.18 million ADRs) at a price of A\$0.357 per ordinary share (approximately US\$2.80 per ADR). The private placement also involved the acquisition by the investors of three-year options to purchase an additional 4.35 million ordinary shares (equivalent to 435,000 ADRs) at an exercise price of A\$0.446 per ordinary share (approximately US\$3.40 per ADR). Cash flows used in financing activities during the year ended June 30, 2006 reflected the costs associated with the issuance of securities to a consultant in lieu of cash. Cash flows provided by financing activities during the year ended June 30, 2005 reflected the exercise of options into ordinary share capital.

We realized a foreign exchange loss of A\$775,238 for the year ended June 30, 2007, compared to a realized foreign exchange gain of A\$268,960 for the year ended June 30, 2006, compared to a realized foreign exchange loss of A\$1,362,572 for the year ended June 30, 2005. In 2006, the Australian dollar depreciated by 9.4% against the U.S. dollar, while the Australian dollar depreciated by 16.3% against the U.S. dollar in 2007. In 2005, the Australian dollar appreciated by 4.3% against the U.S. dollar, while the Australian dollar depreciated by 9.4% against the U.S. dollar in 2006.

From inception to June 30, 2007, our capital expenditures have totaled A\$332,941 (including A\$200,000 of noncash expenditures), consisting of computer equipment, furniture and fixtures, fit-out costs and laboratory equipment that is being used in connection with our research at the University of Melbourne. Capital expenditures for equipment are depreciated on a straight-line basis over the estimated useful lives of three to 20 years, with a net balance at June 30, 2007 of A\$47,891. We currently do not have significant capital spending requirements, but we expect to continue to engage in capital spending consistent with anticipated growth in our operations and personnel.

As of June 30, 2007, our principal commitments consisted of obligations under our agreements with Professor Ashley Bush, Mr. Geoffrey Kempler and Ms Dianne Angus.

Under the ten year contract we entered into with Professor Ashley Bush in January, 2004, effective as of February 1, 2003, we agreed to pay Professor Bush a consulting fee of US\$100,000 per year increasing on the anniversary of the agreement by the U.S. consumer price index. We also agreed, as a bonus package, to issue to Professor Bush 1,650,000 ordinary shares (of which 825,000 ordinary shares were issued during the 2004 fiscal year and 825,000 ordinary shares were issued during the 2006 fiscal year) and to grant to him options to purchase 825,000 ordinary shares at an exercise price of A\$0.50 per share (of which options to purchase 412,000 ordinary shares were granted during the 2004 fiscal year and options to purchase 413,000 ordinary shares were granted during the 2006 fiscal year). The shares and options vest in four equal installments on each of the six months anniversaries following the effective date of the agreement. In addition, subject to the achievement of certain milestones, Professor Bush, is entitled to purchase up to 5,000,000 additional ordinary shares at a price per share that is 10% below the mean market price of our ordinary shares during the 30-day period prior to their purchase. Once a milestone has been achieved, up to 2,500 ordinary shares out of the total tranche of ordinary share to which he becomes entitled may be purchased each six months after such achievement. The first milestone has been achieved (the publication of results of a Phase II trial) and as such, Professor Bush is now entitled to purchase up to 1,250,000 ordinary shares in accordance with the foregoing terms, of which Professor Bush acquired 250,000 ordinary shares during the 2007 fiscal year. The ordinary shares issued and options granted to Professor Bush under the agreement are subject to certain resale restrictions. During the period of 20 years after the effective date of the agreement, Professor Bush is also entitled to receive royalties equal to 5% of the income that we derive from the exploitation of new intellectual property developed by him or contributed to our company through his services pursuant to the agreement.

On September 21, 2007, we entered into a new agreement with Mr. Geoffrey Kempler in connection with his service as our Chief Executive Officer. Under the new agreement, we agreed to pay Mr. Kempler a base salary of A\$386,400 per annum (which may be increased at the discretion of our Board of Directors). Mr Kempler is also entitled to the following bonus payments: (i) \$50,000 upon a capital raising of at least A\$7.0 million (before costs) prior to September 30, 2007; (ii) \$25,000 upon a further capital raising of at least A\$12.0 million (before costs) anytime in the 2008 financial year; (iii) \$25,000 if our company attains and sustains a share price above \$0.60 for at least four consecutive trading days by June 30, 2008; (iv) \$10,000 for completion of clinical trial recruitment by September 30, 2007; (v) \$10,000 for completion of signed statistical analysis report by February 29, 2008; (vi) \$6,000 for holding regular meetings (minimum twice yearly) of the full Research and Development Advisory Board; (vii) \$14,000 for the review and provisions of a written proposal to our board of directors of our intellectual property portfolio to determine valuable opportunities for license, merger and acquisition or divestment by December 31, 2007; and (viii) \$10,000 for the development of our staff retention strategy and action plan by October 31, 2007 and implementation of the plan by December 31, 2007.

Under the agreement with Mr. Kempler, we are required to pay Mr Kempler a termination payment of A\$1 million if he terminates the contract for good reason or we terminate the contract without cause, provided the company has sufficient capital resources to fulfill the obligation. See Item 6.C. "Directors, Senior Management and Employees - Board Practices - Directors' Services Contracts."

Under an employment agreement we entered into with Ms. Dianne Angus, effective as of October 2, 2006, in connection with her appointment as our Senior Vice President, Business Development, Intellectual Property and Research, we agreed to pay Ms Angus a base salary of A\$268,125 per year, plus superannuation equivalent to 9% of the base salary (or the percentage stipulated by applicable Australian law). In addition, we agreed that we would grant to Ms. Angus options to purchase 1,000,000 ordinary shares, which were granted in the 2007 fiscal year. Such options will be exercisable for nil consideration on or before August 7, 2014 and will not be exercisable unless the price of our ordinary shares has achieved and maintained a minimum value of A\$0.40 for five consecutive trading days. The options were granted under the 2004 ASX Plan. On June 12, 2007 we entered into an amendment to the employment agreement with Ms Angus in connection with her appointment as our Chief Operating Officer, effective as of May 31, 2007. All entitlements under the October 2, 2006 agreement remain in full force and effect. Under the June 12, 2007 agreement, we granted to Ms. Angus options to purchase an additional 250,000 ordinary shares in recognition of our company's achievements and performance. Such options will be exercisable for nil consideration on or before August 7, 2014 and will not be exercisable unless the price of our ordinary shares has achieved and maintained a minimum value of A\$0.40 for five consecutive trading days. The options were granted under the 2004 ASX Plan. If we will terminate the employment agreement without cause or if Ms. Angus will terminate the employment agreement with good reason (as such terms are defined in the agreement) (i) we will pay to Ms. Angus, within 90 days of such termination, the sums she would have been entitled to receive had she continued to provide services for one year following the termination date; and (ii) any unvested options shall be accelerated and will become fully vested and she will be entitled to exercise her options during the remainder of their term.

On July 28, 2004, we and The General Hospital Corporation of Massachusetts settled all outstanding litigation with P.N. Gerolymatos S.A., or P.N.G., regarding the exploitation rights to certain patents relating to pharmaceutical compositions and uses of clioquinol, or PBT1. Pursuant to the settlement agreement, all patent oppositions in Europe and Australia were withdrawn and the law suits then pending before the U.S. District Court for the District of Columbia and the Court of Athens in Greece were dismissed. Under the settlement agreement, we and P.N.G. agreed to recognize the rights of each other to develop clioquinol in our respective territories. As a result of the settlement agreement, we now hold the rights to selected uses of clioquinol and pharmaceutical compositions in the United States and selected uses of clioquinol in Japan, and P.N.G. holds certain patent rights on the uses of clioquinol for Europe and other territories. Under the settlement agreement, we issued 1,350,000 of our ordinary shares to P.N.G. (which were held in escrow for 12 months), and made a payment of US\$150,000 to P.N.G. Such settlement in the total value of A\$971,764 was expensed in fiscal year 2004. Under the settlement agreement we also agreed to pay a sales royalty to P.N.G. on sales of PBT1 in the United States and Japan and we are entitled to receive a percentage of P.N.G.'s income on sales of PBT1 in the other territories. In April 2005, we announced to the market our decision not to proceed with supporting the initiation of the PLACQUE study evaluating PBT1. P.N.G. is also entitled to receive 2% of our worldwide income from PBT2 and any other future clioquinol derivative.

We were party to a three year property lease signed in May 2004 that expired in May 2007 under which we leased executive office space at 369 Royal Parade, Parkville, Victoria 3052, Australia, at an initial annual rental of A\$105,551, which increased by 3.5% on a cumulative basis on the May anniversary of the lease. Although this lease expired in May 2007, the parties have continued to act in accordance with its terms on a month-to-month periodic lease basis and are currently in the process of negotiating a new lease for the office space.

In March 2005, we commenced a series of Phase I clinical trials at a facility associated with the Utrecht University Hospital in Utrecht, the Netherlands. On November 7, 2005, we announced the successful completion of the first Phase I trial for PBT2. In early 2006, we also successfully completed a second Phase I multi-dose escalation safety clinical trial of PBT2. On May 5, 2006, we announced that we received an expert report in respect of the Phase I trials for PBT2. The expert report was prepared by Dr. Craig Ritchie, psychiatrist and Director of Mental Health Clinical Trials at University College London and a clinical advisor to our company. Dr. Craig Ritchie concluded that the Phase I results provide the confidence needed to move forward to formal Phase II testing in people with Alzheimer's disease. On May 11, 2006, we announced our plans to move forward with a Phase IIa clinical trial for PBT2 in patients with Alzheimer's disease. On December 19, 2006 we announced that dosing had commenced in the Phase IIa clinical trial. The Phase IIa trial is a three month double-blind, placebo-controlled safety and tolerability study of PBT2 in 80 elderly male and female patients with mild forms of Alzheimer's disease. Tolerability, safety, cerebrospinal fluid and plasma biomarker and cognition endpoints will be measured. The Phase IIa clinical trial is expected to be completed by the end of 2007 and report its final findings by the end of first calendar quarter of 2008. For additional details regarding our clinical trials see Item 4.A. "Information on the Company - History and Development of the Company." We anticipate that the total expenditures for the Phase IIa program for PBT2 will amount to an estimated A\$7 Million, however such expenditures may change due to numerous factors. For information on such factors, see Item 5.C. "Operating and Financial Review and Prospects - Research and Development, Patents and Licenses." We expect to fund such expenditures from our working capital.

We believe our existing cash and cash equivalents as well as anticipated cash flow from government grants, interest income and potential option exercises will be sufficient to support our current operating plan for at least the next 12 months; however, we have based this estimate on assumptions that may prove to be incorrect. Our future funding requirements will depend on many factors, including, but not limited to:

- costs and timing of obtaining regulatory approvals;
- the costs and timing of obtaining, enforcing and defending our patent and intellectual property;
- the progress and success of pre-clinical and clinical trials of our product candidates; and

- the progress and number of our research programs in development.

We anticipate that we will require substantial additional funds in order to achieve our long-term goals and complete the research and development of our current principal pharmaceutical product candidate. In addition, we will require additional funds to pursue regulatory clearances, and defend our intellectual property rights, establish commercial scale manufacturing facilities, develop marketing and sales capabilities and fund operating expenses. We intend to seek such additional funding through public or private financings and/or through strategic alliances or other arrangements with corporate partners. We cannot, however, be certain that such additional financing will be available from any sources on acceptable terms, or at all, or that we will be able to establish new strategic alliances or other arrangements with corporate partners on acceptable terms, or at all. Any shortfall in funding could result in our having to curtail our operations, including our research and development activities, which could have a material adverse effect on our business, financial condition and results of operations.

Conditions in Australia

We are incorporated under the laws of, and our principal offices and research and development facilities are located in, the Commonwealth of Australia. Therefore, we are directly affected by political and economic conditions in Australia.

C. Research and Development, Patents and Licenses

Our primary activity since incorporation in 1997 has been the acquisition and development of patents as well as research and development of our core technology. Research and development expenses amounted to A\$4,492,193 and A\$7,613,045 during the years ended June 30, 2007 and 2006, respectively. Costs associated with patent applications and defense of patent applications are classified as intellectual property expenses and amounted to A\$600,232 and A\$466,426 during the years ended June 30, 2007 and 2006, respectively.

Our research and development expenses consist primarily of compensation and related costs for research and development personnel, expenses for testing facilities and payments under our research and/or clinical agreements. Research and development expenses also include costs associated with the acquisition and development of patents subsequent to December 1999. We do not maintain accounting systems to accurately track research and development costs on an individual project basis because a significant portion of our historic research and development expenses benefited our two major research and development projects, and therefore were not tracked individually by project; rather, we tracked these costs by the type of costs incurred. Such costs are charged to operations as incurred. See Note 4 to the consolidated financial statements.

The development of a clinical compound includes a number of steps and phases, including pre-clinical and clinical testing. Despite best efforts to plan and manage research and development, the actual timing and cost for completion of each step involved in the development of a clinical compound depends on many factors. The decision to proceed to the next step of a multi-stage development program is based on the outcome of multiple variables of any current stage and previous stages (including tolerability, specific toxicities, overall safety, pharmacokinetics and efficacy) and may be influenced by outside factors (including the competitive commercial environment and regulatory environment). Government or regulatory authorities, clinicians and other experts may, following their review of the results of a previous step, require that an initial development program be included or revised in order to strengthen the safety, efficacy and/or commercial understanding and potential of the compound, which could result in changes in the cost, duration, prioritization and even outcome of a development program. Furthermore, the required duration of treatment in clinical trials has an impact on the duration of a development program for a therapeutic agent and can vary considerably, from less than a month (for example, antibiotics) to several years (for example, treatments requiring long-term outcome measures). An appropriate duration of treatment in clinical trials with our MPACs is yet to be confirmed and will depend on future clinical results, as well as discussions with regulatory authorities. Once the duration of such treatment has been determined, the question whether the development stages must be undertaken sequentially or may be undertaken in parallel can be addressed. Due to the numerous variables and the uncertain nature of the development of a clinical compound, we are not able to reasonably estimate the nature, timing and costs of the future expenditures necessary to complete our research and development projects, the anticipated completion dates of each project, and when material net cash flows from our research and development programs will commence.

In March 2003, we announced our first major licensing and research collaboration with Schering A.G., a major international pharmaceutical company, and Neurosciences Victoria Ltd. Under this collaboration, we, through our contractor the University of Melbourne, undertook specific research and development projects, and Schering A.G. funded approximately A\$2.7 million of our research and development costs over the life of such projects and agreed to pay additional milestone payments and royalties from discoveries resulting from such projects. Despite the arrangement between the parties, the early results of the research and development did not support the continuation of the collaboration past June 30, 2005. As a result, the parties concluded this collaboration as of June 30, 2005.

Our company is the exclusive licensee of an international patent application in the name of the General Hospital Corporation directed to a novel target for an Alzheimer's disease vaccine. The Commonwealth Government of Australia provided us with a A\$227,252 BIF grant for the initial proof of concept stage of this research. The research under this BIF grant finished at the end of January 2005 having achieved the scientific milestone demonstrating that a mouse could generate antibodies that preferentially recognize dimerized 'toxic linked' forms of beta-amyloid and not the endogenous monomeric form of beta amyloid. Currently we are undertaking the screening of mouse hybridomas (hybrid cells produced by injecting a specific antigen into a mouse, collecting an antibody-producing cell from the mouse's spleen, and fusing it with a long-lived cancerous immune cell called a myeloma cell). Individual hybridoma's are being tested to try to identify a mouse monoclonal antibody candidate for use in a prospective mouse passive vaccine trial by the end of 2007. We will be utilizing the resources of the Mental Health Research Institute and Monash University to conduct this research.

In 2001, we were granted a START grant from the Australian IR&D Board to expand our core intellectual property for drug treatment of neuro-degenerative diseases. Under the terms of the grant, we received A\$1.4 million over three years for up to 50% of the project costs related to our development of a treatment for Alzheimer's disease. The grant was payable on the achievement of each of six milestones and we received the final payment under the START grant in October 2003.

In February 2004, we were granted a second START grant from the Australian IR&D Board to take our second generation drug candidate for Alzheimer's disease, PBT2, through safety testing and Phase I clinical trials. The research under this grant was initially to be completed over a two year period until September 1, 2005 and such period was subsequently extended until December 2005. Under the terms of the grant, we received A\$1.35 million over the term of the grant for up to 50% of the project costs related to the toxicology testing program and early human trials. Under this second START grant, PBT2 completed advance toxicology in December 2004, successfully completed the first Phase I clinical trials in November 2005 and successfully completed a second Phase I trial in early 2006.

On May 7, 1999, we entered into a patent assignment and license agreement with the University of Melbourne. The agreement provided for the assignment of various patents and patent rights to us. In consideration of the assignment of the patents, we were required to make certain payments to the University of Melbourne and to pay a royalty of 1.5% on the net price of products sold utilizing such patents. In addition, we were required to pay the lesser of 1.5% of the net invoice price of products sold or 10% of royalties received from any license we granted or sub-licensee we appoint to utilize the patents. This agreement expired and was superseded by the research funding and intellectual property assignment agreement dated December 1, 2000 between us and the University of Melbourne.

On December 1, 2000, we entered into a research funding and intellectual property assignment agreement with the University of Melbourne, under which the University of Melbourne agreed to conduct certain research projects on our behalf for a sum of A\$297,000 (inclusive of goods and services tax), each year for a period of three years. In consideration for the assignment of rights to intellectual property developed by the University of Melbourne during the research period, we agreed to pay to the University of Melbourne royalties equal to 1.5% of the net invoice price of all products incorporating such intellectual property sold by us or on our behalf, or, the lesser of 1.5% of the net invoice price of such products sold by a licensee or assignee and 10% of gross revenues received from licensees or assignees relating to the exploitation of such intellectual property. Following the expiration of this agreement, the parties entered into a second research funding and intellectual property assignment agreement, which is deemed to have commenced as of the expiration date of the previous agreement on December 1, 2003 and expired on December 1, 2006. Following the expiration of this second agreement, the parties entered into a third research funding and intellectual property assignment agreement, which is deemed to have commenced as of the expiration date of the previous agreement on December 1, 2006 and expires on December 1, 2009. The financial consideration terms under the original agreement remain unchanged by the second and third research funding and intellectual property assignment agreements. Pursuant to the terms of the original research funding and intellectual property assignment agreement, we agreed to provide the University of Melbourne certain funding for the research projects for the second and third research funding and intellectual property assignment agreements. We provided to the University of Melbourne funding in an amount equal to A\$600,000 (exclusive of goods and service tax) during each of the years running December 2004 to November 2005 and December 2005 to November 2006. During the 2005 fiscal year we also provided the University of Melbourne an additional A\$1,012,500 in research funding in connection with our licensing and research collaboration with Schering A.G. and Neurosciences Victoria Ltd. that was concluded in June 2005. We estimate that we will provide to the University of Melbourne funding in an amount equal to A\$690,500 (exclusive of goods and services tax) for the year running December 2006 to November 2007.

On February 8, 2000, we entered into a patent assignment agreement with The Biomolecular Research Institute, or BRI. The agreement provides for the assignment of various patent applications and patent rights from BRI to us. In consideration of the assignment of the patents, we are required to pay BRI a royalty of 1.5% on the net invoiced price of products sold utilizing such patents. In addition, we must also pay the lesser of 1.5% of the net invoice price of products sold or 10% of royalties received from any licensee or sub-licensee we appoint to utilize such patents, or a minimum of A\$2,000 a year. If the patent rights are assigned before a total of A\$20,000 has been paid as royalties, the difference between the royalties paid and A\$20,000 must be paid to BRI. On September 10, 2007, BRI, the Commonwealth Scientific and Industrial Research Organization, or CSIRO, and us executed an Assignment and Novation Deed under which BRI assigned to CSIRO all of its rights and obligations under the patent assignment agreement, including entitlement to royalties.

Under the terms of a license agreement between us and The General Hospital Corporation of Massachusetts, or GHC, we were required to pay GHC a total of US\$166,590 (approximately A\$228,395) for the 30 month period beginning January 1, 2001 and US\$182,000 (approximately A\$249,358) for a period of 30 months from August 1, 2001 for the right to use the results of research under a license for certain patent rights. These obligations have been satisfied.

On January 1, 2001, we entered into another license agreement with GHC, whereby we obtained an exclusive license with respect to certain patents and permits us to sublicense the patent rights to others. The agreement also provides us with the non-exclusive right to use materials, substances and information that were used by GHC in research sponsored by us. In consideration of the license, we are required to pay GHC royalties of 1.5% of the net sales price of products sold utilizing patents exclusively licensed to us. We are also required to pay certain milestone payments upon submission of a registered dossier to a registration authority in the United States or Europe and first product approval in the United States or Europe, to be reduced from the royalties. In addition, we are obligated to pay GHC 1.5% of any and all non-royalty payments, including license fees, received from our affiliates. On March 15, 2004, the exclusive license was amended so that we are required to pay GHC the royalties payable to it for any future exploitation of rights to certain U.S. patents relating to PBT1 regardless of the inventorship determination, as required under the settlement agreement among us, P.N.G. and GHC.

Under the terms of a strategic alliance agreement that we entered into with Kindle Pty Ltd., or Kindle, on January 6, 2004, Kindle provides us with consultancy services in relation to the coordination, planning and management of intellectual property, research and development, planning, management and commercialization strategy. Kindle provides its services to us at an hourly rate ranging from A\$70 to A\$210 an hour, depending on the seniority of the consultant. For the years ended June 30, 2007 and 2006, fees earned by Kindle amounted to A\$429 and A\$126,981, respectively. These fees are included in our financial statements as Research and development expenses. Dr. George Mihaly, a director of our company, served as a director of Kindle, formerly known as Synermedica Pty Ltd., until December 2004.

On September 24 2004, we signed a letter of intent to enter into an arrangement with Kindle International Inc. to conduct our clioquinol Phase II/III Alzheimer disease clinical trial for PBT1, for the value of A\$90,000. A further letter of intent was signed on March 1, 2005 by the parties for the provision of prospective clinical research organization, or CRO, services by Kindle International Inc., while a final CRO services agreement for the conduct of the Phase II/III for PBT1 was being negotiated. This PBT1 trial ceased in April 2005. We paid Kindle International Inc. A\$48,299 and GBP £79,504 for fiscal year 2006. We did not pay Kindle International Inc. any amounts for this trial in fiscal year 2007.

On November 4, 2005, we entered into an agreement with Kindle International B.V. to conduct the Phase 1 double blind randomized, DOSE escalation study to assess the safety, tolerability and pharmacokinetics of single and multiple doses of oral PBT2 in healthy volunteers. We paid Kindle International B.V. EUR905,290 and EUR 849 (approximately A\$2,004) for fiscal years 2006 and 2007, respectively. Kindle International Inc. is the parent entity of Kindle International B.V and Kindle Pty Ltd

In November 2006, we entered into a general services agreement with Quintiles Limited, a clinical research organization, to perform services relating to the conduct of the Phase IIa PBT2 clinical trial, including site initiation, patient screening and monitoring, data analysis, investigator meetings, statistical analysis and clinical trial reporting. The agreement was budgeted for expenses of US\$1.46 million for seven trial sites in Sweden, and we are currently negotiating an extension of the agreement to include Australian sites for the trial.

On July 28, 2004, we entered into a settlement agreement with P.N. Gerolymatos S.A., or P.N.G., with respect to patent inventorship claims relating to the use of clioquinol (PBT1) for use in Alzheimer's disease. Under the settlement agreement, we agreed to pay a sales royalty to P.N.G. on the sales of PBT1 in the United States and Japan, and we are entitled to receive a percentage of P.N.G.'s income on sales of PBT1 in the other territories. P.N.G. is also entitled to receive 2% of our worldwide income from PBT2. See Item 5B. "Operating and Financial Review and Prospects - Liquidity and Capital Resources."

D. Trend Information

We are a development stage company and it is not possible for us to predict with any degree of accuracy the outcome of our research or commercialization efforts.

E. Off-Balance Sheet Arrangements

We are not a party to any material off-balance sheet arrangements. In addition, we have no unconsolidated special purpose financing or partnership entities that are likely to create material contingent obligations.

F. Tabular Disclosure of Contractual Obligations

The following table summarizes our minimum contractual obligations as of June 30, 2007.

Contractual Obligations	Payments due by period				
	Total	less than 1 year	1-3 years	3-5 Years	more than 5 years
Operating lease obligations	-	-	-	-	-
Purchase obligations*	1,295,265	1,295,265	-	-	-
Total	1,295,265	1,295,265	-	-	-

* Excludes obligations under our contracts with Professor Ashley Bush, Ms. Dianne Angus and Mr. Geoffrey Kempler. See Item 5B. "Operating and Financial Review and Prospects - Liquidity and Capital Resources" and Note 21 to our consolidated financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Our directors and executive officers are as follows:

Name	Age	Position
Geoffrey P. Kempler	51	Chairman of the Board of Directors and Chief Executive Officer
Richard Revelins	44	Chief Financial Officer and Secretary
Dianne Angus	46	Chief Operating Officer
Peter Marks(1)	51	Director
Brian D. Meltzer(1)(2)	53	Director
George W. Mihaly(1)(2)	53	Director

(1) Member of the Audit Committee

(2) Member of the Remuneration Committee and Nominations Committee

Professor Colin Louis Masters, who was first elected as a member of our Board of Directors in December 1999, retired from such position effective July 2, 2007, following his appointment as Director of the Mental Health Research Institute of Victoria, Australia. Dr. Ross Thomas Murdoch, who served as our President and Chief Operating Officer, resigned from such positions on May 31, 2007.

Geoffrey Paul Kempler has served as Chairman of our Board of Directors since November 1997, between November 1997 and August 2004 he served as our Chief Executive Officer, and in June 2005 he again assumed the position of Chief Executive Officer. Mr. Kempler is one of the founders of our company. Mr. Kempler is a qualified psychologist and the major shareholder of Aroma Science Pty Ltd., which holds the Australian distribution and marketing rights to the Aveda range of products. Mr. Kempler, who has extensive experience in investment and business development, has managed our operations to date and has been responsible for the implementation of our strategic plan and the commercialization of our technology. Mr. Kempler holds a B.Sc degree in science from Monash University and Grad. Dip. App. Soc. Psych. degree from Swinburne University.

Richard Revelins has served as our Company Secretary since February 2000 and was appointed Chief Financial Officer of our company in June 2004. Mr. Revelins is an executive director and principal of Peregrine Corporate Limited, an Australian-based investment bank. Mr. Revelins has held senior positions in international merchant banks and is currently a director of a number of public companies, including Peregrine Strategic Limited, as well as Mintails Limited and Mining Project Group Limited, all of which are listed on the ASX, and Cangold Inc., a company listed on the Canadian Venture Exchange, as well as a number of private companies. Mr. Revelins holds a Bachelor of Economics degree from Monash University, Melbourne. Mr. Revelins serves as our Chief Financial Officer on a part-time basis and devotes approximately one to two work days a week to such position.

Dianne Angus has served as our Chief Operating Officer since May 31, 2007. Prior thereto, Ms. Angus served as Vice President of Intellectual Property and Licensing of our company from August 2002 and was promoted to Senior Vice President of Business Development, Intellectual Property and Research in July 2004. From June 2000 to August 2002, Ms. Angus was a Director of Dianne Angus and Associates Pty Ltd. providing strategic business development, technology evaluation and intellectual property services to biotechnology companies. From 1992 to 2000, Ms. Angus managed the intellectual property, licensing and biotechnology product development interests of two Australian companies, AMRAD Corporation Limited and Florigene Limited. While at Florigene Limited, Ms. Angus was the joint venture alliance manager with Suntory for three years. Ms. Angus has worked in the commercial biotechnology sector for 16 years, directing product valuation, acquisition and product licensing. During such time, Ms. Angus has managed large and diverse intellectual property portfolios, conducting global patent and trademark prosecution, contract rights and enforcement. Ms. Angus has also negotiated many commercial licenses, research and product development agreements ranging from major entities such as Novartis, Monsanto, Suntory, Du Pont to numerous global research institutes. Ms. Angus has undertaken due diligence assessments on several Australian biotechnology companies for investment brokers. Ms. Angus holds a Bachelor of Science (Education) and a Bachelor of Science (Honour's) degree from the University of Melbourne, a Masters degree in Biotechnology from Monash University, a Graduate Diploma in Intellectual Property Law from the University of Melbourne, a Diploma in Intellectual Property Practice from the Institute of Patent and Trade Mark Attorneys of Australia and is a registered Australian Patent and Trade Mark Attorney.

Peter Marks has served as a director of our company since July 2005. Since November 21, 2006, Mr. Marks has served as Executive Chairman of KarmelSonix Ltd., a medical devices company listed on the ASX that is focused on developing and commercializing a range of devices in the respiratory medicine sector. Mr. Marks is also currently a director of Peregrine Corporate Ltd., an Australian based investment bank and Microfuzer International Plc, an AIM listed company commercializing metal diffusion technologies. From September 1998 until March 2001, Mr. Marks was employed by KPMG Corporate Finance Ltd (Australia), where he rose to Director and was responsible for heading the equity capital markets group in Melbourne. From January 1992 until July 1994, Mr. Marks served as Head of the Melbourne Companies Department at the ASX and was a founding Director of Momentum Funds Management Pty Ltd, an Australian venture capital firm. From December 1990 until December 1991, Mr. Marks served as director of corporate finance at Burdett Buckeridge & Young Ltd. in their Melbourne offices, from August 1988 until November 1990, he held senior corporate finance positions at Barings Securities Ltd., and from July 1985 until July 1988, he served as an Associate Director of McIntosh Securities, now Merrill Lynch Australia. In his roles with these various financial institutions, Mr. Marks was responsible for advising a substantial number of listed and unlisted companies on issues ranging from corporate and company structure, to valuations, business strategies, acquisitions and international opportunities. Mr. Marks holds a Bachelor of Economics degree, a Bachelor of Law degree and Graduate Diploma in Commercial Law from Monash University in Melbourne, Australia, and an MBA degree from the Scottish School of Business at the University of Edinburgh.

Brian Derek Meltzer has served as a director of our company since December 1999. Mr. Meltzer is a merchant banker with the international investment bank Babcock & Brown. Mr. Meltzer has over 20 years experience in finance, including 12 years at AIDC Ltd. where he was executive director of investment advisory services. Mr. Meltzer is a director of Momentum Ventures Limited, licensed by the government as an Innovation Investment Fund with venture capital investments including biotechnology. Mr. Meltzer is a non-executive director on the boards of a number of private companies. He is also a director on the boards of the Australia-Israel Chamber of Commerce and the Paraplegic and Quadriplegic Association of Victoria (Paraquad). Mr. Meltzer has B. Com. and MEc. degrees from the University of Auckland and Monash University, respectively.

Dr. George William Mihaly has served as director of our company since December 1999. Dr. Mihaly also serves as a director of Waide Pty Ltd., a private company. Dr. Mihaly has had an extensive career spanning the research and commercial facets of the pharmaceutical industry. During the period from mid-1994 to early 2000, Dr. Mihaly was the founding Executive Chairman and Managing Director of Synermedica Pty Ltd., or Synermedica, one of Australia's leading independent consultant research organizations, or CRO, to the pharmaceutical industry. Synermedica merged with the global CRO, Kindle International Inc., in April 2000 and Dr. Mihaly continued as Managing Director of the merged entity in Australia (now called Kindle Pty Ltd.) until December 2004. Over the course of the last 24 years in academia and industry, Dr. Mihaly has amassed extensive experience in both the science and logistics of setting up, monitoring, managing and evaluating results from Phase I, II, III and IV clinical trials. Dr. Mihaly holds a B.Pharm. from Monash University, M.Sc. from Sydney University and Ph.D. degree from Melbourne University, and is a fellow of the Australian Institute of Company Directors.

B. Compensation

The following table sets forth all compensation we paid for the year ended June 30, 2007 with respect to (i) each of our directors during the 2007 fiscal year and (ii) all of our directors and executive officers as a group:

	Salaries, fees, commissions and bonuses (1)	Pension, retirement and other similar benefits
Geoffrey P. Kempler	375,666	—
Peter Marks	75,000	—
Colin L. Masters (2)	115,000	—
Brian D. Meltzer	105,000	—
George W. Mihaly	110,000	—
All directors and officers as a group (consisting of 8 persons at June 30, 2007) (3)	1,470,163	—

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- (1) Does not include A\$1,137,523 of share-based compensation recorded in fiscal year 2007 under Financial Accounting Standards Board Statement No. 123 (revised 2004), "Share-Based Payment."
- (2) Professor Colin Master, who was first appointed as a director of our company in December 1999, retired from our Board of Directors effective July 2, 2007.
- (3) Includes compensation paid to Professor Colin Master, a former director who retired from our Board of Directors effective July 2, 2007 and Dr. Ross Murdoch, our former President and Chief Operating Officer who resigned from such office effective May 31, 2007.

In accordance with the approval of our shareholders at our 2004 annual general meeting of shareholders, the aggregate amount available per annum for the remuneration of our non-executive directors for their services (payable in cash, ordinary shares or options) is A\$1,250,000.

As of June 30, 2007, our directors and executive officers as a group, then consisting of eight persons, held options to purchase an aggregate 7,850,000 of our ordinary shares. Of such options, (i) options to purchase 2,900,000 ordinary shares are currently exercisable for nil consideration on or before June 30, 2010. These options may not be exercised until and unless the price of our ordinary shares has achieved and maintained a minimum value of A\$1.00 for five consecutive trading days. The ordinary shares issued upon exercise of these options may not be disposed of without the prior consent of our Board of Directors. Following Professor Masters retirement from our Board of Directors effective July 2, 2007, options to purchase 1,000,000 ordinary shares expired without being exercised; (ii) options to purchase 500,000 ordinary shares are exercisable for A\$0.50 on or before December 17, 2007; (iii) options to purchase 3,200,000 ordinary shares are exercisable for nil consideration on or before July 31, 2009. These options may not be exercised until and unless the price of our ordinary shares has achieved and maintained a minimum value of A\$0.80 for five consecutive trading days. The ordinary shares issued upon exercise of these options may not be disposed of without the prior consent of our Board of Directors. Following Professor Masters retirement from our Board of Directors effective July 2, 2007, options to purchase 1,000,000 ordinary shares expired without being exercised; and (iv) options to purchase 1,250,000 ordinary shares are exercisable for nil consideration on or before Aug 7, 2014. These options may not be exercised until and unless the price of our ordinary shares has achieved and maintained a minimum value of A\$0.40 for five consecutive trading days. All such options were granted under our 2004 Employees', Directors' & Consultants' Share and Option Plan. See Item 6.E. "Directors, Senior Management and Employees - Share Ownership - Stock Option Plans."

See Item 5B. "Operating and Financial Review and Prospects - Liquidity and Capital Resources," for details regarding the employment agreements we entered into with Mr. Geoffrey Kempler, in connection with his appointment as our Chief Executive Officer and Ms. Dianne Angus in connection with her service as our Chief Operating Officer.

C. Board Practices

Introduction

Our Board of Directors is elected by and accountable to our shareholders. Our Board of Directors' responsibilities are divided into operating activities, financial and capital markets activities and scientific activities. The Chairman of our Board of Directors, currently Mr. Geoffrey Kempler, is responsible for the management of the Board of Directors and its functions.

Election of Directors

Directors are elected at our annual general meeting of shareholders. Under our Constitution, the term of office of our directors are staggered, such that at every annual general meeting of shareholders one-third, rounded down to the nearest whole number, of the directors, except a Managing Director, must retire from office and may offer himself/herself for re-election. No director, except a Managing Director, shall retain office for a period in excess of three years without submitting for re-election. Under Australian law, directors who have reached the age of 72 must stand for re-election annually. Our Board of Directors has the power to appoint any person to be a director, either to fill a vacancy or as an additional director (provided that the total number of directors does not exceed the maximum allowed by law), and any director so appointed may hold office only until the next annual general meeting when he or she shall be eligible for election. Mr. Kempler is our Managing Director. Messrs. Marks and Meltzer must retire and may stand for re-election at our 2008 annual general meeting of shareholders. Dr. Mihaly must retire and may stand for re-election at our 2007 annual general meeting of shareholders. Mr. Colin Masters, who was first elected as a director of our company in December 1999 and was reelected to serve as a director at our 2006 annual general meeting of shareholders, retired from our Board of Directors effective July 2, 2007, following his appointment as Director of the Mental Health Research Institute of Victoria, Australia.

Non-Executive and Independent Directors

Australian law does not require a company to appoint a certain number of independent directors to its board of directors or audit committee. However, under the ASX Best Practice Guide, the ASX recommends, but does not require, that a ASX-listed company have a majority of independent directors on its board of directors and that the audit committee be comprised of independent directors, within the meaning of the rules of the ASX. Our Board of Directors currently has four directors, of which three are non-executive directors within the meaning of the ASX Best Practice Guide, and our audit committee consists of such three non-executive directors. Accordingly, we currently comply with the foregoing recommendations of the ASX Best Practice Guidance.

In addition, in general, under NASDAQ Marketplace Rules, a majority of our Board of Directors must qualify as independent directors within the meaning of the NASDAQ Marketplace Rules and our audit committee must have at least three members and be comprised only of independent directors, each of whom satisfies the respective "independence" requirements of NASDAQ and the Securities and Exchange Commission. On March 30, 2005, we provided NASDAQ with a notice of non-compliance with respect to the requirement to maintain a majority of independent directors, as defined under NASDAQ Marketplace Rules, and the requirement that audit committee members meet the independence standard of NASDAQ. Instead, under Australian law and practice, we are not required to appoint a certain number of independent directors to our Board of Directors or audit committee, as described above. However, as of July 2005, we have a majority of independent directors, within the meaning of NASDAQ Marketplace Rules, on our Board of Directors and our audit committee members meet the independence requirements of NASDAQ and the Securities and Exchange Commission.

Our Board of Directors has determined that each of Messrs. Peter Marks, Brian Meltzer and George Mihaly qualifies as an independent director under the requirements of the ASX, NASDAQ Marketplace Rules and Securities and Exchange Commission.

Committees of the Board of Directors

Our Board of Directors has established the following committees:

Audit Committee. NASDAQ Marketplace Rules require us to establish an audit committee comprised of at least three members, each of whom is financially literate and satisfies the respective “independence” requirements of the Securities and Exchange Commission and NASDAQ and one of whom has accounting or related financial management expertise at senior levels within a company.

Our Audit Committee assists our Board of Directors in overseeing the accounting and financial reporting processes of our company and audits of our financial statements, including the integrity of our financial statements, compliance with legal and regulatory requirements, our independent public accountants’ qualifications and independence, the performance of our internal audit function and independent public accountants, and such other duties as may be directed by our Board of Directors. The Audit Committee is also required to assess risk management.

Our Audit Committee currently consists of three board members, each of whom satisfies the “independence” requirements of the Securities and Exchange Commission, NASDAQ Marketplace Rules and ASX Rules. Our Audit Committee is currently composed of Messrs. Peter Marks, Brian Meltzer and George Mihaly. Our Board of Directors has determined that Mr. Brian Meltzer qualifies as a financial expert. The audit committee meets at least four times per year.

Remuneration Committee. In the first quarter of 2005, our Board of Directors established a Remuneration Committee, which is comprised solely of independent directors, within the meaning of NASDAQ Marketplace Rules. The Remuneration Committee is responsible for reviewing, the salary, incentives and other benefits of our executive officers and to make recommendations on such matters for approval by our Board of Directors. The Remuneration Committee is also responsible for overseeing and advising our Board of Directors with regard to the adoption of policies that govern our compensation programs, including share and ADR option and employee benefit plans. Additionally, the Remuneration Committee administers our share and ADR option plans and any other employee benefit plans. Messrs. Mihaly and Meltzer are the current members of the Remuneration Committee, each of whom qualifies as an “independent director” within the meaning of NASDAQ Marketplace Rules.

Nominations Committee. In July 2005, our Board of Directors established a Nominations Committee, which is comprised solely of independent directors, within the meaning of NASDAQ Marketplace Rules. The Nominations Committee is responsible for identifying and recommending to the Board of Directors director nominees for election at the annual meetings of shareholders, as well as candidates to fill any vacancies on the Board of Directors or as an addition to existing directors. Messrs. Mihaly and Meltzer are the current members of the Nominations Committee, each of whom qualifies as an “independent director” within the meaning of NASDAQ Marketplace Rules.

Research and Development Advisory Board. Our Research and Development Advisory Board oversees and administers our research activities. Our company’s Scientific Advisory Board is comprised of a number of the leading scientists in the field of age-related degenerative disorders. The members of our Scientific Advisory Board are as follows:

Dr. Jeffrey Cummings is the Chairman of our Research and Development Advisory Board. Dr. Cummings is the Director and founder of the UCLA Alzheimer's Disease Center; the Augustus S. Rose Professor of Neurology at UCLA and the Director of the UCLA Behavioral Neuroscience and Dementia Research Fellowship. Dr. Cummings' interests embrace clinical trials and the development of new treatments for neurodegenerative disorders and other neurological diseases. He has authored or edited 20 books and over 450 peer reviewed papers. Dr. Cummings has broad interests in dementing disorders, neuropsychiatry, neurotherapeutics and the interface of neuroscience and society. The UCLA Alzheimer's Disease Center has an active clinical trials program and fosters imaging, genetics, clinical and neuroscience research.

Professor Ashley Ian Bush is the Director of the Laboratory for Oxidation Biology within the Genetics and Aging Unit at the Massachusetts General Hospital and Associate Professor in the Department of Psychiatry of Harvard Medical School. Professor Bush is also Principal Fellow/Associate Professor, Departments of Pathology and Psychiatry, University of Melbourne. Professor Bush, born and educated in Melbourne, established his laboratory at the Massachusetts General Hospital after receiving the distinguished Harness Fellowship in 1992. His discovery of the role of metals and oxidative stress in Neurological disorders has formed the basis of our platform technology.

Professor Jean-Marc Orgogozo is the Chair of the Department of Neurology and Professor of Neurology at the University of Bordeaux, France. He has extensive experience in neuroepidemiology and clinical trials. His publications on the amyloid vaccines have helped to shape the field of anti-amyloid therapeutics.

Dr. Craig Ritchie is the Clinical Research Fellow (Senior), Old Age Psychiatry at Imperial College, London. Dr. Ritchie is heavily involved, both clinically and academically, in psychiatric disorders of late life, in particular Alzheimer's disease, Delirium and Schizophrenia. His interest in conducting and assimilating evidence from clinical trials is based on his clinical background, having worked with elderly patients with dementia for most of his career.

Professor Rudolph Emile Tanzi is Professor of Neurology at the Harvard Medical School and Associate Geneticist, Neurology Services, the Director of Genetics and the Aging Unit, at the Massachusetts General Hospital. Professor Tanzi played a lead role in the discovery of genes and the mechanisms that underlie the cause of Alzheimer's disease, particularly as they relate to the molecular genetics of this disorder. His laboratory at the Massachusetts General Hospital is one of the leaders in the field. Over the last ten years Professor Tanzi has helped guide the development of our platform technology.

Directors' Service Contracts

Our Chief Executive Officer. On September 21, 2007, we entered into a new agreement with Mr. Geoffrey Kempler in connection with his service as our Chief Executive Officer. Under the new agreement, we agreed to pay Mr. Kempler a base salary of A\$386,400 per annum (which may be increased at the discretion of our Board of Directors). Mr Kempler is also entitled to the following bonus payments: (i) \$50,000 upon a capital raising of at least A\$7.0 million (before costs) prior to September 30, 2007; (ii) \$25,000 upon a further capital raising of at least A\$12.0 million (before costs) anytime in the 2008 financial year; (iii) \$25,000 if our company attains and sustains a share price above \$0.60 for at least four consecutive trading days by June 30, 2008; (iv) \$10,000 for completion of clinical trial recruitment by September 30, 2007; (v) \$10,000 for completion of signed statistical analysis report by February 29, 2008; (vi) \$6,000 for holding regular meetings (minimum twice yearly) of the full Research and Development Advisory Board; (vii) \$14,000 for the review and provisions of a written proposal to our board of directors of our intellectual property portfolio to determine valuable opportunities for license, merger and acquisition or divestment by December 31, 2007; and (viii) \$10,000 for the development of our staff retention strategy and action plan by October 31, 2007 and implementation of the plan by December 31, 2007. Should the agreement terminate due to death or disability, we shall pay a pro-rata bonus. Mr Kempler is also entitled to (i) up to 20 days vacation a year. Vacation days that are not used in any calendar year will be carried over for use in the following year to a maximum carry-over of two years; and (ii) reimbursement of reasonable business expenses incurred in the performance of his duties. Mr. Kempler is entitled to participate in the employee benefits established by our company, as applicable to executives, including, without limitation, a Section 401(k) retirement plan, health, dental, life insurance and short and long term disability plans.

In the event of termination of Mr. Kempler's employment:

- By our company without cause (as defined in the agreement) or by Mr. Kempler with good reason (as defined in the agreement), Mr. Kempler will be entitled to: (i) the sum of A\$1 million provided we have sufficient capital requirements to fulfill this obligation within 90 days of termination date; (ii) business expenses that have not been reimbursed and accrued, unused vacation days; and (iii) the acceleration of the vesting of any unvested options to purchase ordinary shares which may be purchased during the remainder of the exercise period by such options.
- By our company with cause (as defined in the agreement) or by Mr. Kempler without good reason (as defined in the agreement), Mr. Kempler's bonus compensation will be pro-rated if the termination occurs in the first year and he will be entitled to business expenses that have not been reimbursed and accrued and unused vacation days. He will only be permitted to exercise unvested options to purchase shares that had been granted to him prior to the employment agreement.
- Due to death or disability (as defined in the agreement), we shall pay Mr. Kempler or his estate, as applicable, all accrued base salary, pro-rata bonus, business expenses that have not been reimbursed and accrued, unused vacation days (and in the case of disability, less such amounts under any disability policy maintained by our company).
- Mr. Kempler or his estate, as applicable, will be entitled to exercise vested options for ordinary shares.

The agreement contains customary confidentiality provisions.

Other. Except as set forth above and in Item 6B. "Directors, Senior Management and Employees - Compensation," there are no arrangements or understandings between us and any of our subsidiaries, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their employment or service as directors of our company or any of our subsidiaries.

Indemnification of Directors and Officers

Our Constitution provides that, subject to the Australian Corporations Act, every director, secretary, manager or officer of our company or any person employed by our company as auditor shall be indemnified out of our funds against all liability incurred by such person as a director or officer in defending proceedings, whether civil or criminal, in which judgment is given in the persons favor or in which the person is acquitted in connection with any application under the Australian Corporations Act in which relief is granted to the person by a Court.

Under our Constitution no director, auditor or other officer shall be liable for (i) any acts, receipts, neglect or defaults of any other director or officer for joining in any receipt or other act for conformity; (ii) any loss or expense that may happen to us through the inefficiency or deficiency of title to any property acquired by order of the directors or on our behalf; (iii) the inefficiency or deficiency of any security in or upon which any of our monies shall be invested; (iv) any loss or damage arising from bankruptcy, insolvency or tortious act of any person with whom any monies, securities or effects shall be deposited; (v) any loss occasioned by any error of judgment, omission, default or oversight on the persons part; or (vi) any other loss damage or misfortune whatsoever which shall happen in relation to those things unless the same shall happen through the persons own negligence, default, breach or duty, breach of trust or dishonesty.

In addition, our Constitution provides that to the extent permitted by law, we may pay, or agree to pay, a premium in respect of a contract insuring a person who is liable or has been an officer of our company or one of our subsidiaries against a liability:

- incurred by the person in his or her capacity as an officer of our company or a subsidiary of our company provided that the liability does not arise out of a conduct involving a willful breach of duty in relation to our company or a subsidiary of our company; or
- for costs and expenses incurred by that person defending proceedings, whatever their outcome.

We maintain a directors' and officers' liability insurance policy. We have established a policy for the indemnification of our directors and officers against certain liabilities incurred as a director or officer, including costs and expenses associated in successfully defending legal proceedings.

D. Employees

At June 30, 2007, we had nine employees. Of such employees, three persons were employed in research and development, four persons in management and administration and two persons in operations. All such employees were located in Australia.

At June 30, 2006, we had 10 employees. Of such employees, three persons were employed in research and development, five persons in management and administration and two persons in operations. All such employees were located in Australia.

At June 30, 2005, we had 17 employees. Of such employees, seven persons were employed in research and development, eight persons in management and administration and two persons in operations. As of June 30, 2005, except for one employee located in the United States, all of our employees were located in Australia. Such U.S. employee ceased working for our company in August 2005.

Australian labor laws and regulations are applicable to all of our employees. The laws concern various matters, including severance pay rights at termination, retirement or death, length of work day and work week, minimum wage, overtime payments and insurance for work-related accidents.

E. Share Ownership

Beneficial Ownership of Executive Officers and Directors

The following table sets forth certain information as of September 24, 2007 regarding the beneficial ownership of our ordinary shares by each of our directors and executive officers and by all of our directors and executive officers as a group:

Name	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Ownership (2)
Geoffrey P. Kempler	19,055,000(3)(4)	13%
Richard Revelins	820,308(5)(6)	*
Dianne Angus	1,250,000(7)	*
Peter Marks	643,111(8)(9)	*
Brian D. Meltzer	926,666(10)(11)	*
George W. Mihaly	826,666(12)(13)	*
All directors and executive officers as a group (six persons)	23,521,751(14)	16%

* Less than 1%

1. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of the date of the above table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
2. The percentages shown are based on 151,517,978 ordinary shares issued and outstanding as of September 24, 2007.
3. Includes 17,055,000 ordinary shares, of which 30,000 ordinary shares are held directly by Mr. Kempler, 13,965,000 ordinary shares are held by Baywick Pty Ltd., an Australian corporation owned by Mr. Kempler, 90,000 ordinary shares are held of record by Crystal Triangle Pty Ltd., an Australian corporation owned by Mr. Kempler and 2,970,000 ordinary shares are held of record by NRB Developments Pty Ltd., an Australian corporation in which Mr. Kempler holds a 50% interest. Mr. Kempler may be deemed to be the beneficial owner of the ordinary shares held directly by Baywick Pty Ltd., Crystal Triangle Pty Ltd. and NRB Developments Pty Ltd.
4. Includes 2,000,000 ordinary shares issuable upon the exercise of options for nil consideration, all of which were granted under the 2004 ASX Plan (as defined below). Of such options, options to purchase 1,000,000 ordinary shares are exercisable on or before June 30, 2010. Such options may not be exercised unless the price of our ordinary shares has achieved and maintained a minimum value of A\$1.00 for five consecutive trading days. The remaining options to purchase 1,000,000 ordinary shares are exercisable on or before July 31, 2009. Such options may not be exercised unless the price of our ordinary shares has achieved and maintained a minimum value of A\$0.80 for five consecutive trading days.
5. Includes 20,308 ordinary shares, all of which are held by Darontack Pty Ltd., an Australian corporation owned by Mr. Revelins.
6. Includes options to purchase 800,000 ordinary shares, all of which were granted under the 2004 ASX Plan (as defined below). Of such options, options to purchase 500,000 ordinary shares are exercisable at A\$0.50 on or before December 17, 2007, and are held by Darontack Pty Ltd., an Australian corporation owned by Mr. Revelins. The remaining options to purchase 300,000 ordinary shares at nil consideration are exercisable on or before July 31, 2009 and are also held by Darontack Pty Ltd. These options may not be exercised unless the price of our ordinary shares has achieved and maintained a minimum value of A\$0.80 for five consecutive trading days.
7. Includes options to purchase 1,250,000 ordinary shares exercisable for nil consideration on or before August 7, 2014 granted under the 2004 ASX Plan (as defined below). These options may not be exercised unless the price of our ordinary shares has achieved and maintained a minimum value of A\$0.40 for five consecutive trading days.
8. Of such shares, 43,111 ordinary shares are held by Lampam Pty Ltd, an Australian corporation owned by Mr. Marks.
9. Includes 600,000 ordinary shares issuable upon the exercise of options for nil consideration, all of which were granted under the 2004 ASX Plan (as defined below). Of such options, options to purchase 300,000 ordinary shares are exercisable on or before June 30, 2010. Such options may not be exercised unless the price of our ordinary shares has achieved and maintained a minimum value of A\$1.00 for five consecutive trading days. The remaining options to purchase 300,000 ordinary shares are exercisable on or before July 31, 2009. Such options may not be exercised unless the price of our ordinary shares has achieved and maintained a minimum value of A\$0.80 for five consecutive trading days..

10. Of such shares, 326,666 ordinary shares are held by RBC Dexia Pty Ltd., a superannuation fund of Mr. Meltzer.
11. Includes 600,000 ordinary shares issuable upon the exercise of options for nil consideration, all of which were granted under the 2004 ASX Plan (as defined below). Of such options, options to purchase 300,000 ordinary shares are exercisable on or before June 30, 2010. Such options may not be exercised unless the price of our ordinary shares has achieved and maintained a minimum value of A\$1.00 for five consecutive trading days. The remaining options to purchase 300,000 ordinary shares are exercisable on or before July 31, 2009. Such options may not be exercised unless the price of our ordinary shares has achieved and maintained a minimum value of A\$0.80 for five consecutive trading days.
12. Of such shares 166,666 ordinary shares are held directly by Dr. Mihaly, 52,000 ordinary shares are held by Waide Pty Ltd., an Australian corporation owned by Dr. Mihaly, and 4,000 ordinary shares are held by each of Kieren Mihaly and Warwick Mihaly, Dr. Mihaly's sons. Dr. Mihaly disclaims beneficial ownership of the ordinary shares held by his sons, Kieren Mihaly and Warwick Mihaly.
13. Includes 600,000 ordinary shares issuable upon the exercise of options for nil consideration, all of which were granted under the 2004 ASX Plan (as defined below). Of such options, options to purchase 300,000 ordinary shares are exercisable on or before June 30, 2010. Such options may not be exercised unless the price of our ordinary shares has achieved and maintained a minimum value of A\$1.00 for five consecutive trading days. The remaining options to purchase 300,000 ordinary shares are exercisable on or before July 31, 2009. Such options may not be exercised unless the price of our ordinary shares has achieved and maintained a minimum value of A\$0.50 for five consecutive trading days.
14. See Footnotes (3) - (13).

Stock Option Plans

Employee and Consultants Option Plan 2000

In November 2000, we adopted our Employee and Consultants Option Plan 2000, or the 2000 Plan. The 2000 Plan was designed to reward executives, employees and consultants for their contributions to our company and to provide a method of retaining key personnel for the growth and development of our intellectual property rights. Under the 2000 Plan, the number of ordinary shares issuable upon exercise of options granted under the 2000 Plan from time to time, that have not expired and have not been exercised, could not exceed 3,000,000. Options granted under the 2000 Plan were exercisable (irrespective of the date of grant) at any time from 12 months after the date of grant until June 30, 2005, at an exercise price of A\$0.50 per share. The options could not be transferred and could not be quoted on the ASX. On June 30, 2005, all outstanding options granted under the 2000 Plan expired and we do not intend to grant any further options under the 2000 Plan.

2004 Option Plans

In November 2004, we adopted the 2004 Employees', Directors' and Consultants' Share and Option Plan, or the 2004 ASX Plan and the 2004 American Depository Share (ADS) Option Plan, or the 2004 ADS Plan. For the description below, the 2004 ASX Plan and 2004 ADS Plan are referred to together as the 2004 Plans. Under the 2004 ASX Plan we may issue ordinary shares traded on the ASX and under the 2004 ADS Plan we may issue ADSs listed on the NASDAQ Capital Market. We were initially authorized to issue under the 2004 Plans up to an aggregate 12,000,000 ordinary shares or ADSs representing 12,000,000 ordinary shares. In November 2005, our shareholders approved an amendment to the 2004 Plans to provide for the issuance thereunder of an additional 10,000,000 ordinary shares (or ADSs representing 10,000,000 ordinary shares), so that we may issue under the 2004 Plans up to an aggregate 22,000,000 ordinary shares or ADSs representing 22,000,000 ordinary shares. Any increase in such maximum number of ordinary shares or ADSs issuable under the 2004 Plans is subject to shareholder approval.

2004 ASX Plan. The purpose of the 2004 ASX Plan is to promote the interest of our company and the interest of the employees, directors and consultants of our company and its subsidiaries. Under the 2004 ASX Plan, we may issue to employees, directors and consultants of our company and its subsidiaries, from time to time, up to an aggregate 22,000,000 ordinary shares, either by issuance of ordinary shares or under options to purchase ordinary shares granted under the 2004 ASX Plan.

The 2004 ASX Plan is administered by the Remuneration Committee. Subject to Board approval where required by applicable law, the Remuneration Committee has the authority, in its sole discretion, to grant options 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 or grant thereunder as it may deem necessary or advisable, subject to any other approval if required by applicable law. All decisions made by the Remuneration Committee pursuant to the provisions of the 2004 ASX Plan will be final, conclusive and binding on all persons.

The number of shares issued or options granted, the exercise price and option term or options granted, the vesting schedule and escrow periods of shares issued and options granted, under the 2004 ASX Plan are determined by the Remuneration Committee, in accordance with the provisions of the ASX Plan, and specified in an offer document from our company and accepted by the eligible person, subject to the terms of the 2004 ASX Plan. Options granted under the 2004 ASX Plan will be unlisted and exercisable at an exercise price 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 Remuneration Committee determines to be appropriate under the circumstances. The term of an option granted under the 2004 ASX Plan will be determined by the Remuneration Committee, however no option will be exercisable after the expiration of ten years from the date of its grant. Except as otherwise provided in the 2004 ASX Plan or determined by the Remuneration Committee and set forth in an offer document, the issuance of shares and exercise of options granted under the 2004 ASX Plan will either (i) be subject to an escrow, under which such shares or options 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); or (ii) will vest over a four year period in four equal installments, 25% at the end of each year from the date of grant. Shares issued and options granted under the 2004 ASX Plan may be subject to other performance criteria and hurdles, as determined by the Remuneration Committee.

2004 ADS Plan. The purpose of the 2004 ADS Plan is to promote the interests of our company and its non-Australian based employees, officers, consultants, independent contractors and directors. Options granted under the 2004 ADS Plan may be incentive stock options, as provided in Section 422 of the Internal Revenue Code of 1986, as amended, or the Code, or non-qualified stock options. Incentive stock options may only be granted to employees of our company and its subsidiaries (including, without limitation, officers and directors who are also employees of our company and its subsidiaries) and may not be granted to any owner of 10% or more of the total combined voting power of all classes of stock of our company and subsidiaries, or a 10% Holder. To the extent that the aggregate fair market value, determined on the date that an option is granted, of ADSs, with respect to which incentive stock options are exercisable for the first time by an optionee during any calendar year exceeds US\$100,000, such option shall be treated as a non-qualified stock option.

Under the 2004 ADS Plan, we may grant to employees, officers, consultants, independent contractors and directors of our company or any of its subsidiaries, from time to time, options to purchase ADSs representing up to 22,000,000 of our ordinary shares. The number of ADSs with respect to which options may be granted to any employee under the 2004 ADS Plan in any calendar year shall not exceed 500,000 ADSs (representing 5,000,000 of our ordinary shares). ADSs that are forfeited under the terms of the 2004 ADS Plan and ADSs that are the subject of options that expire unexercised or which are otherwise surrendered by an optionee without receiving any payment or other benefit with respect thereto may again become available for new option grants under the 2004 ADS Plan.

The 2004 ADS Plan is administered by our Remuneration Committee. Subject to Board approval where required by applicable law, the Remuneration Committee has authority, in its sole discretion, to grant options under the 2004 ADS Plan, to interpret the provisions of the 2004 ADS Plan and to prescribe, amend, and rescind rules and regulations relating to the 2004 ADS Plan or any options granted thereunder as it may deem necessary or advisable, subject to any other approval if required by applicable law. All decisions made by the Remuneration Committee pursuant to the provisions of the 2004 ADS Plan shall be final, conclusive and binding on all persons.

The type of option (incentive stock option or non-qualified stock option), exercise price, option term and vesting schedule of options granted under the 2004 ADS Plan are determined by the Remuneration Committee, in accordance with the provisions of the ADS Plan, and specified in an option agreement by and between our company and the optionee, subject to the terms of the 2004 ADS Plan. The exercise price per each ADS will be determined by the Remuneration Committee at the time any option is granted, however the exercise price of an incentive stock option will not be less than 100% of the fair market value of such ADS on the date of the grant and the price of an incentive stock option granted to a 10% Holder will not be less than 110% of the fair market value of such ADS on the date of the grant. Options granted under the 2004 ADS Plan will not be exercisable after the expiration of ten years from the date of grant, and in the case of an incentive stock option granted to a 10% Holder, the term of the option will be five years from the date of grant or such shorter term as may be provided in the option agreement. The options will vest over a four year period in four equal installments, 25% at the end of each year from the date of grant, unless otherwise provided by the Remuneration Committee in an option agreement.

Options granted under the 2004 ADS Plan are not assignable or transferable by the grantee, other than by will or the laws of descent and distribution, and may be exercised during the lifetime of the grantee only by the grantee or his guardian or legal representative.

A summary of the status of the 2004 Plans as of June 30, 2005, 2006 and 2007, and changes during the years ended on those dates, is presented below:

	Year ended June 30,					
	2007		2006		2005	
	Amount	Weighted average exercise price	Amount	Weighted average exercise price	Amount	Weighted average exercise price
Options outstanding at the beginning of the year	8,727,500	\$ 0.36	6,500,000	\$ 0.48	—	—
Granted	5,908,762	—	2,265,000	—	6,500,000	\$ 0.48
Exercised	(758,000)	—	—	—	—	—
Forfeited	(150,000)	—	(37,500)	—	—	—
Options outstanding at the end of the year	13,728,262	\$ 0.20	8,727,500	\$ 0.36	6,500,000	\$ 0.48
Options exercisable at the end of the year	5,940,000	\$ 0.47	4,900,000	\$ 0.64	4,900,000	\$ 0.64
Options that may be granted as of the end of the year	<u>6,484,049</u>		<u>12,844,061</u>		<u>5,071,561</u>	

In addition, as of June 30, 2007, 1,787,689 ordinary shares have been issued under the ASX Plan that were not subject to options.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth certain information, as of September 24, 2007, regarding the beneficial ownership by all shareholders known to us to own beneficially more than 5% of our ordinary shares.

Name	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Outstanding Ordinary Shares (2)
Geoffrey P. Kempler	19,055,000(3)(4)	13%
Jagen Nominees Pty Ltd	15,689,172(5)(6)	10%
AMP Ltd.	10,710,526 (7) (8)	7%

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of the date of the table above are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 151,517,978 ordinary shares issued and outstanding as of September 24, 2007.
- (3) Of such shares, 30,000 ordinary shares are held directly by Mr. Kempler, 13,965,000 ordinary shares are held by Baywick Pty Ltd., an Australian corporation owned by Mr. Kempler, 90,000 ordinary shares are held of record by Crystal Triangle Pty Ltd., an Australian corporation owned by Mr. Kempler and 2,970,000 ordinary shares are held of record by NRB Developments Pty Ltd., an Australian corporation in which Mr. Kempler holds a 50% interest. Mr. Kempler may be deemed to be the beneficial owner of the ordinary shares held directly by Baywick Pty Ltd., Crystal Triangle Pty Ltd. and NRB Developments Pty Ltd.
- (4) Includes 2,000,000 ordinary shares issuable upon the exercise of options for nil consideration, all of which were granted under the 2004 ASX Plan (as defined below). Of such options, options to purchase 1,000,000 ordinary shares are exercisable on or before June 30, 2010. Such options may not be exercised unless the price of our ordinary shares has achieved and maintained a minimum value of A\$1.00 for five consecutive trading days. The remaining options to purchase 1,000,000 ordinary shares are exercisable on or before June 30, 2009. Such options may not be exercised unless the price of our ordinary shares has achieved and maintained a minimum value of A\$0.80 for five consecutive trading days.
- (5) Mr. Boris Liberman is the sole owner of Jagen Nominees Pty Ltd. and may be deemed to hold the voting and investment powers for the ordinary shares held by Jagen Nominees Pty Ltd.
- (6) Includes 280,112 ordinary shares issuable upon the exercise of options exercisable for A\$0.446 on or before November 30, 2009.

- (7) Of such shares, 5,778,424 ordinary shares are held by Cogent Nominees Pty Ltd, 2,236,889 ordinary shares are held by AMP Life Ltd., 83,507 ordinary shares are held by JP Morgan Nominees Australia Ltd. and 570,810 ordinary shares are held by National Nominees Ltd.
- (8) Includes 2,240,896 ordinary shares issuable upon the exercise of options at an exercise price of A\$0.446 per share, exercisable on or before November 30, 2009.

Major Shareholders Voting Rights

Our major shareholders do not have different voting rights.

Record Holders

As of September 24, 2007, there were 2,226 holders of record of our ordinary shares, of which 15 record holders, holding approximately 4% of our ordinary shares, had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor are they representative of where such beneficial holders reside, since many of these ordinary shares were held of record by brokers or other nominees. The majority of trading by our U.S. investors is done by means of ADRs that are held of record by ANZ Nominees Ltd., which held 39% of our ordinary shares as of such date.

B. Related Party Transactions

Dr. Mihaly served as a director of Kindle, formerly known as Synermedica Pty Ltd., until December 2004. Kindle provided analysis and review of the commercialization of our technology, intellectual property management and clinical trial management and monitoring. An ongoing agreement at normal commercial rates that is terminable at will exists between us and Kindle, with costs incurred on a daily basis. We paid Kindle A\$577,757 for services it provided to us in fiscal year 2005 until December 31, 2004.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Financial Statements and Other Financial Information

See our consolidated financial statements, including the notes thereto, in Item 18.

Legal Proceedings

We are not involved in any material legal proceedings.

Dividend Distribution Policy

We have never paid cash dividends to our shareholders. We intend to retain future earnings for use in our business and do not anticipate paying cash dividends on our ordinary shares in the foreseeable future. Any future dividend policy will be determined by the Board of Directors and will be based upon various factors, including our results of operations, financial condition, current and anticipated cash needs, future prospects, contractual restrictions and other factors as the Board of Directors may deem relevant.

B. Significant Changes

There have been no significant changes in the operation or financial condition of our company since June 30, 2007.

ITEM 9. THE offer and listing**A. Offer and Listing Details****Australian Stock Exchange**

Our ordinary shares have traded on the ASX since our initial public offering on March 29, 2000. The following table sets forth, for the periods indicated, the high and low market quotations for our ordinary shares, as quoted on the ASX.

	Per Ordinary Share (A\$)	
	High	Low
Fiscal Year Ended June 30,		
2003	2.39	0.44
2004	1.18	0.45
2005	0.70	0.13
2006	0.30	0.15
2007	0.80	0.18
Fiscal Year Ended June 30, 2007:		
First Quarter	0.80	0.18
Second Quarter	0.58	0.35
Third Quarter	0.44	0.31
Fourth Quarter	0.43	0.32
Fiscal Year Ended June 30, 2006:		
First Quarter	0.23	0.15
Second Quarter	0.30	0.16
Third Quarter	0.25	0.19
Fourth Quarter	0.24	0.16
Month Ended:		
March 2007	0.37	0.31
April 2007	0.37	0.32
May 2007	0.43	0.33
June 2007	0.36	0.32
July 2007	0.35	0.30
August 2007	0.36	0.26

NASDAQ Capital Market

Since September 5, 2002 our Level II ADRs have traded on the NASDAQ Capital Market under the symbol "PRAN." The following table sets forth, for the periods indicated, the high ask and low bid prices of our Level II ADRs on the NASDAQ Capital Market:

	Per ADR (US\$)	
	High	Low
Fiscal Year Ended June 30,		
2003 (from September 5, 2002)	12.80	2.96
2004	10.50	2.95
2005	5.19	0.98
2006	2.40	1.20
2007	4.35	1.21

Fiscal Year Ended June 30, 2007:		
First Quarter	3.45	1.21
Second Quarter	4.35	2.15
Third Quarter	4.35	2.15
Fourth Quarter	3.38	2.58
Fiscal Year Ended June 30, 2006:		
First Quarter	1.73	1.20
Second Quarter	2.40	1.21
Third Quarter	1.85	1.30
Fourth Quarter	1.89	1.35
Month Ended:		
March 2007	3.00	2.40
April 2007	3.17	2.65
May 2007	3.25	2.58
June 2007	3.24	2.82
July 2007	3.10	2.78
August 2007	3.00	2.25

B. Plan of Distribution

Not applicable.

C. Markets

The principal listing of our ordinary shares and listed options to purchase ordinary shares is on the ASX. As of April 5, 2002, our ADRs were eligible to trade on the NASDAQ Capital OTC Bulletin Board in the United States and since September 5, 2002, our ADRs have traded on the NASDAQ Capital Market under the symbol "PRAN." We entered into a Deposit Agreement with the Bank of New York under which the Bank of New York, acting as depositary, issues ADRs, each of which evidences an ADS, which in turn represents ten of our ordinary shares.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Incorporated by reference to our Registration Statement on Form 20-F dated August 26, 2002.

C. Material Contracts

On December 1, 2000, we entered into a research funding and intellectual property assignment agreement with the University of Melbourne, under which the University of Melbourne agreed to conduct certain research projects on our behalf for a sum of A\$297,000 (inclusive of goods and services tax), each year for a period of three years. In consideration for the assignment of rights to intellectual property developed by the University of Melbourne during the research period, we agreed to pay to the University of Melbourne royalties equal to 1.5% of the net invoice price of all products incorporating such intellectual property sold by us or on our behalf, or, the lesser of 1.5% of the net invoice price of such products sold by a licensee or assignee and 10% of gross revenues received from licensees or assignees relating to the exploitation of such intellectual property. Following the expiration of this agreement, the parties entered into a second research funding and intellectual property assignment agreement, which is deemed to have commenced as of the expiration date of the previous agreement on December 1, 2003 and expired on December 1, 2006. Following the expiration of this second agreement, the parties entered into a third research funding and intellectual property assignment agreement, which is deemed to have commenced as of the expiration date of the previous agreement on December 1, 2006 and expires on December 1, 2009. The financial consideration terms under the original agreement remain unchanged by the second and third research funding and intellectual property assignment agreements. Pursuant to the terms of the original research funding and intellectual property assignment agreement, we agreed to provide the University of Melbourne certain funding for the research projects for the second and third research funding and intellectual property assignment agreements. We provided to the University of Melbourne funding in an amount equal to A\$600,000 (exclusive of goods and service tax) during each of the years running December 2004 to November 2005 and December 2005 to November 2006. During the 2005 fiscal year we also provided the University of Melbourne an additional A\$1,012,500 in research funding in connection with our licensing and research collaboration with Schering A.G. and Neurosciences Victoria Ltd. that was concluded in June 2005. We estimate that we will provide to the University of Melbourne funding in an amount equal to A\$690,500 (exclusive of goods and services tax) for the year running December 2006 to November 2007.

On February 8, 2000, we entered into a patent assignment agreement with The Biomolecular Research Institute, or BRI. The agreement provides for the assignment of various patent applications and patent rights from BRI to us. In consideration of the assignment of the patents, we are required to pay BRI a royalty of 1.5% on the net invoiced price of products sold utilizing such patents. In addition, we must also pay the lesser of 1.5% of the net invoice price of products sold or 10% of royalties received from any licensee or sub-licensee we appoint to utilize such patents, or a minimum of A\$2,000 a year. If the patent rights are assigned before a total of A\$20,000 has been paid as royalties, the difference between the royalties paid and A\$20,000 must be paid to BRI. On September 10, 2007, BRI, the Commonwealth Industrial and Scientific Research Organization, or CSIRO, and us executed an Assignment and Novation Deed under which BRI assigned to CSIRO all of its rights and obligations under the patent assignment agreement, including entitlement to royalties.

On July 28, 2004, we and The General Hospital Corporation of Massachusetts settled all outstanding litigation with P.N. Gerolymatos S.A., or P.N.G., regarding the exploitation rights to certain patents relating to pharmaceutical compositions and uses of clioquinol, or PBT1. Pursuant to the settlement agreement, all patent oppositions in Europe and Australia were withdrawn and the law suits then pending before the U.S. District Court for the District of Columbia and the Court of Athens in Greece were dismissed. Under the settlement agreement, we and P.N.G. agreed to recognize the rights of each other to develop clioquinol in our respective territories. As a result of the settlement agreement, we now hold the rights to selected uses of clioquinol and pharmaceutical compositions in the United States and selected uses of clioquinol in Japan, and P.N.G. holds certain patent rights on the uses of clioquinol for Europe and other territories. Under the settlement agreement, we issued 1,350,000 of our ordinary shares to P.N.G. (which were held in escrow for 12 months), and made a payment of US\$150,000 to P.N.G. Such settlement in the total value of A\$971,764 was expensed in fiscal year 2004. Under the settlement agreement we also agreed to pay a sales royalty to P.N.G. on sales of PBT1 in the United States and Japan and we are entitled to receive a percentage of P.N.G.'s income on sales of PBT1 in the other territories. In April 2005, we announced our decision not to proceed with the PBT1 study. P.N.G. is also entitled to receive 2% of our worldwide income from PBT2 and any other future clioquinol derivative.

On January 1, 2001, we entered into a license agreement with GHC, whereby we obtained an exclusive license with respect to certain patents that permits us to sublicense the patent rights to others. The agreement also provides us with the non-exclusive right to use materials, substances and information that were used by GHC in research sponsored by us. In consideration of the license, we are required to pay GHC royalties of 1.5% of the net sales price of products sold utilizing patents exclusively licensed to us. We are also required to pay certain advance milestone payments, to be reduced from the royalties. In addition to the royalties we are obligated to pay GHC 1.5% of any and all non-royalty payments, including license fees received from our affiliates. Each party to the agreement may terminate the agreement if the other party defaults in its materials obligations and does not remedy the default within sixty days after notice is given. GHC can terminate the licenses and rights granted to us under the agreement in any country in the event that after the first commercial sale in that country there will be a continuous one year period in which no products are sold. On March 15, 2004, the exclusive license was amended so that we are required to pay GHC the royalties payable to it for any future exploitation of rights to certain U.S. patents relating to PBT1 regardless of the inventorship determination, as required under the settlement agreement among us, P.N.G. and GHC.

Under the terms of a strategic alliance agreement that we entered into with Kindle dated January 6, 2004, Kindle provides us with consultancy services in relation to the co-ordination, planning and management of intellectual property, research and development, planning, management and commercialization strategy. Kindle provides its services to us at a rate of A\$70 to A\$210 per hour, depending on the seniority of the consultant. For the years ended June 30, 2007 and 2006, we paid Kindle A\$429 and A\$126,981, respectively.

On September 24 2004, we signed a letter of intent to enter into an arrangement with Kindle International Inc. to conduct our clioquinol Phase II/III Alzheimer disease clinical trial for PBT1, for the value of A\$90,000. A further letter of intent was signed on March 1, 2005 by the parties for the provision of prospective CRO services by Kindle International Inc., while a final CRO services agreement for the conduct of the Phase II/III for PBT1 was being negotiated. This PBT1 trial ceased in April 2005. We paid Kindle International Inc. A\$48,299 and GPB £79,504 for fiscal year 2006. We did not pay Kindle International Inc. any amounts for this trial in fiscal year 2007.

On November 4, 2005, we entered into an agreement with Kindle International B.V. to conduct the Phase 1 double blind randomized, DOSE escalation study to assess the safety, tolerability and pharmacokinetics of single and multiple doses of oral PBT2 in healthy volunteers. We paid Kindle International B.V. EUR905,290 and EUR 849 (approximately A\$2,004) for fiscal years 2006 and 2007, respectively. Kindle International Inc. is the parent entity of Kindle International B.V and Kindle Pty Ltd.

In November 2006, we entered into a general services agreement with Quintiles Limited, a clinical research organization, to perform services relating to the conduct of the Phase IIa PBT2 clinical trial, including site initiation, patient screening and monitoring, data analysis, investigator meetings, statistical analysis and clinical trial reporting. The agreement was budgeted for expenses of US\$1.46 million for seven trial sites in Sweden, and we are currently negotiating an extension of the agreement to include Australian sites for the trial.

In June 2007, we entered into two GMP drug manufacture and laboratory development agreements with the Institute for Drug Technology Australia Limited, or IDT, to undertake the GMP manufacture of an initial 4kg batch and subsequent large scale manufacture of 30kg of PBT2. IDT is engaged to also undertake process development, quality control release testing and stability testing of the final drug product before its release. The estimated combined expense of the two agreements is approximately A\$930,000.

We entered into a consulting agreement dated January 17, 2000 with Professor Ashley Bush for the provision of research and development services relating to inventions and treatments for diseases caused by metal-mediated oxidative stress, which expired in January 2003. On January 8, 2004, we entered into a new consulting agreement with Professor Bush, under which Professor Bush agreed to provide us with consulting services for a period of ten years. In consideration of his services, we agreed to pay Professor Bush an annual consulting fee of US\$100,000, to issue to Professor Bush 1,650,000 ordinary shares (of which 825,000 ordinary shares were issued during the 2004 fiscal year and 825,000 ordinary shares were issued during the 2006 fiscal year), and to grant Professor Bush options to purchase 825,000 ordinary shares at an exercise price A\$0.50 per share (of which options to purchase 412,00 ordinary shares were granted during the 2004 fiscal year and 413,000 options were granted during the 2006 fiscal year). In addition, subject to the achievement of certain milestones, Professor Bush is entitled to purchase up to 5,000,000 additional ordinary shares at a price per share that is 10% below the mean market price of our ordinary shares during the 30-day period prior to their purchase. Once a milestone has been achieved, up to 2,500 ordinary shares out of the total tranche of ordinary shares to which he becomes entitled may be purchased each six months after such achievement. The first milestone has been achieved (the publication of results of a Phase II trial) and as such, Professor Bush is now entitled to purchase up to 1,250,000 ordinary shares in accordance with the foregoing terms, of which he acquired 250,000 ordinary shares during the 2007 fiscal year. The ordinary shares issued and options granted to Professor Bush under the agreement are subject to certain resale restrictions. During the period of 20 years after the effective date of the agreement, Professor Bush is also entitled to receive royalties equal to 5% of the income that we derive from the exploitation of new intellectual property developed by him or contributed to our company through his services pursuant to the agreement.

On May 22, 2007, we entered into an agreement with Patheon Inc., or Patheron, to undertake the capsule formulation development and prospective clinical trial manufacturing of PBT2 into capsules to support prospective further development of PBT2 into a Phase IIb study and/or other secondary clinical applications of PBT2. During the year ending December 2007 Patheon will be engaged to undertake the preliminary development processes to determine the means for encapsulating PBT2 and the stability of the capsules at an estimated cost of AU\$425,000. At our option, Patheon may also undertake the actual encapsulation of the placebo and PBT2 clinical supplies in the second half of 2008.

D. Exchange Controls

Australia has largely abolished exchange controls on investment transactions. The Australian dollar is freely convertible into U.S. dollars. In addition, there are currently no specific rules or limitations regarding the export from Australia of profits, dividends, capital, or similar funds belonging to foreign investors, except that certain payments to non-residents must be reported to the Australian Cash Transaction Reports Agency, which monitors such transactions, and amounts on account of potential Australian tax liabilities may be required to be withheld unless a relevant taxation treaty can be shown to apply.

The Foreign Acquisitions and Takeovers Act 1975

Under Australian law, in certain circumstances foreign persons are prohibited from acquiring more than a limited percentage of the shares in an Australian company without approval from the Australian Treasurer. These limitations are set forth in the Australian Foreign Acquisitions and Takeovers Act, or the Takeovers Act.

Under the Takeovers Act, as currently in effect, any foreign person, together with associates, is prohibited from acquiring 15% or more of the shares in any company having total assets of A\$50 million or more. In addition, a foreign person may not acquire shares in a company having total assets of A\$50 million or more if, as a result of that acquisition, the total holdings of all foreign persons and their associates will exceed 40% in aggregate without the approval of the Australian Treasurer. If the necessary approvals are not obtained, the Treasurer may make an order requiring the acquirer to dispose of the shares it has acquired within a specified period of time. Under the current Australian foreign investment policy, however, it is unlikely that the Treasurer would make such an order where the level of foreign ownership exceeds 40% in the ordinary course of trading, unless the Treasurer finds that the acquisition is contrary to the national interest. The same rule applies if the total holdings of all foreign persons and their associates already exceeds 40% and a foreign person (or its associate) acquires any further shares, including in the course of trading in the secondary market of the ADRs. At present, we do not have total assets of A\$50 million.

If the level of foreign ownership exceeds 40% at any time, we would be considered a foreign person under the Takeovers Act. In such event, we would be required to obtain the approval of the Treasurer for our company, together with our associates, to acquire (i) more than 15% of an Australian company or business with assets totaling over A\$50,000,000; or (ii) any direct or indirect ownership interest in Australian residential real estate.

The percentage of foreign ownership in our company would also be included in determining the foreign ownership of any Australian company or business in which it may choose to invest. Since we have no current plans for any such acquisitions and do not own any property, any such approvals required to be obtained by us as a foreign person under the Takeovers Act will not affect our current or future ownership or lease of property in Australia.

Our Constitution does not contain any additional limitations on a non-resident's right to hold or vote our securities.

Australian law requires the transfer of shares in our company to be made in writing. No stamp duty will be payable in Australia on the transfer of ADRs.

E. Taxation

The following is a discussion of Australian and United States tax consequences material to our shareholders. To the extent that the discussion is based on tax legislation which has not been subject to judicial or administrative interpretation, the views expressed in the discussion might not be accepted by the tax authorities in question or by court. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.

Holders of our ADSs should consult their own tax advisors as to the United States, Australian or other tax consequences of the purchase, ownership and disposition of ADSs, including, in particular, the effect of any foreign, state or local taxes.

Australian Tax Consequences

In this section we discuss the material Australian tax considerations that apply to non-Australian tax residents with respect to the acquisition, ownership and disposal of the absolute beneficial ownership of ADSs, which are evidenced by ADRs. This discussion is based upon existing Australian tax law as of the date of this annual report, which is subject to change, possibly retrospectively. This discussion does not address all aspects of Australian income tax law which may be important to particular investors in light of their individual investment circumstances, such as ADSs or shares held by investors subject to special tax rules (for example, financial institutions, insurance companies or tax exempt organizations). In addition, this summary does not discuss any foreign or state tax considerations, other than stamp duty. Prospective investors are urged to consult their tax advisors regarding the Australian and foreign income and other tax considerations of the purchase, ownership and disposition of the ADSs or shares.

Nature of ADSs for Australian Taxation Purposes

Holders of our ADSs are treated as the owners of the underlying ordinary shares for Australian income tax and capital gains tax purposes. Therefore, dividends paid on the underlying ordinary shares will be treated for Australian tax purposes as if they were paid directly to the owners of ADSs, and the disposal of ADSs will be treated for Australian tax purposes as the disposal of the underlying ordinary shares. In the following analysis we discuss the application of the Australian income tax and capital gains tax rules to non-Australian resident holders of ADSs.

Taxation of Dividends

Australia operates a dividend imputation system under which dividends may be declared to be 'franked' to the extent of tax paid on company profits. Fully franked dividends are not subject to dividend withholding tax. Dividends that are not franked or are partly franked and are paid to non-Australian resident stockholders are subject to dividend withholding tax, but only to the extent the dividends are not franked.

Dividends paid to a non-resident stockholder are subject to withholding tax at 30%, unless the stockholder is a resident of a country with which Australia has a double taxation agreement. In accordance with the provisions of the Double Taxation Convention between Australia and the United States, the maximum rate of Australian tax on unfranked dividends to which a resident of the United States is beneficially entitled is 15%, where the U.S. resident holds less than 10% of the voting rights in our company, or 5% where the US resident holds 10% or more of the voting rights in our company. The Double Taxation Convention between Australia and the United States does not apply to limit the tax rate on dividends where the ADSs are effectively connected to a permanent establishment or a fixed base carried on by the owner of the ADSs in Australia through which the stockholder carries on business or provides independent personal services, respectively.

Tax on Sales or other Dispositions of Shares - Capital Gains Tax

Prior to December 12, 2006, non-Australian resident stockholders would not be subject to Australian capital gains tax on the gain made on a sale or other disposal of our shares, unless they, together with their associates, held 10% or more of our issued capital at any time during the five years before the disposal of the shares.

From December 12, 2006, Australian capital gains derived by non-Australian residents in respect of the disposal of capital assets that are not taxable Australian property will be disregarded. Non-Australian resident stockholders will not be subject to Australian capital gains tax on the capital gain made on a disposal of our shares, unless they, together with associates, hold 10% or more of our issued capital, tested either at the time of disposal or over any continuous 12 month period in the 24 months prior to disposal, and the value of the our shares at the time of disposal are wholly or principally attributable to Australian real property assets.

The Australian Taxation Office maintains the view that the Double Taxation Convention between the United States and Australia does not limit Australian capital gains tax on U.S. residents. Australian capital gains tax applies to net capital gains at a taxpayer's marginal tax rate but for certain stockholders a discount of the capital gain may apply if the shares have been held for 12 months or more. For individuals, this discount is 50%. Net capital gains are calculated after reduction for capital losses, which may only be offset against capital gains.

Tax on Sales or other Dispositions of Shares - Stockholders Holding Shares on Revenue Account

Some non-Australian resident stockholders may hold shares on revenue rather than on capital account, for example, share traders. These stockholders may have the gains made on the sale or other disposal of the shares included in their assessable income under the ordinary income provisions of the income tax law, if the gains are sourced in Australia.

Non-Australian resident stockholders assessable under these ordinary income provisions in respect of gains made on shares held on revenue account would be assessed for such gains at the Australian tax rates for non-Australian residents, which start at a marginal rate of 29%. Some relief from the Australian income tax may be available to such non-Australian resident stockholders under the Double Taxation Convention between the United States and Australia, for example, because the stockholder does not have a permanent establishment in Australia.

To the extent an amount would be included in a non-Australian resident stockholder's assessable income under both the capital gains tax provisions and the ordinary income provisions, the capital gain amount would generally be reduced, so that the stockholder would not be subject to double tax on any part of the income gain or capital gain.

Dual Residency

If a stockholder were a resident of both Australia and the United States under those countries' domestic taxation laws, that stockholder may be subject to tax as an Australian resident. If, however, the stockholder is determined to be a U.S. resident for the purposes of the Double Taxation Convention between the United States and Australia, the Australian tax applicable would be limited by the Double Taxation Convention. Stockholders should obtain specialist taxation advice in these circumstances.

Stamp Duty

Any transfer of shares through trading on the Australian Stock Exchange, whether by Australian residents or foreign residents are not subject to stamp duty within Australia.

Australian Death Duty

Australia does not have estate or death duties. No capital gains tax liability is realized upon the inheritance of a deceased person's shares. The disposal of inherited shares by beneficiaries, may, however, give rise to a capital gains tax liability.

Goods and Services Tax

The issue or transfer of shares will not incur Australian goods and services tax and does not require a stockholder to register for Australian goods and services tax purposes.

United States Federal Income Tax Consequences

The following is a summary of certain material U.S. federal income tax consequences that generally apply to U.S. Holders (as defined below) who hold ADRs as capital assets. This summary is based on the United States Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof, and the bilateral taxation convention between Australia and the United States, or the Tax Treaty, all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively. This summary does not address all tax considerations that may be relevant with respect to an investment in ADRs. This summary does not discuss all the tax consequences that may be relevant to a U.S. Holder in light of such holder's particular circumstances or to U.S. Holders subject to special rules, including broker-dealers, financial institutions, certain insurance companies, investors liable for alternative minimum tax, tax-exempt organizations, regulated investment companies, non-resident aliens of the United States or taxpayers whose functional currency is not the U.S. dollar, persons who hold the ADRs through partnerships or other pass-through entities, persons who acquired their ADRs through the exercise or cancellation of any employee stock options or otherwise as compensation for their services, investors that actually or constructively own 10% or more of our voting shares, and investors holding ADRs as part of a straddle or appreciated financial position or as part of a hedging or conversion transaction.

If a partnership or an entity treated as a partnership for U.S. federal income tax purposes owns ADRs, the U.S. federal income tax treatment of a partner in such a partnership will generally depend upon the status of the partner and the activities of the partnership. A partnership that owns ADRs and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of holding and disposing of ADRs.

This summary does not address the effect of any U.S. federal taxation other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local or foreign taxation. You are urged to consult your tax advisors regarding the foreign and U.S. federal, state and local tax considerations of an investment in ADRs.

For purposes of this summary, the term “U.S. Holder” means an individual who is a citizen or, for U.S. federal income tax purposes, a resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any political subdivision thereof, an estate whose income is subject to U.S. federal income tax regardless of its source, or a trust if (a) a court within the United States is able to exercise primary supervision over administration of the trust, and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Taxation of Dividends

For U.S. federal income tax purposes, U.S. Holders of ADRs will be treated as owning the underlying ordinary shares, or ADSs, represented by the ADRs held by them. Subject to the passive foreign investment company rules discussed below, the gross amount of any distributions received with respect to the underlying ordinary shares represented by the ADRs, including the amount of any Australian taxes withheld there from, will constitute dividends for U.S. federal income tax purposes, to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax principles. You will be required to include this amount of dividends in gross income as ordinary income. Distributions in excess of our earnings and profits will be treated as a non-taxable return of capital to the extent of your tax basis in the ADRs, and any amount in excess of your tax basis will be treated as gain from the sale of ADRs. See “Disposition of ADRs” below for the discussion on the taxation of capital gains. Dividends will not qualify for the dividends-received deduction generally available to corporations under Section 243 of the Code.

Dividends that we pay in A\$, including the amount of any Australian taxes withheld there from, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received. A U.S. Holder who receives payment in A\$ and converts A\$ into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of our ADRs.

Subject to complex limitations, any Australian withholding tax imposed on such dividends will be a foreign income tax eligible for credit against a U.S. Holder’s U.S. federal income tax liability (or, alternatively, for deduction against income in determining such tax liability). The limitations set out in the Code include computational rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. Dividends generally will be treated as foreign-source passive category income or general category income for U.S. foreign tax credit purposes. A U.S. Holder will be denied a foreign tax credit with respect to Australian income tax withheld from dividends received with respect to the underlying ordinary shares represented by the ADRs to the extent such U.S. Holder has not held the ADRs for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date or to the extent such U.S. Holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ADRs are not counted toward meeting the 16-day holding period required by the statute. The rules relating to the determination of the foreign tax credit are complex, and you should consult with your personal tax advisors to determine whether and to what extent you would be entitled to this credit.

Subject to certain limitations, “qualified dividend income” received by a noncorporate U.S. Holder in tax years beginning on or before December 31, 2010 will be subject to tax at a reduced maximum tax rate of 15 percent. Distributions taxable as dividends paid on the underlying shares represented by the ADRs should qualify for the 15 percent rate provided that either: (i) we are entitled to benefits under the Tax Treaty or (ii) the ADRs are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the Tax Treaty and that the ADRs currently are readily tradable on an established securities market in the United States. However, no assurance can be given that the ADRs will remain readily tradable. The rate reduction does not apply unless certain holding period requirements are satisfied. With respect to the ADRs, the U.S. Holder must have held such ADRs for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date. The rate reduction also does not apply to dividends received from passive foreign investment companies, see discussion below, or in respect of certain hedged positions or in certain other situations. The legislation enacting the reduced tax rate contains special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to the reduced tax rate. U.S. Holders of ADRs should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

Disposition of ADRs

If you sell or otherwise dispose of ADRs, you will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in the ADRs. Subject to the passive foreign investment company rules discussed below, such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if you have held the ADRs for more than one year at the time of the sale or other disposition. In general, any gain that you recognize on the sale or other disposition of ADRs will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives A\$ in connection with the sale or disposition of ADRs, the amount realized will be based on the U.S. dollar value of the A\$ received with respect to the ADRs as determined on the settlement date of such exchange. A U.S. Holder who receives payment in A\$ and converts A\$ into U.S. dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss.

An accrual basis U.S. Holder may elect the same treatment required of cash basis taxpayers with respect to a sale or disposition of ADRs, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the Internal Revenue Service, or the IRS. In the event that an accrual basis U.S. Holder does not elect to be treated as a cash basis taxpayer (pursuant to the Treasury regulations applicable to foreign currency transactions), such U.S. Holder may have a foreign currency gain or loss for U.S. federal income tax purposes because of differences between the U.S. dollar value of the currency received prevailing on the trade date and the settlement date. Any such currency gain or loss would be treated as ordinary income or loss and would be in addition to gain or loss, if any, recognized by such U.S. Holder on the sale or disposition of such ADRs.

Passive Foreign Investment Companies

There is a substantial risk that we are a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. Our treatment as a PFIC could result in a reduction in the after-tax return to the U.S. Holders of our ADRs and may cause a reduction in the value of such securities.

For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, cash is considered to be an asset which produces passive income. Passive income generally includes dividends, interest, royalties, rents, annuities and the excess of gains over losses from the disposition of assets which produce passive income. As a result of our substantial cash position and the decline in the value of our stock, we believe that we became a PFIC during the taxable year ended June 30, 2005, and once again qualified as a PFIC for the taxable year ended June 30, 2006, under a literal application of the asset test that looks solely to market value. We believe that we will once again qualify as a PFIC for the taxable year ended June 30, 2007.

If we are a PFIC, dividends will not qualify for the reduced maximum tax rate, discussed above, and, unless you timely elect to "mark-to-market" your ADRs, as described below:

- you will be required to allocate income recognized upon receiving certain dividends or gain recognized upon the disposition of ADRs ratably over your holding period for such ADRs,

- the amount allocated to each year during which we are considered a PFIC other than the year of the dividend payment or disposition would be subject to tax at the highest individual or corporate tax rate, as the case may be, in effect for that year and an interest charge would be imposed with respect to the resulting tax liability allocated to each such year,
- the amount allocated to the current taxable year and any taxable year before we became a PFIC will be taxable as ordinary income in the current year, and
- you will be required to make an annual return on IRS Form 8621 regarding distributions received with respect to ADRs and any gain realized on your ADRs.

The PFIC provisions discussed above apply to U.S. persons who directly or indirectly hold stock in a PFIC. Both direct and indirect shareholders of PFICs are subject to the rules described above. Generally, a U.S. person is considered an indirect shareholder of a PFIC if it is:

- A direct or indirect owner of a pass-through entity, including a trust or estate, that is a direct or indirect shareholder of a PFIC,
- A shareholder of a PFIC that is a shareholder of another PFIC, or
- A 50%-or-more shareholder of a foreign corporation that is not a PFIC and that directly or indirectly owns stock of a PFIC.

An indirect shareholder may be taxed on a distribution paid to the direct owner of the PFIC and on a disposition of the stock indirectly owned. Indirect shareholders are strongly urged to consult their tax advisors regarding the application of these rules.

If we cease to be a PFIC in a future year, a U.S. Holder may avoid the continued application of the tax treatment described above by electing to be treated as if it sold its ADRs on the last day of the last taxable year in which we were a PFIC. Any gain would be recognized and subject to tax under the rules described above. Loss would not be recognized. A U.S. Holder's basis in its ADRs would be increased by the amount of gain, if any, recognized on the sale. A U.S. Holder would be required to treat its holding period for its ADRs as beginning on the day following the last day of the last taxable year in which we were a PFIC.

If the ADRs are considered "marketable stock" and if you elect to "mark-to-market" your ADRs, you would not be subject to the rules described above. Instead, you will generally include in income any excess of the fair market value of the ADRs at the close of each tax year over your adjusted basis in the ADRs. If the fair market value of the ADRs had depreciated below your adjusted basis at the close of the tax year, you may generally deduct the excess of the adjusted basis of the ADRs over its fair market value at that time. However, such deductions generally would be limited to the net mark-to-market gains, if any, that you included in income with respect to such ADRs in prior years. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of ADRs with respect to which the mark-to-market election is made, is treated as ordinary income or loss (except that loss is treated as capital loss to the extent the loss exceeds the net mark-to-market gains, if any, that a U.S. Holder included in income with respect to such ordinary shares in prior years). However, gain or loss from the disposition of ordinary shares (as to which a "mark-to-market" election was made) in a year in which we are no longer a PFIC, will be capital gain or loss. Our ADRs should be considered "marketable stock" if they traded at least 15 days during each calendar quarter of the relevant calendar year in more than de minimis quantities.

A U.S. Holder of ADRs will not be able to avoid the tax consequences described above by electing to treat us as a qualified electing fund, or QEF, because we do not intend to prepare the information that U.S. Holders would need to make a QEF election.

Backup Withholding and Information Reporting

Payments in respect of ADRs may be subject to information reporting to the U.S. Internal Revenue Service and to U.S. backup withholding tax at a rate equal to the fourth lowest income tax rate applicable to individuals (which, under current law, is 28%). Backup withholding will not apply, however, if you (i) are a corporation or come within certain exempt categories, and demonstrate the fact when so required, or (ii) furnish a correct taxpayer identification number and make any other required certification.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder's U.S. tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS.

Any U.S. holder who holds 10% or more in vote or value of our ordinary shares will be subject to certain additional U.S. information reporting requirements.

U.S. Gift and Estate Tax

An individual U.S. Holder of ADRs will be subject to U.S. gift and estate taxes with respect to ADRs in the same manner and to the same extent as with respect to other types of personal property.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the reporting requirements of the United States Securities Exchange Act of 1934, as amended, as applicable to "foreign private issuers" as defined in Rule 3b-4 under the Exchange Act, and in accordance therewith, we are required to file annual and interim reports and other information with the Securities and Exchange Commission.

As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, transactions in our equity securities by our officers and directors are exempt from reporting and the "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. We make our Securities and Exchange Commission filings electronically and they are available on the Securities and Exchange Commission's website. We are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we will distribute annually to our shareholders an annual report containing financial statements that have been examined and reported on, with an opinion expressed by, an independent registered public accounting firm, and we will submit reports to the Securities and Exchange Commission on Form 6-K containing unaudited financial information for the first six months of each fiscal year.

This annual report and the exhibits thereto and any other document that we have to file pursuant to the Exchange Act may be inspected without charge and copied at prescribed rates at the Securities and Exchange Commission public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549; and on the Securities and Exchange Commission Internet site (<http://www.sec.gov>). You may obtain information on the operation of the Securities and Exchange Commission's public reference room in Washington, D.C. by calling the Securities and Exchange Commission at 1-800-SEC-0330 or by visiting the Securities and Exchange Commission's website at <http://www.sec.gov>, and may obtain copies of our filings from the public reference room by calling (202) 551-8090. The Exchange Act file number for our Securities and Exchange Commission filings is 000-49843.

The documents concerning our company which are referred to in this annual report may also be inspected at our offices located at Suite 2, 1233 High Street, Armadale, Victoria, Australia, 3143.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

We invest our excess cash in interest-bearing accounts and time deposits with banks in Australia. Our management believes that the financial institutions that hold our investments are financially sound and accordingly, minimal credit risk exists with respect to these investments. Certain of our cash equivalents are subject to interest rate risk. Due to the short duration and conservative nature of these instruments, we do not believe that we have a material exposure to interest rate risk. Our major market risk is changes in foreign exchange rates as we have approximately A\$4 million and A\$5 millions in time deposits held in U.S. dollars as of June 30, 2007 and 2006, respectively. A hypothetical 10% adverse movement in end-of-period exchange rates would reduce the cash balance by approximately A\$400,000 and A\$594,334 respectively.

We have engaged an external consultant to assist us to optimize our interest returns and manage our foreign exchange risk. We do not currently utilize derivative financial instruments or other financial instruments subject to market risk.

We conduct our activities almost exclusively in Australia. However, we are required to make certain payments in U.S. dollars and other currencies. A hypothetical 10% adverse movement in end-of-period exchange rates could have a material impact on our operating results. As of June 30, 2007, payables in U.S. dollars and other currencies were not material, but as of June 30 2006, we had US\$253,213 and EUR\$168,428 in payables. A hypothetical 10% adverse movement in the U.S. and EUR exchange rates could increase the cost of these payables by A\$63,656.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable

ITEM 15. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our chief executive officer and chief financial officer to allow timely decisions regarding required disclosure. Our management, including our chief executive officer and chief financial officer, conducted an evaluation of our disclosure controls and procedures, as defined under Exchange Act Rule 13a-15(e), as of the end of the period covered by this Annual Report on Form 20-F. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of such date, our disclosure controls and procedures were ineffective in that we had insufficient accounting personnel that have sufficient knowledge and experience in US. GAAP and the Securities and Exchange Commission accounting requirements, resulting in a material weakness. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. The accounting personnel who prepare our financial statements will need to be trained on the application of U.S. GAAP accounting pronouncements and standardized reconciliation templates will need to be improved to assist in the reconciliation process between A-IFRS and U.S. GAAP.

During the year ended June 30, 2007, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 15T. CONTROLS AND PROCEDURES

Not applicable.

ITEM 16. RESERVED**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our Board of Directors has determined that Mr. Brian Meltzer, an independent director, meets the definition of an audit committee financial expert, as defined by rules of the Securities and Exchange Commission. For a brief listing of Mr. Meltzer's relevant experience, see Item 6.A. "Directors, Senior Management and Employees — Directors and Senior Management."

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our chief executive officer and all senior financial officers of our company, including the chief financial officer, chief accounting officer or controller, or persons performing similar functions. The code of ethics is publicly available on our website at www.pranabio.com. Written copies are available upon request. If we make any substantive amendment to the code of ethics or grant any waivers, including any implicit waiver, from a provision of the codes of ethics, we will disclose the nature of such amendment or waiver on our website.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees Paid to Independent Public Accountants

The following table sets forth, for each of the years indicated, the fees billed by Deloitte Touche Tohmatsu, which served as our principal independent registered public accounting firm until November 30, 2006, as well as the other member firms of Deloitte Touche Tohmatsu and their respective affiliates.

Services Rendered	Year Ended June 30,	
	2007	2006
Audit (1)	A\$240,800	A\$202,599
Tax (2)	—	A\$185
Other (3)		A\$3,030
Total	A\$240,800	A\$205,814

- (1) Audit fees consist of services that would normally be provided in connection with statutory and regulatory filings or engagements, including services that generally only the independent accountant can reasonably provide.
- (2) Tax fees relate to services performed by the tax division for tax compliance, planning, and advice.
- (3) Other fees relate to services performed in respect of the audit of grants received from the Australian Industry Research and Development Board.

Effective as of November 30, 2006, our shareholders resolved to appoint PricewaterhouseCoopers as our principal independent registered public accounting firm. For the fiscal year 2007, the fees rendered or billed by PricewaterhouseCoopers were \$A240,800 for audit services. No non-audit related services were provided by PricewaterhouseCoopers during the 2007 fiscal year.

Pre-Approval Policies and Procedures

Our Audit Committee has adopted policies and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accounting firm. Pre-approval of an audit or non-audit service may be given as a general pre-approval, as part of the audit committee's approval of the scope of the engagement of our independent registered public accounting firm, or on an individual basis. Any proposed services exceeding general pre-approved levels also requires specific pre-approval by our audit committee. The policy prohibits retention of the independent registered public accounting firm to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act or the rules of the Securities and Exchange Commission, and also requires the audit committee to consider whether proposed services are compatible with the independence of the registered public accounting firm. All of the fees described above were pre-approved by our Audit Committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**Issuer Purchase of Equity Securities**

Neither we, nor any affiliated purchaser of our company, has purchased any of our securities during the year ended June 30, 2007.

ITEM 17. FINANCIAL STATEMENTS

Our company has elected to furnish financial statements and related information specified in Item 18.

ITEM 18. FINANCIAL STATEMENTS

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ITEM 19. EXHIBITS

Index to Exhibits

<u>Exhibit</u>	<u>Description</u>
1.1	Constitution of Registrant (1)
2.1	Deposit Agreement dated March 23, 2001, among the Registrant and the Bank of New York, as Depositary, and owners and holders of American Depository Receipts issued thereunder, including the Form of American Depository Receipts (2)
4.1	Agreement for the Assignment of Patents and Intellectual Property Licensing dated February 8, 2000, between Registrant and the Biomolecular Research Institute (1)
4.2	License Agreement dated January 1, 2001, between the Registrant and The General Hospital Corporation (1)
4.3	Variation Agreement dated August 8, 2001, between the Registrant and The General Hospital Corporation, which amends the License Agreement dated January 1, 2001, between the parties (1)
4.4	Second Amendment to Exclusive License Agreement dated January 1, 2001, between the Registrant and The General Hospital Corporation, dated March 15, 2004, between the Registrant and The General Hospital Corporation (6)
4.5	Agreement to Provide Accounting, Administration, Corporate Advice and Company Secretarial Services dated February 23, 2000, between the Registrant and Malvern Administrative Services (now named The CFO solution) (1)

- 4.6 Form of Second Research Funding and Intellectual Property Assignment Agreement dated December 1, 2003, between the Registrant and The University of Melbourne (7)
- 4.7 Third Research Funding and Intellectual Property Assignment Agreement dated December 2, 2006
- 4.8 General Services Agreement dated November 13, 2006, between the Registrant and Quintiles Limited
- 4.9 GMP 30kg Manufacture Agreement dated June 6, 2007, between the Registrant and Institute of Drug Technology Australia Limited
- 4.10 GMP 4kg Manufacture Agreement dated June 6, 2007, between the Registrant and Institute of Drug Technology Australia Limited
- 4.11 Letter agreement dated January 6, 2004, between the Registrant and Kindle Pty Ltd. regarding strategic alliance (8)
- 4.12 Purchase Agreement dated April 27, 2004, among the Registrant and the investors signatory thereto (3)
- 4.13 Registration Rights Agreement dated April 27, 2004, among the Registrant and the investors signatory thereto (4)
- 4.14 Form of Warrant (5)
- 4.15 Settlement Agreement dated July 28, 2004, among the Registrant, P.N. Gerolymatos S.A., or PNG, Mr. Gerolymatos, The General Hospital Corporation of Massachusetts, or The GHC, Professor Ashley Bush, Dr. Rudolph Tanzi and Dr. Robert Cherny and the ancillary agreements of even date therewith exhibited thereto, including the Patent Assignment and Settlement Agreement among the Registrant and PNG, Patent Rights Security Agreement among the Registrant and PNG and the Derivatives Agreement among the Registrant and PNG (9)
- 4.16 Prana Biotechnology Limited, Employees and Consultants Option Plan 2000 (1)
- 4.17 Prana Biotechnology Limited, 2004 American Depository Share (ADS) Option Plan (10)
- 4.18 Prana Biotechnology Limited, 2004 Employees', Directors' and Consultants' Share and Option Plan (11)
- 4.19 Employment Agreement dated September 21, 2007, among the Registrant and Mr. Kempler
- 4.20 Employment Agreement effective as of August 7, 2006 among the Registrant and Dr. Ross Murdoch (12)
- 4.21 Letter Agreements effective as of June 12, 2007 among the Registrant and Ms Dianne Angus
- 4.22 Assignment and Novation Deed between Commonwealth Scientific Industrial and Research Organization and the Biomolecular Research Institute and the Registrant dated September 10, 2007
- 4.23 Letter of Intent signed between the registrant and Kindle International Inc. dated September 24, 2004 in relation to clinical research services
- 4.24 Letter of Intent signed between the registrant and Kindle International Inc. dated March 1, 2005 in relation to clinical research services
- 4.25 On May 22, 2007 the registrant and Patheon Inc. entered into an agreement to undertake formulation development and manufacture of capsules of PBT2
- 8.1 List of Subsidiaries of the Registrant
- 12.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended

- 12.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
- 13.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 13.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 15.2 Consent of PricewaterhouseCoopers, Registered Public Accounting Firm
- 15.2 Consent of Deloitte Touche Tohmatsu, Registered Public Accounting Firm
-
- (1) Incorporated by reference to our Registration Statement on Form 20-F filed with the Securities and Exchange Commission on May 28, 2002 (File No. 000-49843).
- (2) Incorporated by reference to our Registration Statement on Form F-6 filed with the Securities and Exchange Commission on March 9, 2001 (File No. 333-13264).
- (3) Incorporated by reference to Item 1 of our Report on Form 6-K for the month of April, 2004 (File No. 000-49843).
- (4) Incorporated by reference to Item 2 of our Report on Form 6-K for the month of April, 2004 (File No. 000-49843).
- (5) Incorporated by reference to Item 3 of our Report on Form 6-K for the month of April, 2004 (File No. 000-49843).
- (6) Filed as Exhibit 4.6 to our Annual Report on Form 20-F for the year ended June 30, 2004, and incorporated herein by reference.
- (7) Filed as Exhibit 4.7 to our Annual Report on Form 20-F for the year ended June 30, 2006, and incorporated herein by reference
- (8) Filed as Exhibit 4.13 to our Annual Report on Form 20-F for the year ended June 30, 2004, and incorporated herein by reference.
- (9) Filed as Exhibit 4.21 to our Annual Report on Form 20-F for the year ended June 30, 2004, and incorporated herein by reference.
- (10) Incorporated by reference to Annexure A to Item 1 of our Report on Form 6-K for the month of November, 2004 (File No. 000-49843).
- (11) Incorporated by reference to Annexure B to Item 1 of our Report on Form 6-K for the month of November, 2004 (File No. 000-49843).
- (12) Filed as Exhibit 4.17 to our Annual Report on Form 20-F for the year ended June 30, 2006, and incorporated herein by reference

PRANA BIOTECHNOLOGY LIMITED

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PRICEWATERHOUSECOOPERS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Shareholders of Prana Biotechnology Limited

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Prana Biotechnology Limited (the Company) and its subsidiaries (a development stage enterprise) at June 30, 2007, and the results of their operations and their cash flows for the year then ended and, cumulatively, for the period from July 1, 2006 (date of first period covered by our audit) to June 30, 2007 in conformity with Australian Equivalents to International Financial Reporting Standards (A-IFRS). These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A-IFRS vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 27 to the consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Melbourne, Australia
27 September 2007

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
DELOITTE TOUCHE TOHMATSU

To The Board of Directors and Shareholders of Prana Biotechnology Limited

We have audited the accompanying consolidated balance sheet of Prana Biotechnology Limited (a company incorporated in Victoria, Australia) and subsidiaries (a development stage company) (the "Company") as of June 30, 2006 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended June 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Prana Biotechnology Limited and subsidiaries as of June 30, 2006, and the results of their operations and their cash flows for each of the two years in the period ended June 30, 2006, in conformity with the Australian Equivalents to International Financial Reporting Standards.

The Australian Equivalents to International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 27 to the consolidated financial statements.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's recurring losses from operations and negative cash flows from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 29, the accompanying financial statements as of June 30, 2006 and for each of the two years in the period ended June 30, 2006 have been restated.

/s/ Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU
Chartered Accountants

Melbourne, Australia
September 29, 2006 (June 18, 2007 as to the effects of the restatement discussed in Note 29)

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

CONSOLIDATED BALANCE SHEET
(in Australian dollars, except number of shares)

	Notes	June 30,	
		2007	2006
Current Assets			
Cash and cash equivalents		7,409,256	10,013,778
Trade and other receivables	6	96,499	194,161
Other current assets	7	<u>168,539</u>	<u>110,832</u>
Total Current Assets		<u>7,674,294</u>	<u>10,318,771</u>
Non Current Assets			
Property and equipment, net of accumulated depreciation of A\$551,902 and A\$501,614 respectively	8	47,891	102,375
Total Non Current Assets		<u>47,891</u>	<u>102,375</u>
Total Assets		<u>7,722,185</u>	<u>10,421,146</u>
Current Liabilities			
Trade and other payables	9	1,661,609	1,538,358
Provisions	10	<u>77,465</u>	<u>76,672</u>
Total Current Liabilities		<u>1,739,074</u>	<u>1,615,030</u>
Non-Current Liabilities			
Financial liabilities	11	321,001	928,692
Provisions	10	<u>49,915</u>	<u>76,766</u>
Total Non-Current Liabilities		<u>370,916</u>	<u>1,005,458</u>
Total Liabilities		<u>2,109,990</u>	<u>2,620,488</u>
Commitments and contingencies	12		
Net Assets		<u>5,612,195</u>	<u>7,800,658</u>
Equity			
Issued and unissued capital			
2007: 151,517,978 fully paid ordinary shares			
4,352,893 options over fully paid ordinary shares			
2006: 128,144,260 fully paid ordinary shares	13	53,988,412	46,274,127
Reserves	14	4,106,821	2,867,249
Accumulated deficit during the development stage	15	<u>(52,483,038)</u>	<u>(41,340,718)</u>
Total Equity		<u>5,612,195</u>	<u>7,800,658</u>

The accompanying notes are an integral part of the consolidated financial statements.

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

CONSOLIDATED STATEMENT OF OPERATIONS
(in Australian dollars, except number of shares)

Notes	Years ended June 30,		
	2007	2006	2005
Revenues from continuing operations	2	507,150	762,023
Other income	3	287	288,263
Research and development expenses	4	(4,492,193)	(7,613,045)
Research and development expenses - related party	4	-	(577,757)
Personnel expenses	4	(4,554,731)	(3,418,008)
Intellectual property expenses	4	(600,232)	(466,426)
Auditor and accounting expenses	22	(260,117)	(205,815)
Travel expenses		(309,997)	(212,184)
Marketing expenses		(215,455)	(134,750)
Depreciation expenses	4	(58,582)	(118,196)
Amortization expenses	4	-	(83,200)
Other expenses	4	(1,008,563)	(824,625)
Foreign exchange gain/(loss)		(757,578)	223,454
Impairment of intangible assets		-	(1,362,572)
Gain on fair value of financial liabilities		<u>607,691</u>	<u>128,715</u>
Loss before income tax expense		(11,142,320)	(11,590,594)
Income tax expense	5	-	-
Net loss	15	<u>(11,142,320)</u>	<u>(11,590,594)</u>
Loss per share (basic and diluted)	20	<u>(0.08)</u>	<u>(0.09)</u>
Weighted average number of ordinary shares used in computing basic and diluted net loss per share		140,754,495	128,053,601
			122,754,061

The accompanying notes are an integral part of the consolidated financial statements.

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

CONSOLIDATED CASH FLOW STATEMENTS
(in Australian dollars)

Notes	Years Ended June 30		
	2007	2006	2005
Cash Flows from Operating Activities			
Payments to suppliers and employees	(9,726,197)	(12,647,636)	(13,333,739)
Payments to suppliers and employees - related party	-	-	(625,940)
Interest received	526,447	764,711	883,583
Government grant received	-	231,710	532,283
Neuroscience Victoria monies received	-	-	1,125,000
Net cash flows (used in) operating activities	16(a)	(9,199,750)	(11,651,215)
Cash Flows from Investing Activities			
Proceeds from sale of equipment	300	375	-
Payments for purchase of equipment	(4,559)	(55,626)	(50,466)
Net cash flows (used in) investing activities	(4,259)	(55,251)	(50,466)
Cash Flows from Financing Activities			
Proceeds from exercise of options and issue of securities	7,783,486	-	4,753,333
Payment of share issue costs	(408,761)	(2,020)	(48,576)
Net cash flows (used in) / provided by financing activities	7,374,725	(2,020)	4,704,757
Net (decrease) in cash and cash equivalents	(1,829,284)	(11,708,486)	(6,764,522)
Opening cash and cash equivalents brought forward	10,013,778	21,453,304	29,580,398
Exchange rate adjustments on cash and cash equivalents held in foreign currencies	(775,238)	268,960	(1,362,572)
Closing cash and cash equivalents carried forward	16(b)	7,409,256	10,013,778
		21,453,304	

The accompanying notes are an integral part of the consolidated financial statements.

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in Australian dollars, except for number of shares)

	Notes	Number of Shares	Issued and unissued Capital	Reserves	Accumulated Deficit During Development Stage	Total Equity
Balance, June 30, 2004		115,984,380	40,681,945	-	(19,457,093)	21,224,852
Net loss	15	-	-	-	(10,293,031)	(10,293,031)
Issuance of shares in connection with exercise of options, net of costs	13(b)	9,506,666	4,145,811	-	-	4,145,811
Non-cash issuance of shares to consultants and directors	13(b)	478,214	255,141	-	-	255,141
Non-cash issuance of shares for settlement of litigation	13(b)	1,350,000	756,000	-	-	756,000
Non-cash issuance of options to directors and employees	14(b) & (c)	-	-	1,704,734	-	1,704,734
Non-cash issuance of options to consultants	14(b)	-	-	289,699	-	289,699
Non-cash issuance of warrants to consultants	14(d)	-	-	453,563	-	453,563
Balance, June 30, 2005		<u>127,319,260</u>	<u>45,838,897</u>	<u>2,447,996</u>	<u>(29,750,124)</u>	<u>18,536,769</u>
Net loss	15	-	-	-	(11,590,594)	(11,590,594)
Non-cash issuance of shares to consultants	13(b)	825,000	435,230	-	-	435,230
Non-cash issuance of options to consultants	14(b)	-	-	181,550	-	181,550
Non-cash issuance of options to directors and employees	14(b)	-	-	76,470	-	76,470
Amortization of option expenses	14(b)	-	-	161,233	-	161,233
Balance, June 30, 2006		<u>128,144,260</u>	<u>46,274,127</u>	<u>2,867,249</u>	<u>(41,340,718)</u>	<u>7,800,658</u>
Net loss	15	-	-	-	(11,142,320)	(11,142,320)
Issuance of shares in connection with private placement, net of costs	13(b)	22,014,468	6,108,868	-	-	6,108,868
Issuance of options in connection with private placement	13(c)	-	1,262,339	-	-	1,262,339
Non-cash issuance of shares to consultants	13(b)	481,250	194,579	-	-	194,579
Non-cash issuance of shares to employees	13(b)	120,000	45,600	-	-	45,600
Non-cash issuance of options to consultants	14(b)	-	-	163,701	-	163,701
Non-cash issuance of options to directors and employees	14(b)	-	-	989,721	-	989,721
Issuance of shares in connection with exercise of options, net of costs	13(b) & 14(b)	758,000	102,899	(106,739)	-	(3,840)
Amortization of option expenses	14(b)	-	-	195,839	-	195,839
Options forfeited	14(b)	-	-	(2,950)	-	(2,950)
Balance, June 30, 2007		<u>151,517,978</u>	<u>53,988,412</u>	<u>4,106,821</u>	<u>(52,483,038)</u>	<u>5,612,195</u>

The accompanying notes are an integral part of the consolidated financial statements.

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Prana Biotechnology Limited and its controlled entities: Prana Biotechnology Inc. and Prana Biotechnology UK Limited (referred to collectively as "Prana" or the "consolidated entity") is a development stage enterprise engaged in the research and development of therapeutic drugs designed to treat the underlying cause of degeneration of the brain and the eye as the aging process progresses. Prana Biotechnology Limited (the "Company"), the parent entity was incorporated on November 11, 1997 in Melbourne, Australia. The UK and US subsidiaries were incorporated in August 2004.

Financial Reporting Framework

The financial report is a general purpose financial report, which has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensure that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS').

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The consolidated entity changed its accounting policies on July 1, 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1: *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* ("AASB 1"), with July 1, 2004 as the date of transition.

The accounting policies set out below have been applied in preparing the financial statements for the year ended June 30, 2007, the comparative information presented in these financial statements for the years ended June 30, 2006 and 2005.

Critical accounting estimates and judgments

(a) Critical accounting estimates and assumptions

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The consolidated entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Valuation of options with market vesting conditions

The consolidated entity has issued options over ordinary shares that are exercisable once the listed share price reaches a defined level for a specified number of consecutive trading days.

The consolidated entity considers the target share price that must be attained in order to exercise the awards to be a market condition.

The Company is unable to predict the ultimate success of research and development activities and the corresponding effect on the listed share price. However, the following assumptions have been made when valuing the options in relation to these market conditions:

- 1) The market condition will be met as the listed share price will reach the defined share price during the life of the option; and

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 2) Based on the best estimate of the consolidated entity, the share price will reach the defined level:
> A\$0.50 at December 31, 2007
> A\$0.80 at June 30, 2009
> A\$1.00 at June 30, 2010

(b) Critical judgments in applying the entity's accounting policies

Use of volatility period in valuing warrant liabilities

Warrants and options over American Depository Receipts ("ADRs") recorded as financial liabilities under AASB 132 (see note 11) are measured at fair value using a Black-Scholes valuation model. At each reporting date the options and warrants are recorded at fair value with the corresponding difference being recorded in the income statement as a gain or loss.

In using the Black-Scholes model to fair value these options and warrants for financial year 2007, the consolidated entity has utilized a two year historical ADR price when calculating the volatility of the underlying ADRs. It is the judgment of the consolidated entity that a two year period provides the most appropriate history of ADR price over which a reasonable volatility input can be calculated.

Going Concern Basis

The consolidated entity is a development stage medical biotechnology company and as such expects to be utilising cash until its research activities have become marketable. As at June 30, 2007, the consolidated entity has accumulated losses of \$52,483,038 and has incurred negative cash flows from operations of \$9,199,750 in the year ended June 30, 2007. The consolidated entity has generated \$7.78 million (before costs) from a capital raising in December 2006. The cash position has reduced from \$10,013,778 at June 30, 2006 to \$7,409,256 at June 30, 2007.

The consolidated entity has sufficient resources to fund the completion of the current Phase IIa clinical trial investigating the safety and tolerability of PBT2 for the treatment of Alzheimer's Disease. The results of this trial are expected in the 1st quarter of the 2008 calendar year. However, to progress planned non-clinical trial activities of the consolidated entity for at least the next 12 months, additional funds will be required (see below in relation to shareholder approval for capital raising.)

Since inception, the consolidated entity has been able to raise funds to pursue its research programs. To date, the consolidated entity has raised in excess of \$64m (before costs) through the issue of equity and warrants, before costs. The directors believe that there is a reasonable expectation that they can raise additional funding to enable the consolidated entity to continue to pursue the current business objectives. The Company has issued a Notice of Meeting seeking shareholder approval to raise up to \$10 million (before costs). To date, the Company has applications totaling \$7 million (before costs). The meeting is scheduled to be held on October 15, 2007.

Having carefully assessed the uncertainties relating to the likelihood and timing of securing additional funding and the consolidated entity's ability to effectively manage expenditure, the directors believe that the consolidated entity will continue to operate as a going concern for the foreseeable future. These financial statements have therefore been prepared on a going concern basis which contemplates the continuity of normal business activities and the realization of assets and settlement of liabilities in the ordinary course of business.

At this time, the directors are of the opinion that no asset is likely to be realized for an amount less than the amount at which it is recorded in the Balance Sheet at June 30, 2007. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Development Stage - Risks and uncertainties

As a development stage enterprise, the consolidated entity's prospects are subject to the risks, expenses and uncertainties frequently encountered by companies which have not yet commercialized any applications of their technology, particularly in new and evolving markets. Prana's operating results may fluctuate significantly in the future as a result of a variety of factors, including capital expenditure and other costs relating to establishing, maintaining and expanding the operations, the number and mix of potential customers, potential pricing of future products by the consolidated entity and its competitors, new technology introduced by the consolidated entity and its competitors, delays or expense in obtaining necessary equipment, economic and social conditions in the biotechnology industry and general economic conditions.

Prana will continue to review the need to seek additional funding through public and private financing and/or through collaboration or other arrangements with corporate partners. The consolidated entity cannot be certain that it will be able to raise any required funding or capital, on favorable terms or at all, or that it will be able to establish corporate collaborations on acceptable terms, if at all. If the consolidated entity is unable to obtain such additional funding or capital, it may be required to reduce the scope of its development plans.

Prana's experience in exploiting its technology is limited. The consolidated entity cannot be certain that its operations will be profitable in the short-term, or at all. If Prana fails in any of its efforts to establish or expand its business, the results of operations, financial condition and liquidity of the consolidated entity could be materially adversely affected. The consolidated entity cannot be certain that it will be able to obtain or retain any permits required by the consolidated entity to market, sell and deliver its technology. Any of these factors could result in the cessation of Prana's operations.

Significant Accounting Policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

(a) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company and its subsidiaries as defined in Accounting Standard AASB 127: *Consolidated and Separate Financial Statements*. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealized profits/losses arising within the consolidated entity are eliminated in full.

(b) Income Tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognized as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilized. However, deferred tax assets and liabilities are not recognized if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit or loss.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realized or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognized as an expense or income in the statement of operations, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognized directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill.

The consolidated entity has significant unused tax losses and as such a significant deferred tax asset; however, the deferred tax asset has not been recognized, as it is not probable that future taxable profit will be available against which the unused losses and unused tax credits can be utilized, given the nature of the consolidated entity's business (research and development) and its history of losses.

(c) Property and equipment

Property and equipment is measured on the cost basis less accumulated depreciation and impairment and consists of laboratory equipment, computer equipment, furniture and fittings and leasehold improvements attributable to Prana's premises at Parkville, Victoria, Australia. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation

Depreciation is provided on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life.

The following estimated useful lives, ranging from three to 20 years, are used in the calculation of depreciation:

Furniture and fittings	5-33%
Computer equipment	33%
Laboratory equipment	10-33%

Leasehold improvements are depreciated over the shorter of the lease term and useful life.

The depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at each annual reporting period.

(d) Leased Assets

Leased assets classified as finance leases are recognized as assets. The amount initially brought to account is the present value of minimum lease payments.

A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property.

Finance leased assets are amortized on a straight line basis over the estimated useful life of the asset.

Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Leases in which a significant proportion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

(e) Financial Instruments

Loans and Receivables

Trade receivables, loans, and other receivables are recorded at amortized cost less impairment.

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Warrants and Options

Under AASB 132, options and warrants issued other than for goods or services that are exercisable in a currency other than the functional currency of the Company and meet the definition of a liability are recorded as financial liabilities rather than equity. Refer to accounting policy (p) share-based payments for the accounting policy for warrants and options issued as share-based payments for goods or services.

Warrants and options recorded as financial liabilities under AASB 132 are valued at fair value using the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. At each reporting date, the options and warrants are revalued to their current fair value, with the difference in fair value recorded in the statement of operations.

(f) Impairment of Assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized in profit or loss immediately.

(g) Intangibles - Research and Development

Expenditure during the research phase of a project is recognized as an expense when incurred. Where no internally generated intangible assets can be recognized, development expenditure is recognized as an expense in the period as incurred. Development costs are capitalized if and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

Internally-generated intangible assets (capitalized development costs) are stated at cost less accumulated amortization and impairment, and are amortized on a straight-line basis over their useful lives over a maximum of five years.

At June 30, 2007 and 2006, Prana had no capitalized research and development costs.

(h) Foreign Currency Transactions and Balances

Functional and Presentation Currency

Items included in the financial statements of each of the consolidated entity's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is Prana's functional and presentation currency.

PRANA BIOTECHNOLOGY LIMITED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognized in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

Foreign operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognized in the foreign currency translation reserve, and recognized in profit or loss on disposal of the foreign operations.

(i) Employee Benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to reporting 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.

(j) Provisions

Provisions are recognized when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(k) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(l) Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is made up of interest income which is recognized as earned when collectibility is reasonably assured.

(m) Other income

Other income is recognized to the extent that it is probable that the economic benefits will flow to the entity and the income can be reliably measured.

Government grants

Government grants are recorded as income when key milestones set within each agreement are achieved and accepted by all parties to the grant. The agreements comprise different phases based on product development. Milestones are based on the phases of each product development, for example Phase 1, Phase 2 and Phase 3. Other income is not recognized prior to acceptance that the milestones have been achieved, as collectibility is not assured until this point is reached. Once each milestone is reached and approved, the grantor is obligated to pay and there are no further significant obligations as to that part of the milestone. Grant income for achievement of such milestones is agreed between the parties in legally binding contracts. Income for each milestone achieved is fixed up front.

Corporate partner income

Corporate partner income is comprised of amounts earned under agreements with Schering A.G. and Neuroscience Victoria Ltd. for certain research and development activities. Income is recognized as earned on a straight line basis over the lives of the relevant agreements. The straight line basis is considered appropriate as the agreements do not contain clearly defined milestones. Such agreements are performed on a "best efforts" basis with no guarantee of either technological or commercial success.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Share Capital

Ordinary share capital is recognized as the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognized directly in equity as a reduction of the share proceeds received.

(o) Trade and other payables

Trade payables and other payables are recognized when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods or services. These amounts are unsecured.

(p) Share-based payments

Equity-settled share-based payments granted after November 7, 2002 that were unvested as of January 1, 2005 are measured at fair value. The measurement date is determined for share-based payments issued to directors, employees and consultants as follows:

Directors

The issue of share-based payments to directors is subject to approval by shareholders as per ASX Listing Rule 10.11. The measurement date for share-based payments issued to directors is the grant date, being the date at which the share-based payments are approved by shareholders.

Employees

The issue of share-based payments to employees may be subject to shareholder approval per ASX Listing Rule 7.1 which prohibits the issue of more than 15% of the Company's shares in a 12 month period without shareholder approval. The measurement date for share-based payments issued to employees is the grant date, being the date at which a shared understanding of the terms and conditions of the arrangement is reached. However, if an issue to an employee is subject to shareholder approval because it exceeds the 15% threshold per ASX Listing Rule 7.1, then the measurement date of these share-based payments is the date at which the share-based payments are approved by shareholders.

Consultants

The issue of share-based payments to consultants may be subject to shareholder approval per ASX Listing Rule 7.1 which prohibits the issue of more than 15% of the Company's shares in a 12 month period without shareholder approval. The measurement date for share-based payments issued to consultants who provide services considered to be similar to employees is deemed to be the date at which a shared understanding of the terms and conditions of the arrangement is reached. The measurement date for share-based payments issued to consultants who provide services considered to be differentiated from those provided by employees is deemed to be the date at which the entity obtains the goods or the counterparty renders the service. If a service period applies and the work is continually provided over the service period, and if the share price of the Company does not change significantly during the service period, then the average share price, volatility and risk-free rate over the service period are used in calculating the value of the share-based payments issued. However, if the underlying share price of the Company does change significantly during the service period, then the value of share-based payments are calculated at each individual date that goods and services are provided, using the actual valuation inputs at that date. Shares issued to consultants for services are recorded as non-cash compensation and are recognized at either the fair value of the services rendered, or if this cannot be reasonably estimated, the fair value of the underlying equity instruments issued.

The fair value of options is measured by use of a Black Scholes model (for options without market conditions) or the Barrier Pricing model (for options with market conditions). The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

The fair value of shares is based on the quoted market price of the Company's shares.

The fair value determined at the measurement date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the consolidated entity's estimate of share-based payments that will eventually vest.

The fair value of share-based awards with market conditions is expensed on a straight line basis over the period in which the Company determines the defined market condition will be achieved. This period is estimated by the Company at the grant date of the corresponding share-based awards. If the market conditions are met in advance of the period initially estimated, the awards are considered to have vested and the corresponding expense is accelerated as the Company will receive no further benefit from the services. If the market conditions are met subsequent to the period initially estimated, no amendment is made to the expense recognized. Similarly, if the market conditions are not met prior to the expiration of the awards, no adjustment is made in respect of the expense recognized for the anticipated number of share-based payments expected to vest.

PRANA BIOTECHNOLOGY LIMITED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Loss per share

Basic loss per share is determined by dividing the net loss after income tax expense by the weighted average number of ordinary shares outstanding during the financial period. For all periods presented, diluted loss per share is equivalent to basic loss per share as the potentially dilutive securities are excluded from the computation of diluted loss per share because the effect is anti-dilutive.

(r) Goods and Services Tax (GST)

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(s) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less provision for impairment.

(t) Comparative figures

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

(u) New accounting standards and interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for June 30, 2007 reporting periods. The consolidated entity's assessment of the impact of these new standards and interpretations is only relevant to the below:

- i) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023, and AASB 1038] AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after January 1, 2007. The consolidated entity has not adopted the standards early. Application of the standards will not affect any of the amounts recognized in the financial statements, but will impact the type of information disclosed in relation to the consolidated entity's and the parent entity's financial instruments.
- ii) AASB-I 10 Interim Financial Reporting and Impairment AASB-I 10 is applicable to reporting periods commencing on or after November 1, 2006. The consolidated entity has not recognized an impairment loss in relation to goodwill in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation therefore does not have an impact on the consolidated entity's or parent entity's financial statements.
- iii) Revised AASB 101 Presentation of Financial Statements - A revised AASB 101 was issued in October 2006 and is applicable to annual reporting periods beginning on or after January 1, 2007. The company has not adopted the standard early. Application of the revised standard will not have any impact on the company's financial statements.
- iv) AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments and AASB 2007-7 Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128] - AASB 2007-4 is applicable to annual reporting periods beginning on or after July 1, 2007. The company does not intend to apply any of the new options now available. As a consequence, application of the revised standards will not affect any of the amounts recognised in the financial statements, but it may remove some of the disclosures that are currently required. In relation to the discount rates used in the measurement of employee benefit obligations, the company has not yet reached a conclusion as to whether there is a deep market in corporate bonds in Australia and hence has not yet determined the financial effect, if any, on the obligations from the adoption of AASB 2007-4. This is not expected to be material for the company.
- v) AASB 2007 - 7 Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]- AASB 2007-7 amendments to AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 and AASB 128 are applicable to annual reporting periods beginning on or after July 1, 2007. The company has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the company's financial statements.

PRANA BIOTECHNOLOGY LIMITED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

	Years Ended June 30,		
	2007	2006	2005
2. REVENUE FROM CONTINUING OPERATIONS			
Interest	507,150	762,023	892,135
3. OTHER INCOME			
Government grant (i)	-	288,173	629,692
Corporate partner revenues (ii)	-	-	1,125,000
Other income	287	90	6,286
Total other income	287	288,263	1,760,978

(i) On May 5, 2003, the consolidated entity announced a Biotechnology Innovation Fund grant of A\$227,252 from the Australian Industry Research and Development Board to research the development of an immunotherapy from Alzheimer's Disease. During the year ended June 30, 2005 the consolidated entity met the revenue recognition criteria to record income of A\$101,689. This grant was completed in January 2005.

3. OTHER INCOME (continued)

On February 18, 2004, the consolidated entity announced a further START grant of A\$1.35 million from the Australian Industry Research and Development Board to take its second generation drug candidate for Alzheimer's disease, PBT-2, through safety testing and Phase 1 Clinical Trials. During the years ended June 30, 2006 and 2005, the consolidated entity met the revenue recognition criteria to record revenue of A\$288,173 and A\$528,003, respectively. This grant was completed in December 2005.

(ii) In March 2003, Prana entered into various agreements with Schering A.G. and Neuroscience Victoria Ltd. For certain research and development activities. The income under these agreements is recognized as earned on a straight line basis over the lives of the relevant agreements. These agreements ceased June 30, 2005.

PRANA BIOTECHNOLOGY LIMITED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

	Years Ended June 30,		
	2007	2006	2005
4. EXPENSES FROM ORDINARY ACTIVITIES			
Research and development expense			
Research and development	4,492,193	7,613,045	7,109,839
Research and development - related parties	-	-	577,757
Total research and development expense	<u>4,492,193</u>	<u>7,613,045</u>	<u>7,687,596</u>
Personnel expenses			
Employees	1,416,070	1,578,934	1,516,077
Equity based payments - employees	753,484	54,662	-
Consultants and directors	1,559,528	1,432,371	1,640,861
Equity based payments - consultants and directors	825,649	352,041	2,593,991
Total personnel expense	<u>4,554,731</u>	<u>3,418,008</u>	<u>5,750,929</u>
Intellectual property expenses			
Overseas	229,256	259,848	357,590
Local	370,976	206,578	371,993
Total intellectual property expense	<u>600,232</u>	<u>466,426</u>	<u>729,583</u>
Depreciation of non-current assets			
Laboratory equipment	11,581	36,432	22,367
Computer equipment	22,757	30,135	33,306
Furniture and fittings	3,068	7,434	4,219
Leasehold improvements	21,176	44,195	5,331
Total depreciation expense	<u>58,582</u>	<u>118,196</u>	<u>65,223</u>
Amortization expenses			
Core intellectual property	-	-	83,200
Total amortization expense	<u>-</u>	<u>-</u>	<u>83,200</u>
Other expenses			
Corporate compliance	231,883	129,466	429,616
Office expenses	606,443	475,957	515,869
Computer expenses	22,328	25,470	28,592
Insurance	147,909	192,917	191,705
Other	-	815	39,148
Total other expenses	<u>1,008,563</u>	<u>824,625</u>	<u>1,204,930</u>

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

	Years Ended June 30,		
	2007	2006	2005

5. INCOME TAX

(a) The prima facie tax on net (loss) before tax is reconciled to the income tax is as follows:

Prima facie tax income on net (loss) before income tax at 30% (2006 & 2005: 30%)	(3,342,696)	(3,477,178)	(3,087,909)
Effect of lower tax rates of tax on overseas income	442	(4,142)	4,567
<hr/>			
Add tax effect of:			
(over) provision of income tax in previous year relating to a correction of estimates ¹	(2,697,461)	(1,304,611)	(2,258,204)
Equity issued for nil consideration	473,740	122,011	778,197
Research and development tax concession	(434,117)	-	-
Gain on fair value of financial liabilities	(182,307)	(38,615)	(1,740,419)
Other	2,452	2,848	4,665
Deferred tax asset not recognized	6,179,947	4,699,687	6,299,103
Income tax expense attributable to loss before income tax	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>
<hr/>			
(b) Potential deferred tax asset at June 30, 2007, 2006 and 2005 in respect of tax losses not brought to account is:	22,693,134	16,529,172	11,700,174
Temporary Differences	392,720	376,735	506,046

¹ This is the result of the difference between the accounting estimate included in the prior year's tax note, as disclosed in the Form 20-F, and the tax return lodged with the Australian Tax Office, of which the Form 20-F is filed prior to the actual tax return.

6. TRADE AND OTHER RECEIVABLES

	Years Ended June 30,	
	2007	2006
<hr/>		
Accrued income	26,498	119,457
Goods and services tax receivable	70,001	73,006
Other debtors	<hr/>	<hr/>
	<hr/>	<hr/>
	96,499	194,161

7. OTHER CURRENT ASSETS

	Years Ended June 30,	
	2007	2006
<hr/>		
Prepayments	122,903	68,453
Term Deposit	45,636	42,379
	<hr/>	<hr/>
	168,539	110,832

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

	Notes	Years Ended June 30,	
		2007	2006
8. PROPERTY AND EQUIPMENT			
Gross carrying amount			
Balance at beginning of year		603,989	556,989
Additions		4,559	55,626
Disposals		<u>(8,755)</u>	<u>(8,626)</u>
Balance at end of year		<u>599,793</u>	<u>603,989</u>
Accumulated depreciation			
Balance at beginning of year		(501,614)	(390,775)
Disposals		8,294	7,357
Depreciation expense	4	<u>(58,582)</u>	<u>(118,196)</u>
Balance at end of year		<u>(551,902)</u>	<u>(501,614)</u>
Net book value at end of year		<u>47,891</u>	<u>102,375</u>

Aggregate depreciation allocated during the year is recognized as an expense and disclosed in Note 4.

		Years Ended June 30,	
		2007	2006
Laboratory equipment, at cost			
Less accumulated depreciation		(362,720)	(351,139)
Total laboratory equipment		<u>6,240</u>	<u>17,821</u>
Computer equipment, at cost			
Less accumulated depreciation		(101,750)	(87,287)
Total computer equipment		<u>14,263</u>	<u>32,922</u>
Furniture and fittings, at cost			
Less accumulated depreciation		(16,138)	(13,070)
Total furniture and fittings		<u>27,283</u>	<u>30,351</u>
Leasehold improvements, at cost			
Less accumulated depreciation		(71,294)	(50,118)
Total leasehold improvements		<u>105</u>	<u>21,281</u>
Total		<u>47,891</u>	<u>102,375</u>

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

	Years Ended June 30,	
	2007	2006
9. TRADE AND OTHER PAYABLES		
Trade creditors	459,989	952,145
Accrued research and development expenses	767,572	242,113
Accrued intellectual property expenses	46,173	14,764
Accrued personnel expenses	45,091	20,894
Accrued audit fees	190,000	111,213
Accrued marketing expenses	56,769	14,531
Other accrued expenses	96,015	67,698
Amounts payable to Directors	-	115,000
	1,661,609	1,538,358

10. PROVISIONS

	Notes	Years Ended June 30,	
		2007	2006
Current			
Annual leave	18	77,465	76,672
Non-Current			
Long service leave	18	49,915	76,766

11. FINANCIAL LIABILITIES

Warrants over ADRs	321,001	928,692
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Following a meeting of shareholders on June 1, 2004, the Company issued 4 million ADRs (1 ADR = 10 ordinary shares) and 3 million warrants to US investors. The US investors acquired the ADRs at a price of USD 5.00 per ADR with a 3 or 4 attaching warrant. The issue raised USD 20 million (AUD 28.9 million) before costs. The warrants are convertible to ADRs on or before June 4, 2009 at an exercise price of USD 8.00 per warrant.

Under the historical version of Australian Generally Accepted Accounting Principles, as applicable for the Company at June 2004, the USD 20 million was recorded in Issued Capital in an amount reflecting the proceeds received. No value was attributed to the warrants. Upon the conversion to A-IFRS on July 1, 2005, the accounting treatment within the financial statements was not altered.

Following a review of the financial statements in December 2006, the Company has identified that the incorrect accounting treatment of this transaction has occurred under A-IFRS.

Under AASB 132 paragraph 11, the warrants associated with this transaction are required to be classified as a Financial Liability, as opposed to Issued Capital, as a result of the warrants being exercisable in a foreign currency, that is a currency, different to the functional currency of the Company.

During 2005 the International Financial Reporting Interpretations Committee ("IFRIC") noted that based on the existing wording of IAS 32 (the International Financial Reporting Standards equivalent to AASB 132), any contract entered into by an entity to exchange a fixed number of its own equity instruments for a fixed amount of cash that is denominated in a foreign currency is a Financial Liability and not an equity instrument. The IFRIC discussed and questioned whether this was the appropriate and intended outcome of the standard, and consequently submitted a proposal to the International Accounting Standards Board ("IASB") to amend IAS 32. As the IASB declined to make such an amendment to the standard, the IFRIC conclusion that instruments as described above should be classified as Financial Liabilities continues to stand.

As a consequence, on initial recognition the fair value of the warrants was required to be recognized as a Financial Liability at their fair value, reducing the Issued Capital recorded. Each reporting date the Financial Liability representing the warrants is required to be revalued to fair value with the movement in the fair value recorded in the Statement of Operations.

PRANA BIOTECHNOLOGY LIMITED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

11. FINANCIAL LIABILITIES continued

At June 30, 2006 as a result of the correction previously presented non-current Financial Liabilities are increased by \$928,692, Issued Capital decreased by \$8,823,548 and Accumulated Losses decreased by \$7,894,856. As at June 30, 2007, a Gain on Fair Valuation of Financial Liabilities of \$607,691 has been recorded in the Statement of Operations.

The basic and diluted loss per share of the Company for the period ended 30 June 2006 has decreased by 0.10 cents to 9.05 cents.

The correction impacts the measurement and classification of these instruments for accounting purposes only. All of the material terms and conditions of these contracts have been correctly and appropriately disclosed in prior period financial statements. In this regard, the Company has an obligation to issue its equity instruments, via ADR's, to the warrant holders should they decide to exercise their warrants and remit USD 8.00 per ADR. The holders of the warrants cannot force the Company to settle the contracts in cash. Consequently, despite the revised classification of the warrants as liabilities, they do not impact on the Company's cashflows.

12. COMMITMENTS AND CONTINGENCIES

The consolidated entity is not involved in any legal or arbitration proceedings and, so far as directors are aware, no such proceedings are pending or threatened against the consolidated entity.

In respect of expenditure commitments on leases, refer to note 17.

	Notes	Years Ended June 30,		
		2007	2006	2005
13. ISSUED CAPITAL				
(a) Issued Capital				
Fully paid ordinary shares	13(b)	52,726,073	46,274,127	45,838,897
Options over fully paid ordinary shares	13(c)	1,262,339	-	-
		53,988,412	46,274,127	45,838,897

(b) Movements in shares on issue

	June 30,				
	2007		2006		2005
	Number of Shares	\$	Number of Shares	\$	Number of Shares
Beginning of the year	128,144,260	46,274,127	127,319,260	45,838,897	115,984,380
Movement during the year	<u>23,373,718</u>	<u>6,451,946</u>	<u>825,000</u>	<u>435,230</u>	<u>11,334,880</u>
End of the year	<u>151,517,978</u>	<u>52,726,073</u>	<u>128,144,260</u>	<u>46,274,127</u>	<u>127,319,260</u>
					45,838,897

PRANA BIOTECHNOLOGY LIMITED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

13. ISSUED CAPITAL (continued)

Details of share issuances are as follows:

Date	Details	Notes	Number	Issue Price	\$
August 9, 2004	Non-cash share issue in settlement of litigation	(iii)	1,350,000	0.56	756,000
September 16, 2004	Non-cash share issue in consideration for services provided by consultants	(i)	49,775	0.82	40,816
December 8, 2004	Exercise of options		9,506,666	0.50	4,753,333
December 17, 2004	Non-cash share issue to directors	(ii)	249,999	0.48	120,000
February 21, 2005	Non-cash share issue in consideration for services provided by consultants	(i)	178,440	0.55	98,142
	Capital raising costs	(iv)	-	-	(611,339)
Year ended June 30, 2005			<u>11,334,880</u>		<u>5,156,952</u>
August 10, 2005	Non cash share issue in consideration for services provided by consultants	(i)	825,000	0.53	437,250
	Capital raising costs		-	-	(2,020)
Year ended June 30, 2006			<u>825,000</u>		<u>435,230</u>
August 31, 2006	Shares to investors as part of a private placement	(i)	250,000	0.1725	43,125
October 13, 2006	Exercise of options		80,000	-	33,200
November 29, 2006	Shares to investors as part of a private placement		15,616,246	0.30	4,669,257
December 1, 2006	Exercise of options		15,000	-	6,225
December 28, 2006	Shares to investors as part of private placement		6,148,222	0.30	1,808,764
April 16, 2007	Exercise of options		38,000	-	15,770
May 3, 2007	Non cash share issue in consideration for services provided by consultants	(i)	200,000	0.48	96,000
May 31, 2007	Non cash share issue in consideration for services provided by consultants	(i)	281,250	0.36	99,779
May 31, 2007	Non cash share issue to employees	(iv)	120,000	0.38	45,600
May 31, 2007	Exercise of options		625,000	-	51,544
	Capital raising costs		-	-	(417,318)
Year ended June 30, 2007			<u>23,373,718</u>		<u>6,451,946</u>

- (i) Shares issued to consultants for services are recorded as non-cash compensation and are recognized at either the fair value of the services rendered, or if this cannot be reasonably estimated, the fair value of the underlying equity instruments issued. Shares issued to consultants have been valued as outlined below:

September 16, 2004

The fair value of the services was based on an arms length transaction with the consultant which was contractually agreed at a value of US\$30,000 to be settled via the issue of shares.

February 21, 2005

The fair value of the services was based on an arms length transaction with the consultant which was contractually agreed at a value of US\$75,000 to be settled via the issue of shares.

August 10, 2005

The services provided by this consultant were documented in a consultancy agreement which outlined remuneration in the form of an annual fee, milestone fees and share based compensation in the form of shares and options. The equity-based compensation is not linked to any particular milestone or element of the services to be provided under the terms of the agreement.

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13. ISSUED CAPITAL (continued)

Given the extended period of consultant involvement and associated milestones, the Company determined there were no comparable service examples against which to benchmark the value of the consultants' services. Additionally, there was no distinction between the portion of the services which gave rise to the cash entitlements and the portion that gave rise to share and option entitlements. As the Company could not reliably estimate the fair value of the services received, the Company determined that it was appropriate to measure the services at the fair value of the underlying equity instruments issued.

August 31, 2006, May 3, 2007 and May 31, 2007

The services provided by these consultants were documented in consultancy agreements which outlined remuneration in the form of an annual fee and share based compensation in the form of shares. The equity-based compensation is not linked to any particular milestone or element of the services to be provided under the terms of the agreements.

Given the extended period of consultants involvement and associated milestones, the Company determined there were no comparable service examples against which to benchmark the value of the consultants' services. Additionally, there was no distinction between the portion of the services which gave rise to the cash entitlements and the portion that gave rise to share entitlements. As the Company could not reliably estimate the fair value of the services received, the Company determined that it was appropriate to measure the services at the fair value of the underlying equity instruments issued.

- (ii) The base fee for three of the Company's directors was paid by the issue of 83,333 shares each as approved at the 2004 Annual General Meeting.
- (iii) The Company settled a litigation dispute with P.N. Gerolymatos via the issue of 1,350,000 shares valued as of the date the settlement agreement was signed.
- (iv) The capital raising costs incurred in fiscal year 2005 include the issue of warrants to a consultant as part of the US capital raising that occurred in June 2004. Capital raising costs also include the issue of options to a consultant that assisted the Company with the June 2004 US capital raising and the exercise of options.
- (v) Shares issued to employees for services are recorded as non-cash compensation and are recognized at the fair value of the services rendered, or if this cannot be reasonably estimated, the fair value of the underlying equity instruments issued. Shares issued to employees have been valued as outlined below:

May 31, 2007

The shares issued to this employee were issued in recognition of past services and were outside of the employees' employment contract. Under the employment contract the employee received a salary and equity issues. As this equity issue was not for a particular service, the Company could not reliably estimate the fair value of the service received. The Company has therefore determined that it was appropriate to measure the services at the fair value of the underlying equity instruments issued.

(c) Movements in options on issue

	June 30,					
	2007		2006		2005	
	Number of Options	\$	Number of Options	\$	Number of Options	\$
Beginning of the year	-	-	-	-	-	-
Movement during the year	4,352,893	1,262,339	-	-	-	-
End of the year	<u>4,352,893</u>	<u>1,262,339</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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13. ISSUED CAPITAL (continued)

Details of option issuances are as follows:

Date	Details	Number	Issue Price	\$
November 29, 2006	Options to investors as part of a capital raising	3,123,248	0.29	905,743
December 28, 2006	Options to investors as part of a capital raising	1,229,645	0.29	356,596
Year ended June 30, 2007		<u>4,352,893</u>		<u>1,262,339</u>

(d) Terms and conditions of issued capital

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Options

Option holders do not have the right to receive dividends and are not entitled to vote at a meeting of the Company. Options may be exercised at any time from the date they vest to the date of their expiry. Share options convert into ordinary shares on a one for one basis on the date they are exercised.

(e) Shares issued after reporting date

There have been no shares or options issued after reporting date.

Notes	Years Ended June 30,		
	2007	2006	2005
14. RESERVES			
(a) Share Based Payments			
Options over fully paid ordinary shares	14(b)	2,137,824	898,252
Options over ADRs	14(c)	1,515,434	1,515,434
Warrants over ADRs	14(d)	<u>453,563</u>	<u>453,563</u>
		<u>4,106,821</u>	<u>2,867,249</u>
			<u>2,447,996</u>

The share based payment reserve arises on the grant of options and/or issuance of warrants to directors, executives, consultants or employees. Amounts are transferred out of the reserve and into issued capital when the options and/or warrants are exercised.

(b) Movements in share options over fully paid ordinary shares

	Years Ended June 30,					
	2007		2006		2005	
	Number of Options	Comp. Expense (\$)	Number of Options	Comp. Expense (\$)	Number of Options	Comp. Expense (\$)
Beginning of the year	5,752,500	898,252	3,312,000	478,999	21,269,167	-
Issued during the year	5,908,762	1,153,422	2,678,000	258,020	2,700,000	478,999
Expired during the year	(825,000)	-	(200,000)	-	(11,150,501)	-
Forfeited during the year	(150,000)	(2,950)	(37,500)	-	-	-
Amortization of option expenses	-	195,839	-	161,233	-	-
Exercised during the year (Note 13(b))	<u>(758,000)</u>	<u>(106,739)</u>	<u>-</u>	<u>-</u>	<u>(9,506,666)</u>	<u>-</u>
End of the year	<u>9,928,262</u>	<u>2,137,824</u>	<u>5,752,500</u>	<u>898,252</u>	<u>3,312,000</u>	<u>478,999</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

14. RESERVES (continued)

Details of option issuances are summarized as follows.

2005

- On December 17, 2004, the Company issued 600,000 options to outside consultants under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in consideration for services rendered to the Company. Of the 600,000 options, 400,000 options vested immediately and 200,000 options vest quarterly over a one-year vesting period. The options are exercisable until December 17, 2007 at an exercise price of A\$0.50 per option.
- On December 17, 2004, the Company issued 1,600,000 options to directors under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are escrowed for one year from the date of grant and are exercisable once the ASX share price reaches A\$1.00 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on June 30, 2010. This issue was approved by shareholders at the 2004 Annual General Meeting.
- On February 21, 2005, the Company issued 500,000 options to the Company Secretary under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) as reward for services rendered to the Company. Such options vested immediately and are exercisable on or before December 17, 2007 at an exercise price of A\$0.50 per option.

2006

- On August 10, 2005, the Company issued 413,000 options to an outside consultant as reward for services rendered to the Company. Such options are exercisable on or before February 1, 2007 at an exercise price of A\$0.50 per option. This issue was approved by shareholders at the 2005 Annual General Meeting.
- On February 2, 2006, the Company issued 890,000 options to employees under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are exercisable once the ASX share price reaches A\$1.00 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on June 30, 2010.
- On February 2, 2006, the Company issued 1,300,000 options to directors under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are escrowed for one year from date of grant and are exercisable once the ASX share price reaches A\$1.00 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on June 30, 2010. This issue was approved by shareholders at the 2005 Annual General Meeting.
- On June 30, 2006, the Company issued 75,000 options to an employee under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are exercisable once the ASX share price reaches A\$1.00 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on June 30, 2010.

2007

- On October 13, 2006, the Company issued 133,000 options to employees under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are exercisable once the ASX share price reaches A\$0.40 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on July 31, 2008.
- On December 1, 2006, the Company issued 3,200,000 options to directors and an employee under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are exercisable once the ASX share price reaches A\$0.80 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on July 31, 2009.
- On December 1, 2006, the Company issued 312,500 options to an employee under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are exercisable once the ASX share price reaches A\$0.40 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on August 7, 2014.
- On April 16, 2007, the Company issued 206,478 options to employees under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are exercisable once the ASX share price reaches A\$0.50 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on December 31, 2011.
- On April 16, 2007, the Company issued 39,284 options to an outside consultant under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in consideration for services rendered to the Company. The options are exercisable once the ASX share price reaches A\$0.50 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on December 31, 2011.
- On April 16, 2007, the Company issued 1,000,000 options to an employee under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are exercisable once the ASX share price reaches A\$0.40 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on August 7, 2014.

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14. RESERVES (continued)

- On April 16, 2007, the Company issued 40,000 options to an outside consultant under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in consideration for services rendered to the Company. The options are exercisable once the ASX share price reaches A\$0.40 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on August 7, 2014.
- May 31, 2007, the Company issued 312,500 options to an employee under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are exercisable once the ASX share price reaches A\$0.40 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on August 7, 2014.
- On June 12, 2007, the Company issued 40,000 options to an outside consultant under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in consideration for services rendered to the Company. The options are exercisable once the ASX share price reaches A\$0.40 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on August 7, 2014.
- On June 12, 2007, the Company issued 375,000 options to outside consultants under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in consideration for services rendered to the Company. The options are exercisable once the ASX share price reaches A\$0.50 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on December 31, 2011.
- On June 19, 2007, the Company issued 250,000 options to an employee under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are exercisable once the ASX share price reaches A\$0.40 for five consecutive trading days. The options are exercisable at A\$nil consideration and expire on August 7, 2014.

(c) Movements in share options over ADRs

	Years Ended June 30,					
	2007		2006		2005	
	Number of Options	Comp. Expense (\$)	Number of Options	Comp. Expense (\$)	Number of Options	Comp. Expense (\$)
Beginning of the year	380,000	1,515,434	380,000	1,515,434	-	-
Issued during the year	-	-	-	-	380,000	1,515,434
End of the year	380,000	1,515,434	380,000	1,515,434	380,000	1,515,434

Details of option issuances are summarized as follows.

2005

On December 17, 2004, the Company issued 380,000 options to a director under the 2004 ADS Option Plan (see Note 18) as per his employment contract. The options vested on June 14, 2005 following an agreement between Jonas Alsenas and the Company on Jonas Alsenas stepping down as CEO and director of the Company and are exercisable at US\$5.00. The options expire on December 17, 2012 and upon exercise convert to ADRs (1 ADR = 10 ordinary shares). This issue was approved by shareholders at the 2004 Annual General Meeting.

(d) Movement in warrants

	Years Ended June 30,					
	2006		2005			
	Number of Warrants	Comp. Expense (\$)	Number of Warrants	Comp. Expense (\$)	Number of Warrants	Comp. Expense (\$)
Beginning of the year	320,000	453,563	320,000	453,563	-	-
Issued during the year	-	-	-	-	320,000	453,563
End of the year	320,000	453,563	320,000	453,563	320,000	453,563

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

14. RESERVES (continued)

Details of warrant issuances are summarized as follows.

2005

On December 17, 2004, the Company issued 320,000 warrants to an outside consultant in consideration for services rendered to the Company for the June 2004 US capital raising. The resulting compensation expense was accounted for as an issuance cost and therefore recorded as a deduction of issued capital in the Statements of Shareholders' Equity. The warrants are convertible to 320,000 ADRs (3,200,000 ordinary shares) at an exercise price of US\$8.00 per warrant on or before June 4, 2009.

(e) Terms and conditions of reserves

Options and warrants

Option holders and warrant holders do not have the right to receive dividends and are not entitled to vote at a meeting of the Company. Options and warrants may be exercised at any time from the date they vest to the date of their expiry. Share options convert into ordinary shares on a one for one basis on the date they are exercised. Warrants and US options convert into ADRs, being one warrant or US option for one ADR, which equals ten ordinary shares, on the date they are exercised.

In Australia, there is not a set number of authorized shares, shares are not reserved for the exercise of options, and shares do not have a par value.

(f) Options and warrants issued after reporting date

There have been no options or warrants issued after reporting date.

	Years Ended June 30,	
	2007	2006
15. ACCUMULATED DEFICIT DURING DEVELOPMENT STAGE		
Balance at beginning of year	(41,340,718)	(29,750,124)
Net loss for the year	(11,142,320)	(11,590,594)
Balance at end of year	<u>(52,483,038)</u>	<u>(41,340,718)</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

	Years Ended June 30,		
	2007	2006	2005
16. CASH FLOW STATEMENT			
(a) Reconciliation of the net loss to the net cash flows from operations			
Net loss	(11,142,320)	(11,590,594)	(10,293,031)
Non-cash items			
Depreciation of property and equipment	58,582	118,196	65,223
Amortization of intangible assets	-	-	83,200
Non-cash issue of equity in consideration of operating expenses	1,579,132	856,503	2,144,191
Foreign exchange (gain)/loss	775,238	(268,960)	1,362,572
Impairment of core intellectual property	-	-	786,240
Gain/ (Loss) on fair value of financial liabilities	(607,691)	(128,715)	(5,801,397)
Loss on sale of non-current asset	161	894	-
Changes in assets and liabilities			
Decrease/(increase) in trade and other receivables	97,662	(19,685)	(81,559)
Decrease/(increase) in other current assets	(57,707)	384,333	(422,396)
(Decrease)/increase in trade and other payables	123,251	(1,032,823)	665,231
Decrease/(increase) in provision for employee entitlements	(26,058)	29,636	72,913
Net cash flows used in operating activities	<u>(9,199,750)</u>	<u>(11,651,215)</u>	<u>(11,418,813)</u>
(b) Reconciliation of cash and cash equivalents			
Cash and cash equivalents balance comprises:			
- cash and cash equivalents on hand	456,193	684,006	1,163,077
- term deposit/on call	6,953,063	6,829,772	11,290,227
- commercial bill	-	2,500,000	9,000,000
Closing cash and cash equivalents balance	<u>7,409,256</u>	<u>10,013,778</u>	<u>21,453,304</u>
(c) Non-cash financing and investing activities			

During the years ended June 30, 2007, 2006 and 2005, the Company issued shares, options and warrants in connection with non-cash transactions. See Notes 13(b), 14(b), 14(c) and 14(d).

17. EXPENDITURE COMMITMENTS

The Company has no commitments under non-cancelable operating leases as at the year end or date of this report. The Company leases premises on a monthly rolling agreement. Details in relation to commitments under employee service agreements with Directors and Key Management Personnel are outlined in note 21.

The Company has commitments under Research and Development contracts within 1 year of \$1,295,265. There are no Research and Development contract commitments after 1 year.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

	Notes	Years Ended June 30,		
		2007	2006	
18. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS				
(a) Employee Entitlements				
The aggregate employee entitlement liability is composed of:				
Provisions (current)	10	77,465	76,672	
Provisions (non-current)	10	<u>49,915</u>	<u>76,766</u>	
Number of employees: 10 (2006: 14 employees)		<u>127,380</u>	<u>153,438</u>	

(b) Employee and Consultant Plans

At the Annual General Meeting held on November 17, 2004, the shareholders approved the establishment of Employee and Consultant Plans designed to reward directors, employees and/or consultants for their contributions to the Company. The plans are to be used as a method of retaining key personnel for the growth and development of the Company. Due to Prana's US presence, a US plan (the 2004 ADS Option Plan) and an Australian plan (the 2004 Employees, Directors and Consultants Share and Option Plan) were developed. At June 30, 2007, equity had been issued to one director under the 2004 ADS Option Plan and five directors, 10 consultants and 14 employees under the 2004 Employees, Directors and Consultants Share and Option Plan. At the 2004 Annual General Meeting shareholders authorized the Company to issue in aggregate up to 12 million ordinary shares under the plans. This was increased to 22 million ordinary shares at the 2005 Annual General Meeting. The Share Plan Committee, a sub-committee of the Remuneration Committee administers the Plans and is able to change the terms of the equity issued under them from the default terms.

Under the 2004 ADS Option Plan, the default exercise price must equal or exceed the fair value of the ADS on the date the options are awarded. The option expiry date cannot exceed ten years from the date the options were awarded. The default vesting conditions are 25% per year on the date the options were awarded.

Under the 2004 Employees, Directors and Consultants Share and Option Plan, the default exercise price must be equal or less than the market value of the ordinary shares on ASX on the date of grant. The option expiry date cannot exceed ten years from the date the options were granted. The default vesting conditions are 25% per year on the date the options were granted.

Information with respect to the number of options granted under the 2004 Employees, Directors and Consultants Share and Option Plan as follows:

	Years Ended June 30,					
	2007		2006		2005	
	Number of Options	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)
Beginning of the year	4,927,500	0.11	2,700,000	0.20	-	-
Issued during the year	5,908,762	nil	2,265,000	nil	2,700,000	0.20
Exercised during the year	(758,000)	nil	-	-	-	-
Forfeited during the year	<u>(150,000)</u>	nil	<u>(37,500)</u>	nil	<u>-</u>	<u>-</u>
Outstanding at year end	<u>9,928,262</u>	<u>0.06</u>	<u>4,927,500</u>	<u>0.11</u>	<u>2,700,000</u>	<u>0.20</u>
Exercisable at year end	<u>2,140,000</u>	<u>0.26</u>	<u>1,100,000</u>	<u>0.50</u>	<u>1,100,000</u>	<u>0.50</u>

The range of exercise prices of options outstanding at period end is nil to A\$0.50. These options have a weighted average remaining contractual life of three years. The weighted average fair value of options granted during the period was determined in accordance with note 1(p) as A\$0.36, A\$0.18 and A\$0.36 for the years ended June 30, 2007, 2006 and 2005, respectively. The weighted average assumptions in calculating fair value were as follows:

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18. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS (continued)

- risk-free interest rate of 6.02% for 2007, 5.31% for 2006 and 5.12% for 2005;
- no dividends;
- expected volatility of 86% for 2007, 117% for 2006 and 67% for 2005; and
- expected life of four years for 2007, three years for 2006 and two years for 2005.

Risk-free interest rate - This is the government bond rate (having a term that most closely resembles the expected life of the option) in effect at the grant date. The Australian government bond rate has been used for options which convert to full paid ordinary shares and the U.S. government bond rate has been used for options which convert to ADRs.

Dividend yield - Prana has never declared or paid dividends on its common stock and does not anticipate paying any dividends in the foreseeable future.

Expected volatility - Prana estimates expected volatility based on historical volatility over the estimated life of the option and other factors.

Expected life - This is the period of time that the options granted are expected to remain outstanding. This estimate is based primarily on historical trend of option holders to exercise their option near the date of expiry. As a result the expected life is considered to equal the period from grant date to expiry date.

In 2004 and 2006 there were a total of 825,000 options issued to a consultant outside of the Australian Employee, Directors and Consultants Share and Option Plan. These options expired in the year ended June 30, 2007.

Information with respect to the number of shares issued under the 2004 Employees, Directors and Consultants Share and Option Plan as follows:

	Years Ended June 30,		
	2007	2006	2005
	Number of Shares	Number of Shares	Number of Shares
Beginning of the year	428,439	428,439	-
Issued during the year ¹	1,359,250	-	428,439
End of the financial year	<u>1,787,689</u>	<u>428,439</u>	<u>428,439</u>

¹ In the year ended June 30, 2007 this includes 758,000 options issued under the 2004 Employees, Directors and Consultants Share and Option Plan that were exercised.

Information with respect to the number of options granted under the 2004 ADS Option Plan as follows:

	Years Ended June 30,					
	2007		2006		2005	
	Number of Options	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)
Beginning of the year	380,000	\$ (A\$5.89)	380,000	\$ (A\$6.85)	-	-
Issued during the year ¹	-	-	-	-	380,000	\$ (A\$6.57)
Outstanding at year end	<u>380,000</u>	<u>\$ (A\$5.89)</u>	<u>380,000</u>	<u>\$ (A\$6.85)</u>	<u>380,000</u>	<u>\$ (A\$6.57)</u>
Exercisable at year end ¹	<u>380,000</u>	<u>\$ (A\$5.89)</u>	<u>380,000</u>	<u>\$ (A\$6.85)</u>	<u>380,000</u>	<u>\$ (A\$6.57)</u>

¹These options are exercisable into ADRs (one US option converts to one NASDAQ ADR = ten ASX shares)

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18. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS (continued)

The range of exercise prices of options outstanding at period end is US\$5.00 for all options. These options have a weighted average remaining contractual life of five and a half years. The weighted average fair value of options granted during the period was determined in accordance with note 1 (p) as A\$3.99 for the year ended June 30, 2005. No options were issued in the year ended June 30, 2007 and 2006. The weighted average assumptions in calculating fair value were as follows:

- risk-free interest rate of 5.4% for 2005;
- no dividends;
- expected volatility of 74% for 2005; and
- expected life of eight years for 2005.

The benefit to executives, employees, director and consultants is recognized in the financial statements over the period in which the services are provided. Refer to notes 13, 14 and 21 for further information.

Options issued carry no dividend rights or right to vote.

19. SUBSEQUENT EVENTS

On September 12, 2007 the Company issued a Notice of Meeting seeking shareholder approval for the issue of shares and options to raise up to A\$10 million. The meeting is scheduled for October 15, 2007.

Other than as discussed above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

	Years Ended June 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
20. LOSS PER SHARE			
Basic and diluted loss per share	(0.08)	(0.09)	(0.08)
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted loss per share	140,754,495	128,053,601	122,754,061

The options and warrants in place do not have the effect of diluting the loss per share.

21. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) The Key Management Personnel of Prana Biotechnology Ltd during the year:

Geoffrey Kempler	Executive Chairman Chief Executive Officer	
Colin Masters	Executive Director	Resigned 2 July 2007
Brian Meltzer	Non-Executive Director	
George Mihaly	Non-Executive Director	
Peter Marks	Non-Executive Director	
Ross Murdoch	President and Chief Operating Officer	Resigned 31 May 2007
Dianne Angus	Senior Vice President of Business Development, IP and Research Chief Operating Officer (Change of Role May 31, 2007)	
Richard Revelins	Company Secretary Chief Financial Officer	

(b) Key Management Personnel Remuneration

Remuneration of all Key Management Personnel of the Company is determined by the Board following recommendation by the Remuneration Committee.

The Company is committed to remunerating Senior Executives in a manner that is market competitive and consistent with 'Best Practice' including the interests of Shareholders. Remuneration packages are based on fixed and variable components, determined by the Executive's position, experience and performance, and may be satisfied via cash or equity.

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

21. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

Non-executive Directors are remunerated out of the aggregate amount approved by Shareholders and at a level that is consistent with industry standards. Non-executive Directors do not receive performance based bonuses and prior Shareholder approval is required to participate in any issue of equity. No retirement benefits are payable other than statutory superannuation, if applicable.

2007 Directors' Remuneration	Short Term Benefits		Post-Employment Superannuation Contribution \$	Options \$	Equity	Total \$
	Base Fee \$	Bonus \$				
Geoffrey Kempler ^{1,3 & 4}	341,515	-	34,151	178,030	553,696	
Colin Masters ^{2&3}	115,000	-	-	126,358	241,358	
Brian Meltzer ^{1&3}	96,330	-	8,670	53,408	158,408	
George Mihaly ^{1&3}	110,000	-	-	53,408	163,408	
Peter Marks ^{2&3}	75,000	-	-	37,907	112,907	
	737,845	-	42,821	449,111	1,229,777	

¹ This equity was issued as per the AGM held on November 17, 2004. As per A-IFRS the options issued to Directors were valued at grant date and are being expensed over the anticipated life of the options. As a result, the value does not reflect the current market price of the Company's shares. The Board believes that if the options were valued in today's market, they would have minimal intrinsic value given the market condition attached to the options that the share price must reach A\$1.00 for five consecutive trading days. See 2006 remuneration table for valuation.

² This equity was issued as per the AGM held on November 30, 2005. As per A-IFRS the options issued to Directors were valued at grant date and are being expensed over the anticipated life of the options. As a result, the value does not reflect the current market price of the Company's shares. The Board believes that if the options were valued in today's market, they would have minimal intrinsic value given the market condition attached to the options that the share price must reach A\$1.00 for five consecutive trading days. See 2006 remuneration table for valuation.

³ This equity was issued as per the AGM held on November 30, 2006. As per A-IFRS the options issued to Directors were valued at grant date and are being expensed over the anticipated life of the options. As a result, the value does not reflect the current market price of the Company's shares. The Board believes that if the options were valued in today's market, they would have minimal intrinsic value given the market condition attached to the options that the share price must reach A\$0.80 for five consecutive trading days.

⁴ On February 1, 2007 Mr Kempler received a salary increase to \$351,273 plus 10% superannuation, an increase from \$333,636 plus 10% superannuation.

⁵ In accordance with his employment contract, long service leave has been accrued for Mr Kempler. At June 30, 2007 \$18,163 had been accrued to date. No amounts have been paid in the June 30, 2007 financial year.

The option price for the options issued were calculated using the Barrier Pricing Model applying the following inputs:

Grant Date: November 30, 2006
Pricing Model: American
Option Type: Call
Barrier Type: Up and In
Strike Price: A\$0.00
Spot Price: A\$0.43
Barrier: A\$0.80
Days to Expiry: 974
Volatility: 100%
Risk-free Interest Rate: 6.02%
Expected Dividends: A\$0.00
Option Price: A\$0.38

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

21. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

	Short Term Benefits		Post-Employment Superannuation Contribution	Options	Equity	Total
	Base Fee	Bonus				
2006						
Directors' Remuneration	\$	\$	\$	\$	\$	\$
Geoffrey Kempler ^{1 & 3}	334,545	100,000	33,455	92,770	560,770	
Colin Masters ²	115,000	-	-	16,775	131,775	
Brian Meltzer ¹	97,569	-	7,431	27,831	132,831	
George Mihaly ¹	105,000	-	-	27,831	132,831	
Peter Marks ²	75,000	-	-	5,033	80,033	
	727,114	100,000	40,886	170,240	1,038,240	
	=====	=====	=====	=====	=====	=====

¹ This equity was issued as per the AGM held on November 17, 2004. As per A-IFRS the options issued to Directors were valued at grant date and are being expensed over the anticipated life of the options. As a result, the value does not reflect the current market price of the Company's shares. The Board believes that if the options were valued in today's market, they would have minimal intrinsic value given the market condition attached to the options that the share price must reach A\$1.00 for five consecutive trading days.

The option price for the options issued were calculated using the Barrier Pricing Model applying the following inputs:

Grant Date: November 17, 2004
Pricing Model: American
Option Type: Call
Barrier Type: Up and In
Strike Price: A\$0.00
Spot Price: A\$0.56
Barrier: A\$1.00
Days to Expiry: 2008
Volatility: 70%
Risk-free Interest Rate: 5.05%
Expected Dividends: A\$0.00
Option Price: A\$0.51

² This equity was issued as per the AGM held on November 30, 2005. As per A-IFRS the options issued to Directors were valued at grant date and are being expensed over the anticipated life of the options. As a result, the value does not reflect the current market price of the Company's shares. The Board believes that if the options were valued in today's market, they would have minimal intrinsic value given the market condition attached to the options that the share price must reach A\$1.00 for five consecutive trading days. The option price was calculated using the Barrier Pricing Model applying the following inputs:

Grant Date: November 30, 2005
Pricing Model: American
Option Type: Call
Barrier Type: Up and In
Strike Price: A\$0.00
Spot Price: A\$0.21
Barrier: A\$1.00
Days to Expiry: 1609
Volatility: 110%
Risk-free Interest Rate: 5.35%
Expected Dividends: A\$0.00
Option Price: A\$0.18

³ Mr Kempler achieved a bonus milestone, the successful completion of the Phase 1 trial for PBT-2 as set out in his employment contract. There is a potential for a further A\$100,000 bonus for the satisfactory completion of a proof of concept study such as a Phase Two (A) trial on efficacy and dosage.

PRANA BIOTECHNOLOGY LIMITED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

21. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

2007	Short Term Benefits		Post-Employment Superannuation Contribution	Equity		Total
	Base Fee	Bonus		Options	Shares	
Executives' Remuneration	\$	\$	\$	\$	\$	\$
Richard Revelins	80,000	-	-	25,613	-	105,613
Ross Murdoch ¹	303,014	-	24,445	51,544	45,600	424,603
Dianne Angus ²	258,750	-	23,288	565,655	-	847,693
	641,764	-	47,733	642,812	45,600	1,377,909

¹ On May 31, 2007, Dr Murdoch ceased his employment with the Company. The base fee includes unused annual leave. Dr Murdoch received 120,000 ordinary shares valued at the market share price at date of grant, of \$0.38 per ordinary share. Dr Murdoch also received options. The option price was calculated using the Barrier Pricing Model applying the following inputs:

Grant Date: 7 August 2006
Pricing Model: American
Option Type: Call
Barrier Type: Up and In
Strike Price: \$0.00
Spot Price: \$0.30
Barrier: \$0.40
Days to Expiry: 31
Volatility: 88%
Risk-free Interest Rate: 5.89%
Expected Dividends: \$0.00
Option Price: \$0.08

² Ms Angus received a salary increase to A\$268,125 plus 9% superannuation. Ms Angus contracted working days increased from four to five days per week. In accordance with her employment contract, long service leave has been accrued for Ms Angus. At June 30, 2007, \$6,091 had been accrued to date. No amounts have been paid in the June 30, 2007 financial year. Ms Angus received two tranches of options. The option prices were calculated using the Barrier Pricing Model applying the following inputs:

Tranche 1
Grant Date: 2 October 2006
Pricing Model: American
Option Type: Call
Barrier Type: Up and In
Strike Price: \$0.00
Spot Price: \$0.48
Barrier: \$0.40
Days to Expiry: 5
Volatility: 23%
Risk-free Interest Rate: 5.87%
Expected Dividends: \$0.00
Option Price: \$0.48

Tranche 2
Grant Date: 12 June 2007
Pricing Model: American
Option Type: Call
Barrier Type: Up and In
Strike Price: \$0.00
Spot Price: \$0.35
Barrier: \$0.40
Days to Expiry: 2555
Volatility: 82%
Risk-free Interest Rate: 6.38%
Expected Dividends: \$0.00
Option Price: \$0.34

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

21. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

2006 Executives' Remuneration	Short Term Benefits		Post-Employment Superannuation Contribution	Equity		Total \$
	Base Fee	Bonus		Options	Shares	
	\$	\$		\$	\$	
Richard Revelins	80,000	-	-	-	-	80,000
Ross Murdoch ¹	285,000	-	25,650	-	-	310,650
Dianne Angus ²	185,048	-	16,654	-	-	201,702
	550,048	-	42,304	-	-	592,352

¹ On January 1, 2006, Dr Murdoch received a salary increase to A\$295,000 plus 9% superannuation.

² On January 1, 2006, Ms Angus received a salary increase to A\$195,000 plus 9% superannuation. Ms Angus received additional remuneration in recognition of additional hours worked over her contracted 4 days per week.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

21. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

The following Director was under contract at June 30, 2007:

	<u>Duration</u>	<u>Notice Requirements</u>	<u>Termination</u>	<u>Bonus/ Equity Entitlements</u>
Mr Geoffrey Kempler	Until termination by either party Signed September 21, 2007	For Good Reason Mr. Kempler may terminate with 30 days notice	*Pay a termination payment of A\$1 million provided the company has sufficient capital resources to fulfil the obligation *Accrued entitlements, bonuses and equity issues *Accelerate the vesting of any unvested options	The Company will pay Mr Kempler a: • Bonus of \$50,000 following a capital raising of at least A\$7m (before costs) prior to 30 September 2007. • Bonus of \$25,000 following a further capital raising of at least A\$12m (before costs) anytime in the 2008 financial year.
	Without Good Reason Mr. Kempler may terminate with 90 days notice	Without Cause the Company may terminate with 90 days notice	*Bonus pro-rated only if termination occurs in 1 st year *Accrued entitlements, bonuses and equity issues *Permitted to exercise any unvested options to purchase shares that pre-existed in contract	• Bonus of \$25,000 for attaining a share price above \$0.60 for at least four consecutive trading days by 30 June 2008 • Bonus of \$50,000 for implementation of the following: • Completion of clinical trial recruitment by 30 September 2007 - \$10K bonus • Completion of signed Statistical Analysis Report by 29 February 2008 - \$10K bonus • Regular meetings (minimum twice yearly) of the full Integrated Advisory Board - \$6K bonus • Review and provide written proposal to the board of Prana's Intellectual Property Portfolio to determine other value add opportunities for license, merger and acquisition or divestment by 31 December 2007 - \$14K bonus • Develop Prana staff retention strategy and action plan by 31 October 2007 and implement by 31 December 2007 - \$10K bonus
	With Good Reason the company may terminate with 30 days notice		*Bonus pro-rated only if termination occurs in 1 st year *Accrued entitlements, bonuses and equity issues *Permitted to exercise any unvested options to purchase shares that pre-existed in contract	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

21. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

The following Senior Executives were under contract during the financial year ended June 30, 2007:

	<u>Duration</u>	<u>Notice Requirements</u>	<u>Termination</u>	<u>Bonus/ Equity Entitlements</u>
Dr Ross Murdoch	Until termination by either party Signed August 7, 2006 Resigned May 31, 2004	For Good Reason Dr Murdoch may terminate with 30 days notice	* Pay remuneration entitlements up to May 29, 2008 or if termination occurs after May 29, 2007, then 1 year from the time of termination (less any payout made for the notice period). The Company can elect to pay such sum as cash, equity in the Company or as a combination of both cash and equity. * Accrued entitlements	1,250,000 options exercisable at A\$nil on or before August 7, 2014 provided that the share price reaches A\$0.40 for five consecutive trading days. 25% of the options vest on August 7, 2006, 25% vest on May 29, 2007, 25% vest on May 29, 2008 and the remaining 25% vest on May 29, 2009.
	Without Good Reason Dr Murdoch may terminate with 120 days notice		* Accelerate the vesting of any unvested options * Permitted to keep and/or exercise options that have vested at the time of termination	
	Without Cause the Company may terminate with 120 days notice		* Pay remuneration entitlements up to May 29, 2008 or if termination occurs after May 29, 2007, then 1 year from the time of termination (less any payout made for the notice period). The Company can elect to pay such sum as cash, equity in the Company or as a combination of both cash and equity. * Accrued entitlements	
			* Accelerate the vesting of any unvested options	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

21. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

Duration	Notice Requirements	Termination	Equity Entitlements
	With Cause the Company may terminate without notice	* Permitted to keep and/or exercise options that have vested at the time of termination.	
Ms Dianne Angus	Until termination by either party Signed October 2, 2006 Amendment signed June 12, 2007	For Good Reason Ms Angus may terminate with 30 days notice	1,000,000 options upon signing. The options are exercisable at A\$nil on or before August 7, 2014 provided that the share price reached A\$0.40 for five consecutive trading days. 250,000 options exercisable at A\$nil on or before August 7, 2014 provided that the share price reaches A\$0.40 for five consecutive trading days.
	Without Good Reason Ms Angus may terminate with 120 days notice	* Pay remuneration entitlements 1 year from the time of termination (less any payout made for the notice period). The Company can elect to pay such sum as cash, equity in the Company or as a combination of both cash and equity. * Accrued entitlements including all unreimbursed business expenses * Accelerate the vesting of any unvested options	
	Without Cause the Company may terminate with 120 days notice	* Permitted to keep and/or exercise options that have vested at the time of termination * Accrued entitlements including all unreimbursed business expenses	
	With Cause the Company may terminate without notice	* Pay remuneration entitlements 1 year from the time of termination (less any payout made for the notice period). The Company can elect to pay such sum as cash, equity in the Company or as a combination of both cash and equity. * Accrued entitlements including all unreimbursed business expenses * Accelerate the vesting of any unvested options	
		* Permitted to keep and/or exercise options that have vested at the time of termination.	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

	Years Ended June 30,		
	2007	2006	2005
22. AUDITORS' REMUNERATION			
Amounts received or due and receivable for:			
- audit fees ¹	240,800	202,600	175,481
- tax fees	-	185	11,631
- other fees	-	3,030	14,920
	240,800	205,815	202,032

¹ An additional \$19,317 was paid to the prior auditors during the year ended June 30, 2007

23. RELATED PARTY TRANSACTIONS

a. Equity Interests in Subsidiaries

Prana owns 100% of its subsidiaries, Prana Biotechnology Inc and Prana Biotechnology UK Ltd.

b. Key Management Personnel Remuneration

Details of key management personnel remuneration is disclosed in note 21 to the financial statements.

c. Key Management Personnel Equity Holdings

Fully Paid Ordinary Shares of Prana Biotechnology Ltd	Balance July 1, 2006	Received as Remuneration	Received on Exercise of Options	Net Change Other ²	Balance June 30, 2007
	No.	No.	No.	No.	No.
Geoffrey Kempler	17,055,000	-	-	-	17,055,000
Colin Masters	184,666	-	-	-	184,666
Brian Meltzer	326,666	-	-	-	326,666
George Mihaly	226,666	-	-	-	226,666
Peter Marks	43,111	-	-	-	43,111
Richard Revelins	92,808	-	-	(72,500)	20,308
Ross Murdoch ¹	50,000	120,000	625,000	-	795,000
Dianne Angus	-	-	-	-	-
	17,978,917	120,000	625,000	(72,500)	18,651,417

Fully Paid Ordinary Shares of Prana Biotechnology Ltd	Balance July 1, 2005	Received as Remuneration	Received on Exercise of Options	Net Change Other ²	Balance June 30, 2006
	No.	No.	No.	No.	No.
Geoffrey Kempler	17,055,000	-	-	-	17,055,000
Colin Masters	184,666	-	-	-	184,666
Brian Meltzer	326,666	-	-	-	326,666
George Mihaly	226,666	-	-	-	226,666
Peter Marks	43,111	-	-	-	43,111
Richard Revelins	42,808	-	-	50,000	92,808
Ross Murdoch	50,000	-	-	-	50,000
Dianne Angus	-	-	-	-	-
	17,928,917	-	-	50,000	17,978,917

¹ The balance at 30 June 2007, is the balance at date of resignation.

² These options were acquired or sold on market

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

23. RELATED PARTY TRANSACTIONS (continued)

Share Options of Prana Biotechnology Ltd	Balance	Granted as Remuneration	Options Exercised	Options Sold	Options Expired	Balance	Total Exercisable	Total Not Exercisable
	July 1, 2006 No.					June 30, 2007 No.	June 30, 2007 No.	June 30, 2007 No.
Geoffrey Kempler	1,000,000	1,000,000	-	-	-	2,000,000	-	2,000,000
Colin Master	1,000,000	1,000,000	-	-	-	2,000,000	-	2,000,000
Brian Meltzer	300,000	300,000	-	-	-	600,000	-	600,000
George Mihaly	300,000	300,000	-	-	-	600,000	-	600,000
Peter Marks	300,000	300,000	-	-	-	600,000	-	600,000
Richard Revelins	500,000	300,000	-	-	-	800,000	500,000	300,000
Ross Murdoch ¹	-	625,000	(625,000)	-	-	-	-	-
Dianne Angus	-	1,250,000	-	-	-	1,250,000	1,000,000	250,000
	3,400,000	5,075,000	(625,000)	-	-	7,850,000	1,500,000	6,350,000

Share Options of Prana Biotechnology Ltd	Balance	Granted as Remuneration	Options Exercised	Options Sold	Options Expired	Balance	Total Exercisable	Total Not Exercisable
	July 1, 2005 No.					June 30, 2006 No.	June 30, 2006 No.	June 30, 2006 No.
Geoffrey Kempler	1,000,000	-	-	-	-	1,000,000	-	1,000,000
Colin Master	-	1,000,000	-	-	-	1,000,000	-	1,000,000
Brian Meltzer	300,000	-	-	-	-	300,000	-	300,000
George Mihaly	300,000	-	-	-	-	300,000	-	300,000
Peter Marks	-	300,000	-	-	-	300,000	-	300,000
Richard Revelins	500,000	-	-	-	-	500,000	500,000	-
Ross Murdoch	-	-	-	-	-	-	-	-
Dianne Angus	-	-	-	-	-	-	-	-
	2,100,000	1,300,000	-	-	-	3,400,000	500,000	2,900,000

¹ The balance at 30 June 2007, is the balance at date of resignation.

For further information on equity entitlements under employment contracts, refer to note 21.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

24. SEGMENT INFORMATION

The consolidated entity's activities are predominantly within Australia and cover research into Alzheimer's Disease and other major age-related degenerative disorders.

25. FINANCIAL INSTRUMENTS

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

(b) Interest rate risk

The consolidated entity has cash on deposit which is professionally managed by external parties to optimize the impact of interest rate fluctuations pursuant to conservative investment guidelines.

At June 30, 2007, the consolidated entity had the following cash accounts:

- US\$3,462,460 (A\$4,080,163) in a 29 day term deposit at a fixed interest rate of 5.15% which matured on 13 July 2007;
- A\$2,872,900 in at call deposit account, earning interest of 6.15%
- A\$210,406 in Australia dollar cheque accounts at variable interest rates ranging from 4.67% to 5.20% as of June 30, 2007
- US\$149,998 (A\$176,758) in a US cheque account at a interest rate of 4.64% as of June 30, 2007
- GBP\$12,795 (A\$30,215) in a GBP cheque account at a variable interest rate of 4.48% as of June 30, 2007;
- EUR\$22,680 (A\$36,018) in a EUR cheque account at a variable interest rate of 3.33% as of June 30, 2007;
- A\$10,398 in a twelve month term deposit at a fixed interest rate of 6.40%which matures on 13 January 2008;
- A\$35,238 in a four month term deposit at a fixed interest rate of 6.30%which matures on 17 October 2007;
- A\$200 in petty cash which does not earn any interest;
- SEK\$970 (A\$167) in petty cash which does not earn any interest;
- US\$2,000 (A\$2,357) in petty cash which does not earn any interest; and
- CA\$65 (A\$72) in petty cash which does not earn any interest.

The weighted average interest rate is 4.57%for cash and cash equivalents and 6.32% for terms deposits over three months and apart from usual variances in general rates of interest the consolidated entity is not exposed to any significant interest rate risk.

At June 30, 2006, the consolidated entity had the following cash accounts:

- US\$4,217,217 (A\$5,778,009) in a 30 day term deposit at a fixed interest rate of 4.98% which matured on July 7, 2006;
- A\$1,051,763 in at call deposit account, earning interest of 5.65%;
- A\$242,285 in Australia dollar cheque accounts at variable interest rates ranging from 4.75% to 5.80% as of June 30, 2006;
- US\$120,667 (A\$165,326) in a US cheque account at a interest rate of 4.44% as of June 30, 2006;
- GBP\$12,255 (A\$30,495) in a GBP cheque account at a variable interest rate of 2.90% as of June 30, 2006;
- EUR\$142,758 (A\$245,487) in a EUR cheque account at a variable interest rate of 2.09% as of June 30, 2006;
- A\$2,500,000 in a 32 day commercial bill with a fixed interest rate of 5.82% which matured on July 24, 2006;
- A\$32,379 in a seven month term deposit at a fixed interest rate of 5.50% which matures on July 17, 2006;

- A\$10,000 in a 180 day term deposit at a fixed interest rate of 4.00% which matures on July 17, 2006; and
- A\$413 in petty cash which does not earn any interest.

The weighted average interest rate is 5.19% for cash and cash equivalents and 5.15% for terms deposits over 3 months and apart from usual variances in general rates of interest the consolidated entity is not exposed to any significant interest rate risk.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

25. FINANCIAL INSTRUMENTS (continued)

Receivables and payables are non-interest bearing.

The consolidated entity's exposure to interest rates and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

June 30, 2007	Floating Interest Rate	Fixed Interest Maturing in	Non-Interest bearing	Total	Average Interest Rate
1 year or less 1-5 years					
Financial Assets					
Cash	453,397	6,953,063	-	2,796	7,409,256
Receivables	-	-	-	96,499	96,499
Other current assets	-	45,636	-	122,903	168,539
	453,397	6,998,699	-	222,198	7,674,294
Financial Liabilities					
Payables	-	-	-	1,661,609	1,661,609
Provisions	-	-	-	321,001	321,001
Other financial liabilities	-	-	-	127,380	127,380
	-	-	-	2,109,990	2,109,990
June 30, 2006	Floating Interest Rate	Fixed Interest Maturing in	Non-Interest bearing	Total	Average Interest Rate
1 year or less 1-5 years					
Financial Assets					
Cash	683,593	9,329,772	-	413	10,013,778
Receivables	-	-	-	194,161	194,161
Other current assets	-	42,379	-	68,453	110,832
	683,593	9,372,151	-	263,027	10,318,771
Financial Liabilities					
Payables	-	-	-	1,538,358	1,538,358
Provisions	-	-	-	153,438	153,438
Other financial liabilities	-	-	-	928,692	928,692
	-	-	-	2,620,488	2,620,488

(c) Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

25. FINANCIAL INSTRUMENTS (continued)

(d) Credit risk

Financial assets, which potentially expose the consolidated entity to concentrations of credit risk, consist primarily of cash and cash equivalents and term deposits over three months. The consolidated entity's cash and cash equivalents and term deposits over three months are placed with high credit quality financial institutions. Accordingly, the Directors believe the consolidated entity has no significant concentration of credit risk.

26. ADDITIONAL COMPANY INFORMATION

Prana Biotechnology Limited is a listed public company, incorporated and operating in Australia.

Registered Office

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PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

27. RECONCILIATION TO US GAAP

The financial statements have been prepared in accordance with A-IFRS, which differ in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). The following is a summary of the adjustments to net loss and total equity required when reconciling such amounts recorded in the financial statements to the corresponding amounts in accordance with US GAAP, considering the differences between A-IFRS and US GAAP.

Reconciliation of net loss

	Years Ended June 30,		
	2007	2006	2005
Net loss in accordance with A-IFRS	(11,142,320)	(11,590,594)	(10,293,031)
<i>US GAAP adjustments:</i>			
Share-based compensation (a)			
Options issued to consultants for services rendered	-	-	196,389
Options issued to directors and employees for services Rendered	-	-	1,686,905
Shares issued to consultants and directors for services Rendered	-	-	(186,995)
Intangible assets - Capitalised patent costs (b)			
Costs capitalised under US GAAP but expensed under A-IFRS	-	-	284,924
Amortisation expense attributable to above	-	-	(307,806)
Impairment of costs capitalised under US GAAP but expensed under A-IFRS	-	-	(3,378,418)
Deferred tax effect of US GAAP adjustments (c)	-	-	-
Net loss in accordance with US GAAP	(11,142,320)	(11,590,594)	(11,998,032)
Loss per share in accordance with US GAAP:			
Basic and diluted	0.08	(0.09)	(0.10)
Weighted average shares - basic and diluted	140,754,495	128,053,601	122,754,061

Reconciliation of shareholders' equity

	Years Ended June 30,	
	2007	2006
Total equity in accordance with A-IFRS	5,612,195	7,800,658
<i>US GAAP adjustments:</i>		
Total equity in accordance with US GAAP	5,612,195	7,800,658

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27. RECONCILIATION TO US GAAP (continued)

Roll forward analysis of shareholders' equity under US GAAP

Certain adjustments recorded directly to total equity differ in classification when applying A-IFRS and US GAAP. These classification differences do not result in a difference between total equity when prepared under both A-IFRS and US GAAP. The classification differences are described below:

	Years Ended June 30,	
	2007	2006
Balance in accordance with US GAAP, beginning of year	7,800,658	18,536,769
Issuance of shares in connection with private placement, net of issue costs	6,108,868	-
Issuance of shares in connection with exercise of options, net of issue costs	(3,840)	-
Issuance of options in connection with private placement	1,262,339	-
Issuance of options to consultants for services rendered	(a) 163,701	194,351
Issuance of options to directors and employees for services rendered	(a) 1,182,610	224,902
Issuance of shares to consultants and directors for services rendered	(a) 240,179	435,230
Net loss in accordance with US GAAP	<u>(11,142,320)</u>	<u>(11,590,594)</u>
Balance in accordance with US GAAP, end of year	5,612,195	7,800,658

a. Share-based compensation

As described in Note 1(p), the Company adopted AASB 2. In accordance with the transitional provisions of AASB 2, the Standard has been applied retrospectively to all share-based payments granted / issued after November 7, 2002 and that were not yet vested as of January 1, 2005.

Through June 30, 2005, the Company accounted for options granted to employees and directors under U.S. GAAP using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25: *Accounting for Stock Issued to Employees* ("APB 25") and related interpretations to measure employee stock compensation. Under APB 25, compensation expense was recognized to the extent that the quoted market price of the stock exceeded the exercise price of the options at the measurement date, and was charged to earnings ratably over the vesting period. For options that vest upon the achievement of a target stock price, compensation expense was recognized when the target is achieved.

The following table illustrates the effect on U.S. GAAP net loss and loss per share if the Company had applied the fair value recognition provisions of Statements of Financial Accounting Standards ("SFAS") No. 123: *Accounting for Stock Based Compensation* ("SFAS 123") to stock-based employee compensation for the year ended June 30, 2005.

	June 30, 2005
U.S. GAAP net loss, as reported	(11,998,032)
Add: Stock-based employee compensation expense included in U.S. GAAP reported net loss	17,829
Deduct: Total stock-based employee compensation expense determined under fair value based method	(1,708,925)
U.S. GAAP pro forma net loss	(13,689,128)
U.S. GAAP basic and diluted loss per share	
- As reported	(0.10)
- Pro forma	(0.11)

Additionally, through June 30, 2005, Prana accounted for options granted to consultants under SFAS 123 and Emerging Issues Task Force Issue No. 96-18: *Accounting for Equity Instruments That Are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* ("EITF 96-18") under US GAAP. Under SFAS 123 and EITF 96-18, compensation cost was calculated based on the estimated fair value of the options measured on the date the services were completed by the respective consultants.

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27. RECONCILIATION TO US GAAP (continued)

Through June 30, 2005, the Company also accounted for shares issued consultants and directors under U.S. GAAP in accordance with SFAS 123 and EITF 96-18. Accordingly, compensation cost was based on the quoted market price of the shares measured on the date the services were completed.

Effective July 1, 2005, for U.S. GAAP purposes the Company adopted SFAS No. 123(R), *Share-Based Payment* ("SFAS 123R") which replaces SFAS 123 and supersedes APB 25. Under the modified prospective method of SFAS 123R, the Company applies SFAS 123R for equity-based compensation awards (or portion thereof): (i) granted on or after July 1, 2005; (ii) modified on or after July 1, 2005; and (iii) not yet vested as of July 1, 2005. Such equity-based compensation awards are measured based on the fair value using the Black-Scholes model (for options without market conditions) or Barrier Pricing model (for options with market conditions). The compensation is recognized as an expense in the statement of operations over the requisite service period. Prior periods have not been restated.

As a result of adopting SFAS 123R on July 1, 2005, the Company's U.S. GAAP loss before income taxes and net loss for the year ended June 30, 2006 was A\$76,469 higher than if the Company had continued to account for share-based compensation to employees and directors under APB 25. The impact of adopting SFAS 123R did not have a material impact on basic and diluted loss per share, cash flows from operating activities and cash flows from financing activities for the year ended June 30, 2006.

Total U.S. GAAP share-based compensation costs charged to the statement of operations was A\$1,579,133, A\$406,703 and A\$444,075 for the years ended June 30, 2007, 2006 and 2005, respectively. No income tax benefits were recognized and no compensation cost was capitalized as part of property and equipment during the periods presented.

The retrospective transition provision of AASB 2 and the modified prospective transition provision of SFAS 123R give rise to GAAP differences in share-based compensation for the year ended June 30, 2005. There are no U.S. GAAP reconciling items attributable to share-based compensation for the year ended June 30, 2007 and 2006 as the impact on compensation cost resulting from differences in the standards, such as the determination of the measurement date for share-based payments made to nonemployees, is de minimis.

b. Intangible assets - Capitalised patent costs

Under A-IFRS, patent costs are recognized at cost less accumulated amortization and impairment, provided the costs meet the criteria for recognition as an intangible asset (see Note 1(g)). Patent costs that do not meet the criteria for recognition as an intangible asset are expensed as incurred. At June 30, 2007, 2006 and 2005, Prana had no capitalized patent costs under A-IFRS.

For U.S. GAAP purposes, up until December 31, 2004, all costs associated with the acquisition of patents, legal costs incurred in connection with successful patent defenses and costs associated with successful patent applications deemed to be recoverable from the future development of products were capitalized and amortized on a straight-line basis over the estimated useful life of 15 years. Such capitalized costs are tested for recoverability whenever events or circumstances indicate that the carrying amount of the costs may not be recoverable. All other costs associated with patents were expensed as incurred. Effective January 1, 2005, Prana changed its U.S. GAAP accounting policy and expenses all patent costs as incurred.

As a result of the cancellation of a clinical study for the PBT-1 compound in April 2005 due to toxicity issues, the consolidated entity reviewed the carrying value of the U.S. GAAP capitalized patent costs and resolved to impair the capitalized costs to the fair value of A\$nil based on estimated future discounted cash flows.

For the year ended June 30, 2007 and 2006, there are no GAAP differences in respect to intangible assets. In the future, GAAP differences may arise to the extent that development costs meet the criteria for capitalization under A-IFRS (as development costs are expensed as incurred under U.S. GAAP).

c. Deferred tax effect of US GAAP adjustments

The deferred tax effect of US GAAP adjustments is A\$nil because it is more likely than not that the net deferred tax asset will not be realized, and accordingly, the consolidated entity has recorded a 100% valuation allowance against the net deferred tax asset.

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27. RECONCILIATION TO US GAAP (continued)

d. Classification differences

Under A-IFRS, the consolidated entity classifies interest income as revenue. Under US GAAP, interest income is classified as non-operating income.

Under A-IFRS, amortisation of intangible assets used in research and development projects is reported in amortisation expense. Under US GAAP, amortisation of intangible assets used in research and development projects is reported in research and development expense.

e. Additional US GAAP disclosures

Share-based compensation

The following table summarizes the activity of share options issued to directors and employees during the years ended June 30, 2007, 2006 and 2005:

	Years Ended June 30,					
	2007		2006		2005	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding at beginning of year	4,327,500	0.06	2,100,000	0.12	409,667	0.50
Granted	5,414,478	-	2,265,000	nil	2,100,000	0.12
Exercised	(758,000)	-	-	-	-	-
Forfeited	(150,000)	-	(37,500)	nil	-	-
Expired	-	-	-	-	(409,667)	0.50
Outstanding at end of year (a)	8,833,978	0.03	4,327,500	0.06	2,100,000	0.12
Exercisable at end of year (b)	<u>1,500,000</u>	<u>0.17</u>	<u>500,000</u>	<u>0.50</u>	<u>500,000</u>	<u>0.50</u>

(a) Of the 8,833,978 options outstanding as of June 30, 2007, 8,333,978 options have an exercise price of A\$nil and a remaining weighted average contractual life of three years and a weighted average intrinsic value of A\$0.35. The remaining 500,000 options have an exercise price of A\$0.50 with a remaining weighted average contractual life of six months and a weighted average intrinsic value of A\$nil. The weighted average contractual life of the 8,833,978 options outstanding is 3 years.

(b) Of the 1,500,000 options exercisable as of June 30, 2007, 1,000,000 options have an exercise price of A\$nil and a remaining weighted average contractual life of seven years and a weighted average intrinsic value of A\$0.48. The remaining 500,000 options have an exercise price of A\$0.50 with a remaining weighted average contractual life of six months and a weighted average intrinsic value of A\$nil. The weighted average contractual life of the 1,500,000 options exercisable is four years.

The weighted average grant date fair value of the options issued to directors and employees under the 2004 Employees, Directors and Consultants Share and Option Plan during the years ended June 30, 2007, 2006 and 2005 is A\$0.38, A\$0.18 and A\$0.44, respectively. The fair value was estimated at the date of the grant using the Black-Scholes option pricing model for options without market conditions and the Barrier option pricing model was used for options with market conditions, with the following weighted average assumptions:

- risk-free interest rate of 6.0% for 2007, 5.3% for 2006 and 5.2% for 2005;
- no dividends;
- expected volatility of 85.6% for 2007, 117.2% for 2006 and 65.7% for 2005; and
- expected life of four years for 2007, four years for 2006 and five years for 2005.

Risk-free interest rate - This is the government bond rate (having a term that most closely resembles the expected life of the option) in effect at the grant date. The Australian government bond rate has been used for options which convert to full paid ordinary shares and the U.S. government bond rate has been used for options which convert to ADRs.

Dividend yield - Prana has never declared or paid dividends on its common stock and does not anticipate paying any dividends in the foreseeable future.

Expected volatility - Prana estimates expected volatility based on historical volatility over the estimated life of the option and other factors.

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27. RECONCILIATION TO US GAAP (continued)

Expected life - This is the period of time that the options granted are expected to remain outstanding. This estimate is based primarily on historical trend of option holders to exercise their option near the date of expiry. As a result the expected life is considered to equal the period from grant date to expiry date.

The following table summarizes the activity of share options issued to directors under the 2004 ADS Option Plan (adopted on November 17, 2004) during the years ended June 30, 2007, 2006 and 2005. Each option is exercisable for one ADR which equals ten shares. No options have been issued under the 2004 ADS Option Plan in the year ended June 30, 2007 and 2006.

	Years Ended June 30,					
	2007		2006		2005	
	Number of options over ADRs	Weighted average exercise price (\$)	Number of options over ADRs	Weighted average exercise price (\$)	Number of options over ADRs	Weighted average exercise price (\$)
Outstanding at beginning of year	380,000	\$ US5.00	380,000	\$ US5.00	-	-
Granted	-	-	-	-	380,000	\$ US5.00
Exercised	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Expired	-	-	-	-	-	-
		US5.00		US5.00		US5.00
Outstanding at end of year (c)	380,000	\$ (A\$5.89)	380,000	\$ (A\$6.85)	380,000	\$ (A\$6.57)
		US5.00		US5.00		US5.00
Exercisable at end of year (c)	<u>380,000</u>	<u>\$ (A\$5.89)</u>	<u>380,000</u>	<u>\$ (A\$6.85)</u>	<u>380,000</u>	<u>\$ (A\$6.57)</u>

(c) All 380,000 options outstanding and exercisable as of June 30, 2007 have an exercise price of US\$5.00 (A\$5.89) and a remaining weighted average contractual life of five and half years and a weighted average intrinsic value of nil.

The grant date fair value of the options issued to directors under the 2004 ADS Option Plan during the year ended June 30, 2005 was A\$3.99. The fair value was estimated at the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

- risk-free interest rate of 5.4%;
- no dividends;
- expected volatility of 73.6%; and
- expected life of eight years.

The methodology for developing each of the assumptions is the same as that described above.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

27. RECONCILIATION TO US GAAP (continued)

The following table summarizes the activity of share options issued to consultants during the year ended June 30, 2006 and 2005:

	Years Ended June 30,					
	2007		2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	1,425,000	0.50	1,212,000	0.50	1,109,500	0.35
Granted	494,284	-	413,000	0.50	600,000	0.50
Exercised	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Expired	(825,000)	0.50	(200,000)	0.50	(497,500)	0.52
Outstanding at end of year (d)	1,094,284	0.27	1,425,000	0.50	1,212,000	0.50
Exercisable at end of year (e)	<u>640,000</u>	<u>0.47</u>	<u>1,425,000</u>	<u>0.50</u>	<u>1,045,333</u>	<u>0.50</u>

(d) Of the 1,094,284 options outstanding as of June 30, 2007, 600,000 options have an exercise price of A\$0.50 and a remaining weighted average contractual life of six months and a weighted average intrinsic value of A\$nil. The remaining 494,284 options have an exercise price of A\$nil with a remaining average contractual life of five years and a weighted average intrinsic value of A\$0.35. The weighted average contractual life of the 1,094,284 options outstanding is two years and eight months.

(e) Of the 640,000 options exercisable as of June 30, 2007, 600,000 options have an exercise price of A\$0.50 with a remaining weighted average contractual life of six months and a weighted average intrinsic value of A\$nil. The remaining 40,000 options have an exercise price of A\$nil and a remaining weighted average contractual life of seven years and a weighted average intrinsic value of A\$0.36.

The weighted average grant date fair value of options issued to consultants during the years ended June 30, 2007, 2006 and 2005 is A\$0.34 and A\$0.27, respectively. The fair value was estimated at the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

- risk-free interest rate of 6.3% for 2007, 5.0% for 2006 and 4.9% for 2005;
- no dividends;
- expected volatility of 87% for 2007, 68% for 2006 and 62% for 2005; and
- expected life of five years for 2007, two years for 2006 and 2005.

During the years ended June 30, 2007, 2006 and 2005, the Company granted 481,250, 825,000 and 1,578,215 shares to consultants, respectively, with a weighted average grant date fair value of A\$0.40, A\$0.56 and A\$0.57, respectively.

During the year ended June 30, 2005, the Company granted 249,999 shares to directors with a weighted average grant date fair value of A\$0.48. No shares were granted to directors during the year ended June 30, 2007 and 2006. During the year ended June 30, 2007, the Company granted 120,000 shares to an employee, with a weighted average grant date fair value of A\$0.38.

The following table summarizes the activity of warrants granted to consultants during the years ended June 30, 2007, 2006 and 2005:

	Years Ended June 30,					
	2007		2006		2005	
	Number of options	Weighted average exercise price (USD\$)	Number of options	Weighted average exercise price (USD\$)	Number of options	Weighted average exercise price (USD\$)
Outstanding at beginning of year	320,000	8.00	320,000	8.00	-	-
Granted	-	-	-	-	320,000	8.00
Exercised	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Expired	-	-	-	-	-	-
Outstanding at end of year (e)	320,000	8.00	320,000	8.00	320,000	8.00
Exercisable at end of year (e)	<u>320,000</u>	<u>8.00 (A\$9.43)</u>	<u>320,000</u>	<u>8.00 (A\$10.96)</u>	<u>320,000</u>	<u>8.00 (A\$10.51)</u>

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27. RECONCILIATION TO US GAAP (continued)

- (f) All 320,000 warrants outstanding and exercisable as of June 30, 2007 have an exercise price of USD\$8.00 with a remaining weighted average contractual life of three years and a weighted average intrinsic value of nil.

The weighted average grant date fair value of warrants issued to consultants during the years ended June 30, 2005 is A\$1.42. The fair value was estimated at the date of grant using the Black-scholes model with the following weighted average assumptions:

- risk-free interest rate of 3.5%;
- no dividends;
- expected volatility of 71%; and
- expected life of four and a half years.

3,000,000 warrants were issued as part of the June 2004 capital raising. These warrants have been recorded as a financial liability - see note 11. These warrants are exercisable on or before June 4, 2009 at an exercise price of USD\$8.00. These warrants are convertible to one ADR which is equal to ten ordinary fully paid shares.

The following table summarizes the activity of share options issued to consultants under the Employee and Consultants Option Plan 2000 (adopted on November 22, 2000) during the year ended June 30, 2005. Each option was exercisable for one ordinary share. No options have been issued under the Employee and Consultants Option Plan 2000 for the years ended June 30, 2007 and 2006 as all options issued under the plan expired on June 30, 2005.

	Year ended June 30, 2005	
	Number of options over Ordinary Shares	Weighted average exercise price (A\$)
Outstanding at beginning of year	437,500	0.50
Granted	-	-
Exercised	-	-
Expired	(437,500)	0.50
Forfeited	-	-
Outstanding at end of year	-	-
Exercisable at end of year	-	-

At June 30, 2007 there were options on issue that could not be exercised until the share price reached:

- A\$1.00 for at least five consecutive trading days
The Company has made the assumption that this market condition will not be reached until June 30, 2010. As a result, the expense related to these options is being recognized over the period from date of grant until June 30, 2010, a weighted average period of five years. At June 30, 2007 there was A\$698,464 of total unrecognized compensation cost related to these awards yet to be expensed.
- A\$0.80 for at least five consecutive trading days
The Company has made the assumption that this market condition will not be reached until June 30, 2009. As a result, the expense related to these options is being recognized over the period from date of grant until June 30, 2009, a weighted average period of two and half years. At June 30, 2007 there was A\$946,507 of total unrecognized compensation cost related to these awards yet to be expensed.
- A\$0.50 for at least five consecutive trading days
The Company has made the assumption that this market condition will not be reached until December 31, 2007. As a result, the expense related to these options is being recognized over the period from date of grant until December 31, 2007, a weighted average period of nine months. At June 30, 2007 there was A\$45,630 of total unrecognized compensation cost related to these awards yet to be expensed.

Income tax

The consolidated entity has adopted SFAS No. 109: *Accounting for Income Taxes* ("SFAS 109") for US GAAP purposes. SFAS 109 requires a "liability approach" to accounting for income taxes, which as it applies to the consolidated entity, is very similar to that adopted under A-IFRS.

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27. RECONCILIATION TO US GAAP (continued)

The components of A-IFRS income (loss) before income tax expense consisted of the following for the years ended June 30, 2007, 2006 and 2005:

	Years ended June 30,		
	2007	2006	2005
Australia	(11,139,374)	(11,664,476)	(10,217,734)
Foreign	(2,946)	73,882	(75,297)

The components of the US GAAP deferred tax assets and liabilities as of June 30, 2007, 2006 and 2005 are as follows:

	June 30,	
	2007	2006 ¹
<u>Deferred tax assets</u>		
Net operating loss carryforwards	22,300,414	16,529,172
Foreign exchange losses	150,592	268,960
Section 40-880 deductions	215,538	-
Provision accruals	(9,883)	46,031
Other	36,473	61,744
Total gross deferred tax assets	<u>22,693,134</u>	<u>16,905,907</u>
<u>Deferred tax liability</u>		
Net deferred tax asset	<u>22,693,134</u>	<u>16,905,907</u>
Valuation allowance	<u>(22,693,134)</u>	<u>(16,905,907)</u>
Net recorded deferred taxes	<u>-</u>	<u>-</u>

As of June 30, 2007, the Company has net operating loss carryforwards in Australia of A\$75,643,779 that may be carried forward indefinitely and net operating loss carryforwards in the United States of A\$2,946 that can be carried forward for 20 years.

Recently issued but not yet adopted accounting pronouncements

In July 2006, the Financial Accounting Standards Board, or the FASB issued Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes*” or FIN 48 as an interpretation of SFAS 109. This Interpretation clarifies the accounting for uncertainty in income taxes recognized by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition of tax benefits previously recognized and additional disclosures for unrecognized tax benefits, interest and penalties. The evaluation of a tax position in accordance with this Interpretation begins with a determination as to whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. A tax position that meets the more-likely-than-not recognition threshold is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement for recognition in the financial statements. FIN 48 is effective no later than fiscal years beginning after December 15, 2006, and is required to be adopted by the consolidated entity on July 1, 2007. The consolidated entity is currently assessing the impact of the adoption of FIN 48.

In September 2006, the FASB issued SFAS No. 157, “*Fair Value Measurements*” or SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This Statement is required to be adopted by the consolidated entity on July 1, 2008. The consolidated entity is currently assessing the impact of the adoption of this Statement.

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27. RECONCILIATION TO US GAAP (continued)

In February 2007, the FASB issued SFAS No. 159, “*The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115*” or SFAS 159. This Statement permits entities to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other generally accepted accounting principles. The fair value measurement is irrevocable and subsequent changes in fair value must be recorded in earnings. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. This Statement is required to be adopted by the consolidated entity on July 1, 2008. At this time, management reasonably believes that the adoption of SFAS 159 will not have a material effect on the consolidated entity's financial position or results of operations.

f. Development Stage

The Company meets the definition of a development stage enterprise under SFAS No. 7, “Accounting and Reporting by Development Stage Enterprises” (“SFAS 7”). The following additional disclosures, prepared on an A-IFRS basis considering the AASB 1 exemptions, are required in accordance with SFAS 7:

Cumulative consolidated statement of operations from the inception of the development stage (November 11, 1997) to June 30, 2007 - A-IFRS basis:

	Period from inception of development stage (November 11, 1997) to June 30, <u>2007</u>
Revenues from continuing operations	3,080,219
Other income	6,657,232
Research and development expenses	(28,582,837)
Research and development expenses - related party	(2,289,419)
Personnel expenses	(19,378,832)
Intellectual property expenses	(6,178,770)
Auditor and accounting fees	(1,157,351)
Travel expenses	(1,742,343)
Public relations and marketing expenses	(1,493,418)
Depreciation expenses	(567,554)
Amortization expenses	(461,760)
Other expenses	(5,750,097)
Other expenses - related party	(1,000,048)
Foreign exchange loss	(1,334,367)
Impairment of intangible assets	(786,240)
Gain on fair value of financial liabilities	<u>8,502,547</u>
Loss before income tax expense	(52,483,038)
Income tax expense	-
Net loss	<u>(52,483,038)</u>

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27. RECONCILIATION TO US GAAP (continued)

Cumulative consolidated cash flow statement from the inception of the development stage (November 11, 1997) to June 30, 2007 - A-IFRS basis:

	Period from inception of development stage (November 11, 1997) to June 30, 2007
Cash Flows from Operating Activities	
Payments to suppliers and employees	(55,480,069)
Payments to suppliers and employees - related party	(2,531,889)
Interest received	3,032,571
Government grant received	3,354,228
NASDAQ reimbursements received	231,304
Neuroscience Victoria monies received	3,093,750
	<hr/>
Net cash flows (used in) operating activities	<hr/> (48,300,105)
Cash Flows from Investing Activities	
Proceeds from sale of equipment	675
Payments for purchase of equipment	(417,174)
	<hr/>
Net cash flows (used in) investing activities	<hr/> (416,499)
Cash Flows from Financing Activities	
Proceeds from issue of shares	54,638,051
Payment of share issue costs	(4,077,835)
Proceeds from exercise of options	9,812,471
Payment for underwriting costs	(144,000)
Repayment of borrowings	(2,038,728)
	<hr/>
Net cash flows provided by financing activities	<hr/> 58,189,959
Net decrease in cash and cash equivalents	<hr/> 9,473,355
Opening cash and cash equivalents brought forward	-
Exchange rate adjustments on cash and cash equivalents held in foreign currencies	<hr/> (2,064,099)
Closing cash and cash equivalents carried forward	<hr/> 16(b) 7,409,256

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

27. RECONCILIATION TO US GAAP (continued)

Equity issuances from the inception of the development stage (November 11, 1997) to June 30, 2007 - A-IFRS basis:

Date		Number of Shares	Issued Capital
	Balance, November 11, 1997 (Inception)	-	-
November 11, 1997	Issuance of shares to founders	20	20
	Balance, June 30, 1998	20	20
	Balance, June 30, 1999	20	20
December 23, 1999	297 for 1 share split	5,920	-
June 1, 2000	Issuance of shares in connection with private placement	960	960
July 1, 2000	5,000 for 1 share split	34,493,100	-
	Issuance of shares in connection with initial public offering, net of issue costs	16,000,000	7,470,863
	Issuance of shares in connection with exercise of options	5,000	2,500
	Balance, June 30, 2000	50,505,000	7,474,343
February 15, 2001	Issuance of shares in connection with private placements, net of issue costs	6,666,666	4,745,599
April 4, 2001	Non-cash issuance of shares to consultants	50,000	20,000
June 27, 2001	Non-cash issuance of shares to consultants	38,600	28,950
	Balance, June 30, 2001	57,260,266	12,268,892
February 4, 2002	Issuance of shares in connection with exercise of options	134,000	67,000
February 12, 2002	Issuance of shares in connection with exercise of options	2,000	1,000
February 22, 2002	Issuance of shares in connection with exercise of options	76,000	38,000
February 27, 2002	Issuance of shares in connection with exercise of options	40,000	20,000
March 6, 2002	Issuance of shares in connection with exercise of options	90,000	45,000
March 8, 2002	Non-cash issuance of shares to consultants	164,835	115,384
March 8, 2002	Non-cash issuance of shares to consultants	26,959	28,846
March 12, 2002	Issuance of shares in connection with exercise of options	82,690	41,346
March 12, 2002	Issuance of shares in connection with exercise of options	190,000	95,000
March 14, 2002	Issuance of shares in connection with exercise of options	10,000	5,000
March 20, 2002	Issuance of shares in connection with exercise of options	12,000	6,000
March 21, 2002	Issuance of shares in connection with exercise of options	100,000	50,000
March 25, 2002	Issuance of shares in connection with exercise of options	3,000	1,500
April 9, 2002	Issuance of shares in connection with exercise of options	8,000	4,000
April 9, 2002	Issuance of shares in connection with exercise of options	24,500	12,250
April 10, 2002	Issuance of shares in connection with exercise of options	2,500	1,250
April 11, 2002	Issuance of shares in connection with exercise of options	2,500	1,250
April 11, 2002	Issuance of shares in connection with exercise of options	100,000	50,000
May 10, 2002	Issuance of shares in connection with exercise of options	100,000	50,000

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

27. RECONCILIATION TO US GAAP (continued)

May 23, 2002	Issuance of shares in connection with exercise of options	180,000	90,000
June 16, 2002	Issuance of shares in connection with exercise of options	3,500	1,750
	Balance, June 30, 2002	58,612,750	12,993,468
August 7, 2002	Issuance of shares in connection with exercise of options	4,000	2,000
October 7, 2002	Issuance of shares in connection with exercise of options	13,274	6,637
July 13, 2002	Non-cash issuance of shares to consultants	13,550	27,371
September 18, 2002	Issuance of shares in connection with exercise of options	32,000	16,000
September 30, 2002	Issuance of shares in connection with exercise of options	25,000	12,500
October 15, 2002	Issuance of shares in connection with exercise of options	20,081	10,040
November 20, 2002	Issuance of shares in connection with exercise of options	113,000	56,500
November 22, 2002	Issuance of shares in connection with exercise of options	33,072	16,536
November 25, 2002	Issuance of shares in connection with exercise of options	7,000	3,500
December 4, 2002	Non-cash issuance of shares to consultants	15,318	26,653
December 12, 2002	Issuance of shares in connection with exercise of options	50,000	25,000
January 8, 2003	Issuance of shares in connection with exercise of options	50,000	25,000
January 22, 2003	Issuance of shares in connection with exercise of options	2,620	1,310
January 30, 2003	Issuance of shares in connection with exercise of options	9,700	4,850
January 30, 2003	Non-cash issuance of shares to consultants	118,101	115,739
February 14, 2003	Issuance of shares in connection with exercise of options	499,403	249,702
February 20, 2003	Issuance of shares in connection with exercise of options	483,746	241,873
February 28, 2003	Issuance of shares in connection with exercise of options	2,530,483	1,265,242
March 5, 2003	Issuance of shares in connection with exercise of options	3,107,891	1,553,945
March 15, 2003	Issuance of shares in connection with exercise of options	25,000	12,500
April 3, 2003	Issuance of shares in connection with exercise of options	421,314	210,657
	Underwriting costs		(144,000)
	Balance, June 30, 2003	66,187,303	16,733,023
August 11, 2003	Issuance of shares in connection with exercise of options	50,000	25,000
August 13, 2003	Issuance of shares in connection with exercise of options	25,000	12,500
August 27, 2003	Issuance of shares in connection with exercise of options	16,000	8,000
August 27, 2003	Non-cash issuance of shares to consultants	70,768	49,538
August 29, 2003	Issuance of shares in connection with exercise of options	34,000	17,000
September 16, 2003	Issue of shares in connection with private placements, net of costs	7,102,853	4,675,019
January 12, 2004	Non-cash issuance of shares to directors	249,999	120,000
January 12, 2004	Non-cash issuance of shares to consultants	67,955	43,491
February 20, 2004	Non-cash issuance of shares to consultants	155,502	85,526
April 8, 2004	Issuance of shares in connection with exercise of options	200,000	140,000
April 15, 2004	Issuance of shares in connection with exercise of options	100,000	70,000
April 16, 2004	Issuance of shares in connection with exercise of options	200,000	100,000
April 16, 2004	Issuance of shares in connection with exercise of options	200,000	140,000
April 20, 2004	Issuance of shares in connection with exercise of options	300,000	150,000
April 22, 2004	Issuance of shares in connection with exercise of options	200,000	100,000
May 10, 2004	Non-cash issuance of shares to consultants	825,000	684,750

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

27. RECONCILIATION TO US GAAP (continued)

June 1, 2004	Issuance of shares in connection with private placements, net of costs	40,000,000	17,520,098
	Expired options		8,000
	Balance, June 30, 2004	<u>115,984,380</u>	<u>40,681,945</u>
August 9, 2004	Non-cash issuance of shares for settlement of litigation	1,350,000	756,000
September 16, 2004	Non-cash issuance of shares to consultants	49,775	39,616
December 8, 2004	Issuance of shares in connection with exercise of options, net of costs	9,506,666	4,145,811
December 17, 2004	Non-cash issuance of shares to directors	249,999	118,703
February 21, 2005	Non-cash issuance of shares to consultants	<u>178,440</u>	<u>96,822</u>
	Balance, June 30, 2005	<u>127,319,260</u>	<u>45,838,897</u>
August 10, 2005	Issuance of shares in connection with exercise of options, net of issue costs	<u>825,000</u>	<u>435,230</u>
	Balance, June 30, 2006	<u>128,144,260</u>	<u>46,274,127</u>
August 30, 2006	Issuance of shares in connection with private placement, net of costs	250,000	43,125
October 13, 2006	Exercise of options, net of costs	80,000	31,880
November 29, 2006	Issuance of shares in connection with private placement, net of costs	15,616,246	4,256,979
November 29, 2006	Issuance of options in connection with private placement	-	905,743
December 1, 2006	Exercise of options, net of costs	15,000	4,905
December 28, 2006	Issuance of shares in connection with private placement, net of costs	6,148,222	1,808,764
December 28, 2006	Issuance of options in connection with private placement	-	356,596
April 16, 2007	Exercise of options, net of costs	38,000	14,569
May 3, 2007	Non-cash issuance of shares to consultants, net of costs	200,000	94,800
May 31, 2007	Non-cash issuance of shares to consultants, net of costs	281,250	99,779
May 31, 2007	Non-cash issuance of shares to employees	120,000	45,600
May 31, 2007	Exercise of options, net of costs	<u>625,000</u>	<u>51,545</u>
	Balance, June 30, 2007	<u>151,517,978</u>	<u>53,988,412</u>

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

Note 28. U.S. GAAP Condensed Financial Information

The following financial information is the audited U.S. GAAP condensed financial information of Prana as of and for the years ended June 30, 2007, 2006 and 2005.

	CONDENSED CONSOLIDATED BALANCE SHEET (in Australian dollars)	
	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current assets		
Cash and cash equivalents	7,409,256	10,013,778
Trade and other receivables	96,499	194,161
Other current assets	<u>168,539</u>	<u>110,832</u>
Total current assets	<u>7,674,294</u>	<u>10,318,771</u>
Property and equipment, net	47,891	102,375
Total assets	<u>7,722,185</u>	<u>10,421,146</u>
Liabilities		
Trade and other payables	1,661,609	1,538,358
Current provisions	<u>77,465</u>	<u>76,672</u>
Total current liabilities	<u>1,739,074</u>	<u>1,615,030</u>
Financial liabilities	321,001	928,692
Non-current provisions	<u>49,915</u>	<u>76,766</u>
Commitments and contingencies	-	-
Stockholders' equity		
Common stock	-	-
Additional paid-in capital	62,274,842	53,320,985
Accumulated deficit during the development stage	<u>(56,662,647)</u>	<u>(45,520,327)</u>
Total stockholders' equity	<u>5,612,195</u>	<u>7,800,658</u>
Total liabilities and stockholders' equity	<u>7,722,185</u>	<u>10,421,146</u>

PRANA BIOTECHNOLOGY LIMITED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

Note 28. U.S. GAAP Condensed Financial Information (continued)

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in Australian dollars, except number of shares)

	Year ended June 30, 2007	Year ended June 30, 2006	Year ended June 30, 2005
Other income:			
Government grants	-	288,173	629,692
Corporate partner income	-	-	1,125,000
Other	<u>287</u>	<u>90</u>	<u>6,286</u>
		288,263	1,760,978
Operating expenses:			
Research and development	(5,092,425)	(8,083,208)	(7,659,390)
Research and development - related parties	-	-	(577,757)
General and administrative	(6,407,445)	(4,909,841)	(6,688,164)
Foreign currency gain/(loss), net	(757,578)	223,454	(1,362,572)
Impairment of intangible assets	-	-	(4,164,659)
Gain on fair value of financial liabilities	<u>607,691</u>	<u>128,715</u>	<u>5,801,397</u>
Total operating expenses	<u>(11,649,757)</u>	<u>(12,640,880)</u>	<u>(14,651,145)</u>
Loss from operations	(11,649,470)	(12,352,617)	(12,890,167)
Non-operating income:			
Interest income	<u>507,150</u>	<u>762,023</u>	<u>892,135</u>
Loss before income tax expense	(11,142,320)	(11,590,594)	(11,998,032)
Income tax expense	-	-	-
Net loss	<u>(11,142,320)</u>	<u>(11,590,594)</u>	<u>(11,998,032)</u>
Loss per share (basis and diluted)	(0.08)	(0.09)	(0.10)
Weighted average number of ordinary shares used in computing basic and diluted net loss per share	140,754,495	128,053,601	122,754,061

Note 29. Restatement

(a) Background

On June 1, 2004, upon approval of Prana's shareholders, the Company issued 4,000,000 ADRs to institutional and professional investors at a price of US\$5.00 per ADR in a private placement in the United States, or an aggregate US\$20 million before issuance costs. The private placement also involved the acquisition by the Company's investors of warrants to purchase an additional 3,000,000 ADRs at an exercise price of US\$8.00 per ADR on or before June 4, 2009. Each ADR represents ten ordinary shares.

(b) A-IFRS

In accordance with the generally accepted accounting principles in Australia that applied to Prana at June 1, 2004, the US\$20 million that the Company received at the closing of the private placement was recorded as Issued Capital. No value was attributed to the warrants. Upon the Company's adoption of the A-IFRS on July 1, 2005, the accounting treatment of the private placement reflected in the Company's audited financial statements for the fiscal year ended June 30, 2005 was not altered.

Following a review of the interim financial statements for the six months ended December 31, 2006 by the Company's auditors, the Company identified that the treatment of the accounting for the private placement was incorrect under A-IFRS. Under AASB 132, the warrants associated with the private placement must be classified as a financial liability, as opposed to equity, as a result of the warrants being exercisable in a currency that is not the functional currency of the company. As a result, upon initial recognition, the fair value of the warrants should be recognized as a financial liability at their fair value, reducing the Issued Capital that was previously recorded. Each reporting period, the fair value of the outstanding warrants is revalued using the Black Scholes Model. When the fair value of the outstanding warrants increases or decreases, the difference is recorded as a gain or loss, as applicable, on the fair value of financial liabilities.

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

Note 29. Restatement(continued)

The correction impacts the measurement and classification of these instruments for accounting purposes only. All of the material terms and conditions of the warrants have been correctly and appropriately disclosed in prior period financial statements. The warrant holders cannot require us to settle the warrants in cash. Accordingly, the revised classification of the warrants as a financial liability does not have an impact on our future liquidity requirements or ability to continue as a going concern.

	As of and for the years ended June 30,			
	2006		2005	
	As previously reported	As restated	As previously reported	As restated

Consolidated balance sheet line items:

Financial liabilities	-	928,692	-	1,057,407
Total liabilities	1,691,796	2,620,488	2,694,983	3,752,390
Net assets	8,729,350	7,800,658	19,594,176	18,536,769
Issued capital *	55,097,675	46,274,127	54,662,445	45,838,897
Accumulated deficit during the development stage *	(49,235,574)	(41,340,718)	(37,516,265)	(29,750,124)
Total equity	8,729,350	7,800,658	19,594,176	18,536,769

* Upon the conversion to A-IFRS on July 1, 2004, the Issued Capital was reduced by \$8,823,548 and accumulated deficit during the development stage was reduced by \$1,964,744 as a result of the warrants being treated under A-IFRS as financial liabilities.

Consolidated statement of operations line items:

Gain on fair value financial liabilities	-	128,715	-	5,801,397
Loss before income tax expense	(11,719,309)	(11,590,594)	(16,094,428)	(10,293,031)
Net loss	(11,719,309)	(11,590,594)	(16,094,428)	(10,293,031)
Loss per share (basic and diluted)	(0.09)	(0.09)	(0.13)	(0.08)

(c) US GAAP

In accordance with US GAAP that applied to our company at June 1, 2004, the US\$20 million that we received at the closing of the private placement should have been recorded as a financial liability. However, no value was attributed to the warrants and they were treated as issued capital.

Following a review of the interim financial statements for the six months ended December 31, 2006 by our auditors, we have identified that the treatment of the accounting for the private placement was incorrect under US GAAP. Under SFAS No. 133: *Accounting for Derivatives Instruments and Hedging Activities*, as amended, and Emerging Issues Task Force Issue No. 01-6: *The Meaning of "Indexed to a Company's Own Stock*, the warrants associated with the private placement should have been classified as a financial liability, as opposed to equity, as a result of the warrants being exercisable in a currency that is not the functional currency of our company. As a result, upon initial recognition, the fair value of the warrants should be recognized as a financial liability at their fair value, reducing the issued capital that was previously recorded. Each reporting period, the fair value of the outstanding warrants is revalued using the Black Scholes Model. When the fair value of the outstanding warrants increases or decreases, the difference is recorded as a gain or loss, as applicable, on the fair value of financial liabilities.

The correction impacts the measurement and classification of these instruments for accounting purposes only. All of the material terms and conditions of the warrants have been correctly and appropriately disclosed in prior period financial statements. The warrant holders cannot require us to settle the warrants in cash. Accordingly, the revised classification of the warrants as a financial liability does not have an impact on our future liquidity requirements or ability to continue as a going concern.

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - in Australian dollars (unless otherwise noted)

Note 29. Restatement (continued)

	As of and for the years ended June 30,			
	2006		2005	
	As previously reported	As restated	As previously reported	As restated

Consolidated balance sheet line items:

Financial liabilities	-	928,692	-	1,057,407
Total liabilities	1,691,796	2,620,488	2,694,983	3,752,390
Additional paid-in capital *	62,144,533	53,320,985	61,290,050	52,466,502
Accumulated deficit during the development stage *	(53,415,183)	(45,520,327)	(41,695,874)	(33,929,733)
Total stockholder's equity	8,729,350	7,800,658	19,594,176	18,536,769
Total liabilities and stockholder's equity	10,421,146	10,421,146	22,289,159	22,289,159

* Under U.S. GAAP, on July 1, 2004, the Issued Capital was reduced by \$8,823,548 and accumulated deficit during the development stage was reduced by \$1,964,744 as a result of the warrants being treated as financial liabilities.

Consolidated statement of operations line items:

Gain on fair value financial liabilities	-	128,715	-	5,801,397
Loss from operations	(12,481,332)	(12,352,617)	(18,691,564)	(12,890,167)
Loss before income tax expense	(11,719,309)	(11,590,594)	(17,799,429)	(11,998,032)
Net loss	(11,719,309)	(11,590,594)	(17,799,429)	(11,998,032)
Loss per share (basic and diluted)	(0.09)	(0.09)	(0.15)	(0.10)

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this report on its behalf.

Prana Biotechnology Limited

By: /s/ Geoffrey P. Kempler

Geoffrey P. Kempler
Chief Executive Officer

Dated: September 27, 2007

**THIRD RESEARCH FUNDING AND INTELLECTUAL PROPERTY
ASSIGNMENT AGREEMENT**

BETWEEN

UNIVERSITY OF MELBOURNE

AND

PRANA BIOTECHNOLOGY LTD (ABN 37 080 699 065)

This Third Research Funding and Intellectual Property Assignment Agreement, dated this 24 day of June - 2007 is made:

BETWEEN

THE UNIVERSITY OF MELBOURNE [ABN 84 002 705 224] of Parkville, Victoria 3010, a body politic and corporate pursuant to the provisions of the *Melbourne The University Act 1958* ("the University").

AND:

PRANA BIOTECHNOLOGY LTD (ABN 37 080 699 065) having its principal office at Level 1, 100 Dorcas Street, South Melbourne, Victoria 3205 ("Prana")

RECITALS:

- A. Prana and the University are parties to an undated Research Funding and Intellectual Property Assignment Agreement, entered into on or about 1 December 2000 as amended from time to time, which expired on 1 December 2003 ("The Research Agreement").
- B. Prana and the University are also parties to an undated Second Research Funding and Intellectual Property Assignment Agreement entered into on or about 1st October 2004, which expired on 1 December 2006 ('Second Research Agreement')
- C. Since the expiration of the Second Research Agreement, the parties have continued to conduct Projects and work together in accordance with the terms and conditions of the Second Research Agreement as if it continued to have full force and effect.
- C. The Parties now wish to enter into this Third Research Funding and Intellectual Property Assignment Agreement ('Third Research Agreement') which is deemed to have come into effect on and from the date of expiration of the Second Research Agreement.
- D. The Parties wish to acknowledge that the University will continue to subcontract part of the Research Project to the Mental Health Research Institute of Victoria ("MHRI") pursuant to the contract between the University and MHRI dated 26th February 2004 ("Subcontract"). The term of the Subcontract is effective for the term of The Research Agreement.
- E. The Parties further acknowledge that the three projects referred to in the amendment to The Research Agreement by letter dated 7th March 2003 ("7th March 2003 Letter Agreement") have no bearing on the term of this Third Research Agreement.

NOW IT IS AGREED:

1. DEFINITIONS & INTERPRETATION.

Unless otherwise specified in this Third Research Agreement, all defined terms used in this Third Research Agreement shall have the same meaning as given to those terms in The Research Agreement.

'Further Term' means a period of three years deemed to have commenced on and from the expiration of the Second Research Agreement and expiring on 1 December 2009.

'The Research Agreement' means the undated Research Funding and Intellectual Property Assignment Agreement, entered into on or about 1 December 2000 as amended from time to time, which expired on 1 December 2003.

'Research Projects' has the meaning given to that term in The Research Agreement.

'Second Research Agreement' means the undated Second Research Funding and Intellectual Property Assignment Agreement entered into on or about 1st October 2004 which expired on 1 December 2006.

'Third Research Agreement' means this Agreement.

2. INCORPORATION OF TERMS AND CONDITIONS OF THE RESEARCH AGREEMENT

The terms and conditions of The Research Agreement are incorporated into this Third Research Agreement and are deemed to have had full force and effect as and from the expiration of The Research Agreement, save and except for any terms and conditions specifically amended, replaced or supplemented by this Third Research Agreement.

3. AMENDMENT OF SCHEDULE

The Parties agree that the Schedule to The Research Agreement shall be amended as provided by this Third Research Agreement.

4. EFFECTIVE DATE OF THIS AGREEMENT AND EARLY EXPIRATION

This Third Research Agreement shall be deemed to have come into effect on and from the date of expiration of the Second Research Agreement and shall remain in effect for a Further Term, unless the parties agree in writing to an earlier expiration date or termination occurs in accordance with clause 19 of The Research Agreement.

5. TERMINATION

The Parties agree that clause 19 of The Research Agreement shall be amended as follows:

(a) Clause 19.3 shall be deleted and substituted with:
Prana may terminate this Third Research Agreement without cause by giving six months written notice to the University and such notice shall be effective six months from the date of receipt of the written notice by the University.

**SIGNED for and on behalf of THE UNIVERSITY
OF MELBOURNE)**

In the presence of:

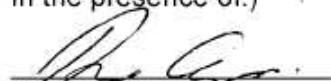
Witness signature

Name (printed)

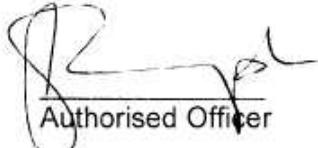

Authorised Officer
Clem Sniffen, VPL

**SIGNED for and on behalf of PRANA
BIOTECHNOLOGY LTD**

In the presence of:


Witness signature

Name (printed)


Authorised Officer

SCHEDULE A
Replacement to Part B

1. PROPOSED RESEARCH PROGRAM

2. STAFF/PROJECTS/BUDGET ESTIMATES

4. FUNDING FOR PERIOD 2 DECEMBER 2006 – 1 DECEMBER 2007:

All figures are exclusive GST:

Research Project Title.	Budget Period.				
	2 Dec 2006 – 1 Dec 2007				
	2 December 2006 – 28 February 2007	1 March 2007 – 31 May 2007	1 June 2007 – 31 August 2007	1 September 2007 – 1 December 2007	Sub-Totals
Project 1(a) 'Structure Based Drug Design' (Project leader K. Barnham).	\$37,500	\$30,000	\$30,000	\$30,000	\$127,500
<i>*Subcontract component to MHRI from 1 March 2007. * \$21,000 per quarter to be forwarded to MHRI under the Sub-Contract.</i>	N/A	*\$21,000	*\$21,000	*\$21,000	*\$63,000
Project 1(b) 'Cell Based Drug Discovery' (Project Leader R. Cappai)	\$37,500	\$37,500	\$37,500	\$37,500	\$150,000
Project 2. 'Drug screening & Development' (Project Leader R. Cherny). <i>**Project is Sub contracted to MHRI and all funds to be forwarded to MHRI.</i>	\$87,500**	\$87,500**	\$87,500**	\$87,500**	**\$350,000
Sub-Total	\$162,500	\$176,000	\$176,000	\$176,000	
TOTAL					\$690,500

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5. UNIVERSITY REPRESENTATIVES

Professor James Angus and a representative nominated by the University from time to time.

6. PRANA REPRESENTATIVES

Ms Dianne Angus, Prana and a representative nominated by Prana from time to time.

7. MINIMUM PERFORMANCE LEVELS

\$2,000 per annum for the period beginning on the date an amount first becomes payable under clause 12 of the Original Research Agreement until the end of the Further Term of this *Agreement*.

APPENDIX -TO THIRD RESEARCH AGREEMENT

Project 1(a). Research Project: 'Structure Based Drug Design'

- General Aims :**
- (i) Design and synthesize a range of platinum based compounds as potential diagnostic and therapeutics.
 - (ii) Characterizing the biophysical interactions between metals with target proteins such as APP, A β , dopamine to elucidate new therapeutic targets and screens in AD and PD.

Proposed Objectives:

- (1) Develop a Pt based therapeutic compound for Alzheimer's disease.
Compounds will be designed and synthesized; then screened to ascertain their potential as therapeutics, through the assays listed below:-

- In vitro inhibition of synthetic amyloid
- Neuroprotection/toxicity
- Bioavailability/toxicity (MDCK/non-tg animals)
- LTP
- Tg mice studies

- (2) Develop a Pt based diagnostic compound for Alzheimer's disease

Compounds will be designed and synthesized for use as PET imaging agents with the potential to be diagnostics for Alzheimer's disease. To achieve this, compounds suitable for radio-labelling will have to be prepared. The compounds will be screened through the following assays:-

- In vitro synthetic amyloid binding assay
- Brain homogenate assay
- Bioavailability (MDCK/non-tg animals)
- Ex vivo autoradiograph
- Micro-PET imaging
- Radiolabelling chemistry

K Barnham: Project Leader

Project 1(b). Research Project: 'Cell Based Drug Discovery'

General Aims: To screen and characterize Prana compounds in cell based systems that measure toxicity and cellular dysfunction associated with pathology, in particular Alzheimer's disease and Parkinson's disease and to develop new screens based on the emerging knowledge of the underlying pathogenic mechanisms of these diseases.

Proposed Objectives:

The screening/testing of therapeutic agents in cell based assays for:-

- (i) their cellular toxicity towards neuronal cell lines or primary neuronal cultures.
- (ii) their ability to protect against A_β neurotoxicity in primary neuronal cultures.
- (iii) their ability to rescue A_β inhibition of LTP
- (iv) their ability to protect against oxidative stress in cultured cells as measured by protein carbonyl assay.
- (v) their ability to transport metals into cultured cell lines by measuring cellular metal levels.

R. Cappai: Project Leader

Project 2. Research Project: 'Drug Screening and Development'

General Aims :

- (i) To screen and characterize Prana compounds in models of neurodegenerative disorders, in particular, (i) AD and (ii) PD related pathology and to develop new screens based on the emerging knowledge of the underlying pathogenic mechanisms of these diseases.
- (ii) To characterize A β oligomers.

Proposed Objectives:

- The hydrogen peroxide assay. To test the ability of candidate compounds to inhibit the copper catalysed generation of H₂O₂ by A β and α -synuclein via a 96 well format fluorometric assay.
- Acute toxicity assay for potential therapeutic drugs. Incremental doses of a drug candidate which has passed through the *in vitro* efficacy and toxicity screens are administered to mice to establish a tolerable dose range for *in-vivo* animal trials.
- Whole mouse plasma pharmacology assessment for therapeutic test agents.
- Animal trials. Drug candidates to be administered to a cohort of the appropriate animal model for each disease. At completion of the trial, brain and other tissues may be collected and assayed for Target Protein content, changes to Target Protein and other markers, including metals.
- Characterisation of endogenous A β oligomeric species, incl. ADDLs and their role in AD pathology.
- Assays to assess cognitive effects of drug candidates. Ie Morris water maze.
- Assays to detect brain *in vivo* drug presence and candidate drug effect. Ie *in vivo* microdialysis.

R. Cherny: Project Leader

GENERAL SERVICES AGREEMENT

This General Services Agreement (“Agreement”) is made between Prana Biotechnology Ltd, which has a place of business at Level 2, 369 Royal Parade, Parkville, VIC, 3052 Australia (hereinafter “Sponsor”), and Quintiles, Limited having its principal place of business at Station House, Market Street, Bracknell, Berkshire, RG12 1HX (hereinafter “Quintiles”). When signed by both parties, this Agreement will set forth the terms and conditions under which Quintiles agrees to provide certain services to Sponsor as set forth herein.

Recitals:

A. Sponsor is in the business of developing, manufacturing and/or distributing pharmaceutical products, medical devices and/or biotechnology products. Quintiles is in the business of providing clinical trial services, research, and other services for the pharmaceutical, medical device and biotechnology industries and has made significant, up-front investments in technologies related to those industries, building on important inventions and web-based technologies.

B. Sponsor and Quintiles desire to enter into this Agreement whereby Quintiles will perform services relating to the Phase IIa randomised placebo controlled trial of PBT2 in a population of subjects with mild Alzheimer's Disease (the “Project”).

Agreement:

- 1.0 **Services to be Provided.** The services to be performed hereunder (the “Services”) shall be specified in the Scope of Work attached hereto as Attachment 1. Any responsibilities not specifically transferred in this Agreement shall remain the responsibility of Sponsor.
- 2.0 **Payment of Fees and Expenses.** Sponsor will pay Quintiles for fees, expenses and pass-through costs in accordance with the budget and payment schedule attached hereto as Attachment 2. Based on the estimated cash flow of the Project, Sponsor agrees that a prepayment may be needed for Quintiles to maintain cash neutrality over the term of the Project taking into account the payment terms agreed to between the parties. Quintiles will invoice Sponsor for its fees in accordance with the payment schedule and monthly for expenses and pass-through costs incurred in performing the Services. Expenses and pass-through costs will be supported by a summary sheet. With the exception of any prepayment or advances and investigator invoices, which are due and payable upon receipt, all other invoice payments shall be made to Quintiles within thirty (30) days of receipt. If any portion of an invoice is disputed, then Sponsor shall pay the undisputed amounts as set forth in the preceding sentence and the parties shall use good faith efforts to reconcile the disputed amount as soon as practicable. Sponsor shall pay Quintiles interest in an amount equal to four percent (4%) above the base interest rate established by Fortis Bank Limited per month of all undisputed amounts owing hereunder and not paid when due (or the maximum lesser amount permitted by applicable law). In the event that taxes or duties, of whatever nature, are required to be withheld on payments made pursuant to this Agreement by any state, federal, provincial or foreign government, including, but not limited to, Value Added Tax,

Sponsor shall promptly pay said taxes and duties to the appropriate taxing authority without any deduction to any amount owed to Quintiles. Sponsor shall secure and deliver to Quintiles any official receipt for any such taxes paid. Quintiles shall send all invoices to the attention of Janet Wilson at the following address: Prana Biotechnology Ltd, Level 2, 369 Royal Parade, Parkville, VIC, 3052, Australia. Sponsor shall send all payments to the following address: PSC Earlston House, Almondvale Way, Almondvale Business Park, Livingston, EH54 6GA or by means of BACS Transfer as follows :

Payable to: **Quintiles Limited**

Fortis Bank
23 Camomile Street
London
EC3A 7PP
England

Sort Code: 40-52-62

Account Number: 21810137

Swift: GEBAGB22

IBAN: GB19GEBA40526221810137

3.0 **Term.** This Agreement shall commence on the date it has been signed by all parties and shall continue until the Services are completed or until terminated by either party in accordance with Section 17 below.

4.0 **Change Orders.** Any change in the details of this Agreement or the assumptions upon which this Agreement is based (including, but not limited to, changes in an agreed starting date for the Project or suspension of the Project by Sponsor) may require changes in the budget and/or time lines, and shall require a written amendment to the Agreement (a "Change Order"). Each Change Order shall detail the requested changes to the applicable task, responsibility, duty, budget, time line or other matter. The Change Order will become effective upon the execution of the Change Order by both parties, and Quintiles will be given a reasonable period of time within which to implement the changes. Both parties agree to act in good faith and promptly when considering a Change Order requested by the other party. Without limiting the foregoing, Sponsor agrees that it will not unreasonably withhold approval of a Change Order. Either party reserves the right to postpone effecting material changes in the Project's scope until such time as the parties agree to and execute the corresponding Change Order. For any Change Order that affects the scope of the regulatory obligations that have been transferred to Quintiles, Quintiles and Sponsor shall execute a corresponding amendment to the Transfer of Obligations Form. Sponsor shall file such amendment where appropriate, or as required by law or regulation.

5.0 **Confidentiality.** It is understood that during the course of this Agreement, Quintiles and its employees may be exposed to data and information that are confidential and proprietary to Sponsor. It is understood that project results are Confidential and proprietary to the Sponsor and all such data and information (hereinafter is collectively termed "Sponsor Confidential Information") written or verbal, tangible or intangible, made available, disclosed, or otherwise made known to Quintiles and its employees as a result of Services under this Agreement shall be considered confidential and shall be considered the sole property of Sponsor. All information regarding Quintiles' operations, methods, and pricing and all Quintiles' Property (as defined in Section 6.0 below), disclosed by Quintiles to Sponsor in connection with this Agreement is proprietary, confidential information belonging to Quintiles (the "Quintiles Confidential Information"), and together with the Sponsor Confidential Information, the "Confidential Information"). The Confidential Information shall be used by the receiving party and its employees only for purposes of performing the receiving party's obligations hereunder. Each party agrees that it will not reveal, publish or otherwise disclose the Confidential Information of the other party to any third party without the prior written consent of the disclosing party. Each party agrees that it will not disclose the terms of this Agreement to any third party without the written consent of the other party, which shall not unreasonably be withheld. These obligations of confidentiality and nondisclosure shall remain in effect for a period of ten (10) years after the completion or termination of the Agreement.

The foregoing obligations shall not apply to Confidential Information to the extent that it: (a) is or becomes generally available to the public other than as a result of a disclosure by the receiving party; (b) becomes available to the receiving party on a non-confidential basis from a source which is not prohibited from disclosing such information; (c) was developed independently of any disclosure by the disclosing party or was known to the receiving party prior to its receipt from the disclosing party, as shown by contemporaneous written evidence; or, (d) is required by law or regulation to be disclosed.

- 6.0 **Ownership and Inventions.** All data and information generated or derived by Quintiles as the result of Services performed by Quintiles under this Agreement shall be and remain the exclusive property of Sponsor. Any inventions that may evolve from the data and information described above or as the result of Services performed by Quintiles under this Agreement shall belong to Sponsor and Quintiles agrees to assign its rights in all such inventions and/or related patents to Sponsor. Notwithstanding the foregoing, Sponsor acknowledges that Quintiles possesses certain inventions, processes, know-how, trade secrets, improvements, other intellectual properties and other assets, including but not limited to analytical methods, procedures and techniques, procedure manuals, personnel data, financial information, computer technical expertise and software, which have been independently developed by Quintiles and which relate to its business or operations (collectively "Quintiles' Property"). Sponsor and Quintiles agree that any Quintiles' Property or improvements thereto which are used, improved, modified or developed by Quintiles under or during the term of this Agreement are the sole and exclusive property of Quintiles.
- 7.0 **Records and Materials.** At the completion of the Services by Quintiles, all materials, information and all other data owned by Sponsor, regardless of the method of storage or retrieval, shall be delivered to Sponsor in such form as is then currently in the possession of Quintiles. Alternatively, at Sponsor's written request, such materials and data may be retained by Quintiles for Sponsor for an agreed-upon time period, or disposed of pursuant to the written directions of Sponsor. Sponsor shall pay the costs associated with any of the above options and shall pay a to-be-determined fee for storage by Quintiles of records and materials after completion or termination of the Services. Quintiles, however, reserves the right to retain, at its own cost and subject to the confidentiality provisions herein, one copy of all materials that may be needed to satisfy regulatory requirements or to resolve disputes regarding the Services. Nothing in this Agreement shall be construed to transfer from Sponsor to Quintiles any FDA or regulatory record-keeping requirements unless such transfer is specifically provided for in the applicable Transfer of Obligations Form.

8.0 **Independent Contractor Relationship.** For the purposes of this Agreement, the parties hereto are independent contractors and nothing contained in this Agreement shall be construed to place them in the relationship of partners, principal and agent, employer/employee or joint venturers. Neither party shall have the power or right to bind or obligate the other party, and neither party shall hold itself out as having such authority. If, however, Sponsor desires to conduct clinical trials in one or more countries that require a local sponsor or representative, and Sponsor requests that Quintiles or its affiliates serve as its agent for that purpose, then Quintiles may serve as Sponsor's agent for the purpose of fulfilling local sponsor or representative duties. Sponsor shall pay Quintiles for such local representative services at Quintiles' standard daily rates, unless otherwise specified in the attached Budget.

9.0 **a) Regulatory Compliance.** Quintiles agrees that its Services will be conducted in compliance with all applicable laws, rules and regulations and with the standard of care customary in the contract research organization industry (excluding 21 CFR Part 11). Quintiles shall process all personal data in accordance with this Agreement or as otherwise instructed by Sponsor or its affiliates in compliance with the EU Data Protection Directive 95/46/EC and any applicable national legislation enacted thereunder ("Data Protection Legislation"). Sponsor represents and affirms to Quintiles that Sponsor has complied with, and will continue to comply with its obligations under the Data Protection Legislation. Quintiles' standard operating procedures will be used in performance of the Services, unless otherwise specifically stated in the Scope of Work. Quintiles certifies that it has not been debarred under the Generic Drug Enforcement Act and that it will not knowingly employ any person or entity that has been so debarred to perform any Services under this Agreement. Sponsor represents and certifies that it will not require Quintiles to perform any assignments or tasks in a manner that would violate any applicable law or regulation. Sponsor further represents that it will cooperate with Quintiles in taking any actions that Quintiles reasonably believes are necessary to comply with the regulatory obligations that have been transferred to Quintiles.

b) Inspections and Audits. Each party acknowledges that the other party may respond independently to any regulatory correspondence or inquiry in which such party or its affiliates is named. Each party, however, shall not respond on behalf of the other party to any such regulatory correspondence or inquiry, unless otherwise agreed by the parties, and shall notify the other party promptly of any FDA or other governmental or regulatory inspection or inquiry concerning the Services. During any such inspection or inquiry, the parties agree to make reasonable efforts to disclose only the information required to be disclosed. During the term of this Agreement, Quintiles will permit Sponsor's representatives (unless such representatives are competitors of Quintiles) to examine or audit the work performed hereunder and the facilities at which the work is conducted upon reasonable advance notice during regular business hours to determine that the Services are being conducted in accordance with the agreed task and that the facilities are adequate. Sponsor agrees that it shall not disclose to any third party any information ascertained by Sponsor in connection with any such audit or examination, except to the extent required by law or regulation. Sponsor shall reimburse Quintiles for its time and expenses (including reasonable attorney fees and the costs of responding to findings) associated with any inspection, audit or investigation relating to the Services ("Inspection") instigated by Sponsor or by a governmental authority, unless such Inspection finds that Quintiles breached this Agreement or any applicable law or regulation.

Relationship with Investigators. If Quintiles will be obligated to contract with investigators or investigative sites (collectively, "Investigators") then Quintiles will use its standard Clinical Trial Agreement ("Global CTA") form, a copy of which is attached hereto as Attachment 3, along with certain local CTA forms ("Local CTAs") that have developed for use in certain countries based on local requirements with the benefit of local legal advice, which have been prepared in local language and English language where applicable. Any applicable Local CTAs will be made available for inspection by the Sponsor upon request. If the Global CTA form or a Local CTA is updated, Quintiles will use its then current Global CTA form (or Local CTA as appropriate) as of the time of the agreement. If Sponsor insists that any CTA form other than the Global CTA and Local CTAs be used, then Sponsor shall pay all translation costs and additional negotiation time may be required. If an Investigator insists upon any material changes to any provisions that directly affect Sponsor, then Quintiles shall submit the proposed material change to Sponsor, and Sponsor shall review, comment on and/or approve such proposed changes within five (5) working days. If the Global CTA form (or Local CTA, where applicable), or any changes approved by Sponsor, differ from the terms of this Agreement (including, but not limited to, provisions allowing an Investigator to publish results or data that Quintiles is prohibited from revealing), then Quintiles shall have no liability for any such approved provisions or changes. Unless otherwise stated in the attached Budget, the time incurred by Quintiles in negotiating CTA changes proposed by sites shall be billed at Quintiles' Standard Rates. The parties acknowledge and agree that Investigators shall not be considered the employees, agents, or subcontractors of Quintiles or Sponsor and that Investigators shall exercise their own independent medical judgment. Quintiles' responsibilities with respect to Investigators shall be limited to those responsibilities specifically set forth in this Agreement.

If Quintiles will be paying Investigators on behalf of Sponsor, the parties will agree in the attached Payment Schedule as to a schedule of amounts to be paid to Investigators. Sponsor acknowledges and agrees Quintiles will only pay Investigators from advances or pre-payments received from Sponsor for Investigators' services, and that Quintiles will not make payments to Investigators prior to receipt of sufficient funds from Sponsor. Sponsor acknowledges and agrees that Quintiles will not be responsible for delays in a study or Project to the extent that such delays are caused by Sponsor's failure to make adequate pre-payment for Investigators' services. Sponsor further acknowledges and agrees that payments for Investigators' services are pass-through payments to third parties and are separate from payments for Quintiles' Services. Sponsor agrees that it will not withhold Investigator payments except to the extent that it has reasonable questions about the services performed by a particular Investigator. For the avoidance of doubt, nothing contained in this clause, or elsewhere in this Agreement, is intended to confer any right or benefit on any third party including, but not limited to, any Investigator, whether under the provisions of the Contracts (Rights of Third Parties) Act 1999 or otherwise.

11.0 **Third Party Indemnifications and Agreements.** If any investigative sites or any other third parties, including, but not limited to, Data Safety Monitoring Boards, independent laboratories, Advisory Boards, or End Point Adjudication Committees (collectively, "Third Parties"), request an indemnification for loss or damage caused by the sponsor's Project, then Sponsor shall be responsible for providing such indemnification directly to the Third Party, on terms and conditions to be agreed between Sponsor and the Third Party. If Sponsor requests Quintiles' assistance in negotiating the terms of such indemnities, Quintiles shall provide such negotiation services at its standard daily rates, unless otherwise agreed in the attached Budget. Quintiles shall not sign such indemnifications on Sponsor's behalf unless Sponsor has expressly authorized Quintiles to act as its agent for such purpose or has given Quintiles a written power of attorney to sign such indemnifications. In countries in which local laws or local ethics committees require that a local company must sign such indemnifications and Sponsor has no local presence, Quintiles will sign such indemnities only if the parties have entered into an agreement regarding local representative duties containing the terms attached hereto as Attachment B, either as a part of this Agreement or as a separately signed agreement.

If Sponsor requests that Quintiles enter into agreements to retain Third Parties to perform services regarding the Project, such Third Parties shall be independent contractors and shall not be considered the employees, agents, or subcontractors of Quintiles or Sponsor. Sponsor shall pay Quintiles for its reasonable time and expenses in negotiating and administering any such Third Party Agreements. These agreements shall be subject to Sponsors written approval, which shall not be unreasonably withheld or delayed.

12.0 **Conflict of Agreements.** Quintiles represents to Sponsor that it is not a party to any agreement which would prevent it from fulfilling its obligations under this Agreement and that during the term of this Agreement, Quintiles agrees that it will not enter into any agreement to provide services which would in any way prevent it from providing the Services contemplated under this Agreement. Sponsor agrees that it will not enter into an agreement with a third party that would alter or affect the regulatory obligations delegated to Quintiles pursuant to this Agreement without the written consent of Quintiles, which will not be unreasonably withheld.

13.0 **Publication.** Project results may not be published or referred to, in whole or in part, by Quintiles or its affiliates without the prior expressed written consent of Sponsor. Neither party will use the other party's name in connection with any publication or promotion without the other party's prior, written consent.

14.0 **Limitation of Liability.**

- a) Neither Quintiles, nor its affiliates, directors, officers, employees, subcontractors or agents shall have any liability (including without limitation, contract, negligence and tort liability) for any loss of profits, opportunities or goodwill or any type of indirect or consequential damages in connection with this Agreement or the Services performed by Quintiles except to the extent such liability arises out of Quintiles' recklessness or willful misconduct or a negligent act or omission. For purposes of this provision, recklessness or willful misconduct or a negligent act or omission is considered on the basis of whether Quintiles failed to institute policies or procedures that could reasonably have been expected to prevent the recklessness, willful misconduct or negligent act or omission in question.
- b) In no event shall the collective, aggregate liability (including without limitation, contract, negligence and tort liability) of Quintiles or its affiliates, directors, officers, employees, subcontractors or agents under this Agreement exceed the amount of fees actually received by Quintiles from Sponsor under this Agreement.
- c) Neither Quintiles, nor its affiliates, directors, officers, employees, subcontractors or agents shall have any liability for death or personal injury; except to the extent that such liability is attributable to a negligent act or omission of Quintiles.

15.0 **Third Party Indemnification.** Sponsor shall indemnify, defend and hold harmless Quintiles and its affiliates, and its and their directors, officers, employees and agents (each, a "Quintiles Indemnified Party"), from and against any and all losses, damages, liabilities, reasonable attorney fees, court costs, and expenses (collectively "Losses"), joint or several, resulting or arising from any third-party claims, actions, proceedings, investigations or litigation relating to or arising from or in connection with this Agreement or the Services contemplated herein (including, without limitation, any Losses arising from or in connection with any study, test, device, product or potential product to which this Agreement relates), except to the extent such Losses are determined to have resulted solely from the negligence or intentional misconduct of the Quintiles Indemnified Party seeking indemnity hereunder.

16.0 **Indemnification Procedure.** Quintiles shall give Sponsor prompt notice of any third party claim or lawsuit (including a copy thereof) served upon it and shall fully cooperate with Sponsor and its legal representatives in the investigation of any matter the subject of indemnification. Quintiles shall not unreasonably withhold its approval of the settlement of any claim, liability, or action covered by this Indemnification provision.

17.0 **Termination.** Sponsor may terminate this Agreement without cause at any time during the term of the Agreement on sixty (60) day's prior written notice to Quintiles. Either party may terminate this Agreement for material breach upon thirty (30) days' written notice specifying the nature of the breach, if such breach has not been substantially cured within the thirty (30) day period. During the 30-day cure period for termination due to breach, each party will continue to perform its obligations under the Agreement. If the termination notice is not due to a breach, or if the cure period has expired without a substantial cure of the breach, then the parties shall promptly meet to prepare a close-out schedule, and Quintiles shall cease performing all work not necessary for the orderly close-out of the Services or required by laws or regulations. If Quintiles reasonably determines that its continued performance of the Services contemplated by this Agreement, after discussion with Sponsor, would constitute a violation of written regulatory or scientific standards of integrity, then Quintiles may terminate this Agreement by giving written notice stating the effective date (which may be less than thirty days from the notice date) of such termination. Either party may terminate this Agreement immediately upon provision of written notice if the other party becomes insolvent or files for bankruptcy.

If this Agreement is terminated, Sponsor shall pay Quintiles for all Services performed in accordance with the Agreement and reimburse Quintiles for all costs and expenses incurred in performing those Services, including all non-cancelable costs incurred prior to termination but paid after the termination date. Sponsor shall pay for all the work actually performed in accordance with the Agreement, even if the parties' original payment schedule spreads-out payments for certain services or defers payments for certain services until the end of the Study. If payments are unit or milestone based, and the Agreement is terminated after costs have been incurred toward achieving portions of one or more incomplete units or milestones, Sponsor will pay Quintiles' standard fees for actual work performed toward those incomplete units or milestones up to the date of termination, in addition to paying for completed units or milestones. Sponsor shall pay for all actual costs, including time spent by Quintiles personnel (which shall be billed at Quintiles' standard daily rates in effect as of the date of the termination notice), incurred to complete activities associated with the termination and close-out of affected Projects, including the fulfillment of any regulatory requirements. In addition, if the termination is by Sponsor without cause, or by Quintiles for reasonable cause, and the total fees for the Project are greater than one million U.S. dollars in value, then Sponsor shall pay to Quintiles an amount equal to fifteen percent (15%) of the budget for the remainder of Services that have not yet been performed, to cover Quintiles' costs associated with early termination.

- 18.0 **Relationship with Affiliates.** Sponsor agrees that Quintiles may use the services of its corporate affiliates as subcontractors to fulfill Quintiles' obligations under this Agreement. Quintiles shall remain responsible for all obligations in connection with the Services performed by its affiliates, and its affiliates shall be subject to all of the terms, conditions and rights applicable to Quintiles under this Agreement. The term "affiliate" shall mean all entities controlling, controlled by or under common control with Quintiles. The term "control" shall mean the ability to vote fifty percent (50%) or more of the voting securities of any entity or otherwise having the ability to influence and direct the policies and direction of an entity.
- 19.0 **Cooperation; Sponsor Delays; Disclosure of Hazards.** Sponsor shall forward to Quintiles in a timely manner all documents, materials and information in Sponsor's possession or control necessary for Quintiles to conduct the Services. Quintiles shall not be liable to Sponsor nor be deemed to have breached this Agreement for errors, delays or other consequences arising from Sponsor's failure to timely provide documents, materials or information or to otherwise cooperate with Quintiles in order for Quintiles to timely and properly perform its obligations, and any such failure by Sponsor shall automatically extend any timelines affected by a time period reasonably commensurate to take into account such failure, unless Sponsor agrees in writing to pay any additional costs that would be required to meet the original timeline. If Sponsor delays a project from its agreed starting date or suspends performance of the project then either: a) Sponsor will pay the standard daily rate of the Quintiles' personnel assigned to the project, based on the percentage of their time allocated to the project, for the period of the delay, in order to keep the current team members; or, b) Quintiles may re-allocate the personnel at its discretion, and Sponsor will pay the costs of re-training new personnel. In addition, Sponsor will pay all non-cancelable costs and expenses incurred by Quintiles due to the delay and will adjust all timelines to reflect additional time required due to the delay. Sponsor shall provide Quintiles with all information available to it regarding known or potential hazards associated with the use of any substances supplied to Quintiles by Sponsor, and Sponsor shall comply with all current legislation and regulations concerning the shipment of substances by land, sea or air.

20.0 **Force Majeure.** In the event either party shall be delayed or hindered in or prevented from the performance of any act required hereunder by reasons of the forces of strike, lockouts, labor troubles, inability to procure materials or services, failure of power or restrictive government or judicial orders, or decrees, riots, insurrection, war, Acts of God, inclement weather or other reason or cause beyond that party's control, then performance of such act (except for the payment of money owed) shall be excused for the period of such delay on the basis that the relevant party will perform all reasonable actions to overcome any of the abovementioned forces.

21.0 **Notices and Deliveries.** Any notice required or permitted to be given hereunder by either party hereunder shall be in writing and shall be deemed given on the date received if delivered personally or by a reputable overnight delivery service, or three (3) days after the date postmarked if sent by registered or certified mail, return receipt requested, postage prepaid to the following addresses:

If to Quintiles:

Quintiles Transnational Legal Department
P.O. Box 13979
Research Triangle Park, North Carolina, U.S.A.
27709-3979
Attention: John Russell

If to Sponsor:

Prana Biotechnology Ltd
Level 2, 369 Royal Parade,
Parkville, VIC, 3052
Australia
Attention: Dianne Angus

And,

Quintiles Transnational Legal Department Station House
Market Street
Bracknell

If Sponsor delivers, ships, or mails materials or documents to Quintiles, or requests that Quintiles deliver, ship, or mail materials or documents to Sponsor or to third parties, then the expense and risk of loss for such deliveries, shipments, or mailings shall be borne by Sponsor. Quintiles disclaims any liability for the actions or omissions of third-party delivery services or carriers. All information transmitted by Quintiles pursuant to this Agreement will be sent by the standard transmission method selected by Quintiles (telephone, facsimile, mail, personal delivery or email). Sponsor hereby consents and authorizes Quintiles to send facsimiles relating to the Services, or relating to potential future services, to any office of Sponsor or Sponsor's affiliates.

- 22.0 **Insurance.** During the term of this Agreement to cover its obligations hereunder, the parties shall maintain insurance coverage with a reputable insurance company as follows: i) Clinical Trials insurance for Sponsor of not less than AU\$5,000,000 per annum as provided in Attachment 4 to this Agreement; ii) Professional Indemnity insurance for Quintiles of not less than US\$5,000,000 per annum; and, iii) Liability to third parties insurance for Quintiles with a limit of \$1,000,000 per claim or series of related claims, or at the minimum statutory level, whichever is greater, iv) Liability to third parties insurance for Sponsor to AU\$20,000,000 as provided in Attachment 4. For Quintiles, all insurance amounts may be obtained by full, individual primary policy amount; a primary amount of less than minimum requirement enhanced by a blanket excess umbrella policy; or a combination of either. Each party shall provide the other party with a certificate of insurance upon request. Each party shall ensure that its policies shall contain an endorsement to the effect that it shall not be cancelled or otherwise materially changed during that period without thirty (30) days prior written notice to the other party. The certificates specifying the above-referenced Sponsor insurances are provided in Attachment 4 to this Agreement and is incorporated herein by reference.
- 23.0 **Foreign Currency Exchange.** The currency to be used for invoice and payment shall be the currency stated in the attached Budget or Table (the "Contracted Currency"). If Quintiles incurs pass-through costs in a currency other than the Contracted Currency, then Sponsor shall reimburse Quintiles for Quintiles' actual costs in the Contracted Currency based on the Oanda foreign currency exchange rate ([Oanda.com](#)) for the applicable currencies on the last business day of the month in which such pass-through costs are submitted. If a currency referenced within the Budget is replaced by the Euro or otherwise ceases to become legal tender, the applicable replacement currency will be substituted for such currency for purposes of this provision at an established conversion rate.

If this Agreement involves the performance of Services by Quintiles or its affiliates in any country that uses a currency other than the Contracted Currency, then the Budget for those Services will be based on the local rates in the currency used by Quintiles for pricing that country, but converted to and reflected in the Contracted Currency. Sponsor acknowledges that, due to fluctuations in currency exchange rates, Quintiles' actual fees may be greater or lesser than the budgeted or estimated amounts contained in this Agreement. If the fees for Services in currencies other than the Contracted Currency exceed \$500,000 and the conversion rate between the local currencies and the Contracted Currency has fluctuated more than 2%, plus or minus, since the Budget was prepared, Quintiles may calculate a foreign currency exchange adjustment based upon the following:

- a) In the case of Fee for Service budgets, fees will be converted on each invoice based on the Oanda foreign currency exchange spot rate ([Oanda.com](#)) from the last Friday of the preceding month in which services were performed; or,
- b) For all other budget types including fixed fee, milestone or unit priced budgets, the adjustment will be calculated every 12 months after the contract execution date (or in the final invoice if the agreement is for less than 12 months). The foreign currency adjustment will be calculated by comparing the foreign currency exchange rate stated in the Budget or Table attached to the Agreement to the Oanda ([Oanda.com](#)) average rate over the preceding 12 months. Any resulting decrease in costs will be credited to Sponsor and any resulting increase in costs will be invoiced to Sponsor.

- 24.0 **Data Protection.** Quintiles and Sponsor agree to comply with all applicable privacy laws and regulations. If the Project will involve the collection or processing of personal data (as defined by applicable data protection legislation) within the European Economic Area (“EEA”), then Sponsor shall serve as the controller of such data, as defined by the European Union (“EU”) Data Protection Directive (the “Directive”), and Quintiles shall act only under the instructions of the Sponsor in regard to personal data. If Sponsor is not based in the EEA, Sponsor must appoint an EEA company to act as its local representative for data protection purposes in order to comply with the Directive, and such designation is attached hereto and incorporated by reference. If Sponsor does not have an affiliate in the EEA and requests that a Quintiles affiliate in the EEA serve as its local representative, then the parties shall negotiate a fee for such representative duties and shall enter into a Data Transfer Agreement between the parties containing the Standard Contractual Clauses set forth by the EU Commission Decision of 15 June 2001 (Decision 2001/497/EC) before Quintiles will assume any such representative duties. If Sponsor is not based in the EEA, Quintiles will not export any personal data from the EEA unless Sponsor has appointed a local representative.
- 25.0 **Binding Agreement and Assignment.** This Agreement shall be binding upon and inure to the benefit of Sponsor and Quintiles and their respective successors and permitted assigns. Except as stated above in Section 18, neither party may assign any of its rights or obligations under this Agreement to any party without the express, written consent of the other party.
- 26.0 **Choice of Law, Waiver and Enforceability.** This Agreement shall be construed, governed, interpreted, and applied in accordance with the laws of England, exclusive of its conflicts of law provisions. The failure to enforce any right or provision herein shall not constitute a waiver of that right or provision. Any waiver of a breach of a provision shall not constitute a waiver of any subsequent breach of that provision. If any provisions herein are found to be unenforceable on the grounds that they are overly broad or in conflict with applicable laws, it is the intent of the parties that such provisions be replaced, reformed or narrowed so that their original business purpose can be accomplished to the extent permitted by law, and that the remaining provisions shall not in any way be affected or impaired thereby.

- 27.0 **Survival.** The rights and obligations of Sponsor and Quintiles, which by intent or meaning have validity beyond such termination (including, but not limited to, rights with respect to inventions, confidentiality, discoveries and improvements, indemnification and liability limitations) shall survive the termination of this Agreement.
- 28.0 **Arbitration.** Any controversy or claim arising out of or relating to this Agreement or the breach thereof shall be settled by arbitration administered by the International Chamber of Commerce ("ICC") under its International Rules of Arbitration, and judgment on the award rendered by the arbitrator shall be binding and may be entered in any court having jurisdiction thereof. Such arbitration shall be filed and conducted at the office of the ICC closest to the Quintiles office having responsibility for the Project, and shall be conducted in English by one arbitrator mutually acceptable to the parties selected in accordance with ICC Rules.
- 29.0 **Entire Agreement, Headings and Modification.** This Agreement contains the entire understandings of the parties with respect to the subject matter herein, and supersedes all previous agreements (oral and written), negotiations and discussions. The descriptive headings of the sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any provision hereof. Any modifications to the provisions herein must be in writing and signed by the parties.

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto through their duly authorized officers on the date(s) set forth below.

ACKNOWLEDGED, ACCEPTED AND AGREED TO:

Quintiles Limited

By: \s\ Patricia Williams

(signature)

Print Name: PATRICIA WILLIAMS

Title: VP, GLOBAL CONTRACTS

Date: 13 NOV 2006

Prana Biotechnology Limited

By: /s/ [Illegible]

(signature)

Print Name: /s/ [Illegible]

Title: [Illegible]

Date: 7th November 2006

FEDERAL ID # _____

LIST OF ATTACHMENTS

ATTACHMENT 1—SCOPE OF WORK

ATTACHMENT 2—BUDGET AND PAYMENT SCHEDULE

ATTACHMENT 3—CLINICAL TRIAL AGREEMENT FORM

ATTACHMENT 4—INSURANCE CERTIFICATE

ATTACHMENT 1
SCOPE OF WORK

Country	Sites	Patients Screened	Patients Randomised	Patients Completing
SWEDEN	7	100	80	33
	7	100	80	72

GENERAL STUDY ASSUMPTIONS

Phase	II
Maximum number of active sites	7
Maximum number of patients screened	100
Number of patients randomised	80 (20% screen failure rate)
Number of patients evaluable	72 (10% drop-out rate)
Recruitment period (months)	4.00
Treatment duration (months)	3.00
Follow up duration (months)	0.00
Maximum CRF pages per screen failure (including diary where applicable)	5
Maximum CRF pages per drop-out (including diary where applicable)	21
Maximum CRF pages per complete patient (including diary where applicable)	35
Overall study length (months)	14.96
Number of client meetings	2
Duration of client meetings (hours) -excluding travel	8
Number of client teleconferences	15
Duration of client teleconferences (hours)	1
Number of investigator meetings	1
Duration of investigator meetings (hours) -excluding travel	12

MONITORING ASSUMPTIONS

Maximum number of sites identified	13
Maximum number of site selection visits	8
Maximum number of site initiation visits	7
Maximum number of monitoring visits	49 visits (7 per site)
- <i>Average time on site per monitoring visit (hours)</i>	5.00
- <i>Average administrative time per monitoring visit (hours)</i>	5.00
- <i>Average travel time per monitoring visit (hours)</i>	5.00
- <i>Average site contact between visits (hours per site per month)</i>	2.00
% SDV	100%
Maximum number of close out visits	7

Actual monitoring will be adjusted dependant on support activity required and recruitment rate per site, however the budget assumes that the total monitoring hours specified above will not be exceeded.

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% SDV	100%
Maximum number of close out visits	7

Actual monitoring will be adjusted dependant on support activity required and recruitment rate per site, however the budget assumes that the total monitoring hours specified above will not be exceeded.

PHARMACOVIGILANCE ASSUMPTIONS

Maximum number of SAEs expected	24 SAEs (30%)
Safety database requirement	Quintiles Pharmacovigilance will set up a Clintrace Database
SAE Coding	Yes - MedDRA
SAE Narratives	Yes
Quality Control	100% QC of SAE data fields
Tracking database	A tracking system will be set-up to track SAEs and regulatory assessments to ensure open queries are efficiently identified and prioritised, and track submissions to regulatory authorities
Number of updates per SAE	Initial and up to two (2) update reports per SAE assumed. Cycle includes triage, case evaluation, follow-up with sites (each SAE would generally require 2 follow-up communications with the respective site to obtain answers to outstanding queries), regulatory assessment, data entry, generation of queries, quality control, medical review, submission to Prana Biotechnology, and submission to Regulatory Authorities.
Translation of SAE documentation	Quintiles will provide translations of source documents relating to SAEs using either an internal medical translator or a medically certified translation agency. These costs will be passed through to the sponsor.
SAE Reconciliation	Pharmacovigilance will assist in the reconciliation of the safety data in the safety and scientific databases (up to 7-10 data fields per SAE)
Reporting to Regulatory Authorities – 2 regulatory reports (1 initial and 1 update) per expedited SAE assumed	Quintiles Pharmacovigilance will report up to 2 expedited SAEs to Regulatory Authorities (including the EMEA) as appropriate

PHARMACOVIGILANCE ASSUMPTIONS

Investigator alert letters (safety update letters) –
2 alert letters (1 initial and 1 update) per
expedited SAE assumed

Quintiles Pharmacovigilance will prepare and distribute non-personalised
Investigator alert letters for up to 2 expedited SAEs to 7 sites (28
mailings)

Expedited SAE reports to be sent to Central Ethics Committees (CECs)

Quintiles Pharmacovigilance will distribute up to 2 expedited SAEs
(unblinded if required) to the applicable CECs in the 1 EU/EEA country
involved in the study. Quintiles assumes 1 CEC per country.

Cross-reporting of expedited SAEs occurring in other protocols
Interim/annual regulatory reports

Not included in the budget

Meetings to be attended by Pharmacovigilance personnel (number of
meetings)

Not included in the pharmacovigilance budget
1 Client kick off meeting, 1 investigator meeting. Ongoing
communication between Quintiles' pharmacovigilance group and Prana
Biotechnology has been included.

Status reports

Monthly

DATA MANAGEMENT ASSUMPTIONS

CRF design

Quintiles to design CRF

Database platform

Inform EDC

Duration of data management (months)

10.65

Number of patient visits per complete CRF

6

Maximum number of CRF pages expected

2,688

Number of unique CRF pages

11

Number of repeating pages

24

Number of validation checks per page

15

Total validation checks programmed

165

SAE reconciliation required

Manual

Number of electronic data sources

1

Total number of electronic imports and transfers

10 (10 per source)

Number of database exports

2

Number of queries per 100 pages

3

Total queries to process

81

Coding dictionaries:

MedDRA

Diseases

MedDRA

Adverse events

Internal

Concomitant medications

2

Number of diseases per patient (up to 50% expected to autoencode)

3

Number of adverse events per patient (up to 50% expected to autoencode)

3

Number of con meds per patient (up to 50% expected to autoencode)

3

Meetings to be attended by DM personnel (number of meetings)

Client kick off meeting (Y), investigator meeting (Y), client
teleconferences (15), client face to face meetings (2)

BIOSTATISTICS ASSUMPTIONS

Statistical input to protocol development	Yes
Statistical analysis plan responsibility	Quintiles will produce one draft of the analysis plan for review by Prana. Prana will provide one set of consolidated comments and the plan will be considered final upon incorporation of these comments. Confirmation of the planned analyses will be undertaken prior to database lock, and any minor adjustments made at this time point.
Generate randomisation schedule	Yes
Number of treatment groups	2
Maximum total number of tables	70 - Note: Table count refers to the number of entries in Table of Contents
Maximum total number of listings	30 - Note: Listings count refers to the number of entries in Table of Contents
Maximum total number of graphs	5 - Note: Graph count refers to the number of entries in Table of Contents
Laboratory data source	Single Central
Number of interim analyses	0
Type of report required	Quintiles will prepare an integrated report
SAS programming code to be delivered to customer	No
Meetings to be attended by Biostatistics personnel (number of meetings)	Client kick off meeting (1), no attendance at investigator meeting, client teleconferences (4), no attendance at client face to face meetings

Additional Assumptions:

All Statistical Outputs will undergo QC and Senior Biostatistical Review before issue to Prana Biotechnology.

Quintiles will provide one draft set of Statistical Outputs for Review by Prana Biotechnology, who will provide one set of consolidated comments, and the Statistical Outputs will be considered final upon incorporation of these comments.

Costs will be adjusted in the event of differences between final client requirements agreed in the Analysis Plan, Tables and Listings and the assumptions listed here.

MEDICAL ASSUMPTIONS

Quintiles to provide CRA training?	Quintiles is not responsible for providing CRA training.
Medical Monitoring (CRA and Site Support)	Quintiles will provide medical monitoring throughout start up, recruitment, treatment and close out phases of the study.

MEDICAL WRITING ASSUMPTIONS

Study protocol

Prana to produce study protocol.

The report will be based on an electronic template provided by Prana, or prepared in Microsoft WORD in a format compliant with ICH guidelines.

Inputs provided from Prana to the Medical Writer will be in a format suitable for direct incorporation into the report. The draft report will undergo QC, medical and statistical reviews within Quintiles before issue to Prana. Quintiles will produce two drafts of the report for review by Prana, who will provide one set of consolidated comments on each draft. The report will be considered final upon incorporation of the second draft comments. Costs will be adjusted in the event of appreciable differences between the actual final client requirements agreed in the Analysis Plan and the final statistical outputs, we reserve the right to renegotiate this quotation.

Clinical Trial Report

Report Narratives

An estimated maximum 0 patient narratives will be written in conjunction with the Clinical Trial Report, Quintiles will provide one draft set of narratives for review by Prana. Prana will provide one set of consolidated comments and the narratives will be considered final upon incorporation of these comments.

Meetings to be attended by Medical Writing personnel (number of meetings)

Client teleconferences (2), client face to face meetings (1)

Additional Assumptions

Any Prana specific requirements for appendix documentation gathered by Quintiles must be communicated upon contract agreement. Any documentation to be provided by Prana for the report appendices will be provided to the Medical Writer before database lock, and in a format and quality appropriate for direct inclusion in the report.

Costs do not include manipulation or editing of appendix documents, scanning appendix documents, or through pagination of the report plus appendices. The costs do not include copying of any completed CRFs for inclusion in the report appendices. One loose-leaf paper copy of the final report is included in the costings.

CENTRAL LABORATORIES SCOPE OF WORK

Assignment of responsibilities

Task	Quintiles	Prana
Screening of Subjects	X	
Analysis of Safety Samples	X	

All services will be carried out in accordance with Quintiles SOPs unless otherwise indicated. A change of SOP's may result in a cost change of the affected services. Prana is welcome to undertake an on-site inspection of Quintiles SOPs.

Study Assumptions

Number of included subjects	80 Alzheimer Patients
Number of Safety Samples	500 Samples
Clinical Chemistry:	According to Specification of Clinical Chemistry (See Attached)

Additional Scope

- Protocol amendments
- Additional protocol assessments not detailed in the protocol, i.e. laboratory sampling etc.
- Regulatory Affairs consulting (involving a technical review of proposed protocol to ensure that supportive data is in compliance with European Regulations).
- Subjects replaced due to study related withdrawals
- Courier costs including documentation transportation
- Analysis of additional safety samples SEK 1 734
- Analyses of samples at non-office hours SEK 1128 per hour
- Analysis report in Excel format according to Quintiles standard, SEK analysis price x 2,75
- Sample preparations SEK 60 per sample
- Preparation of labels SEK 1 128 per hour
- Analysis of express samples SEK analysis price x 2,75
- Sample kits for PK samples 50 SEK per kit
- Non Quintiles AB standard photocopying and faxing of source documents to Sponsor i.e. CRFs
- Storage of samples and investigational product when clinical part of study has been completed
- Time needed for any study specific audits performed by Sponsor or the authorities.

Description of services provided**1. Screening costs**

Includes haematology, biochemistry, hepatitis B, C, HIV, urinalysis, drug and alcohol screen.

Screening labs

- | | |
|----------------------------------------------------------------|--------------------|
| <input checked="" type="checkbox"/> 100 samples | SEK 264,050 |
| <input checked="" type="checkbox"/> 100 sampling kits à SEK 50 | |

For study specific assessments please see "Specification of Clinical chemistry".

2. In-study costs (including post-screen)**In- study labs**

- | | |
|----------------------------------------------------------------|--------------------|
| <input checked="" type="checkbox"/> 320 samples | SEK 420,160 |
| <input checked="" type="checkbox"/> 320 sampling kits à SEK 50 | |

Post study labs

- | | |
|---------------------------------------------------------------|--------------------|
| <input checked="" type="checkbox"/> 80 samples | SEK 114,640 |
| <input checked="" type="checkbox"/> 80 sampling kits à SEK 50 | |

CSF Sample Kits

- | | |
|-----------------------------------------------------------------|------------------|
| <input checked="" type="checkbox"/> | SEK 9 000 |
| <input checked="" type="checkbox"/> 180 sampling kits at SEK 50 | |

A.

B.

C. Also included in clinical chemistry services

- | |
|--------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Sample description |
| <input checked="" type="checkbox"/> Written analytical report in Quintiles AB format, by fax and mail. |
| <input checked="" type="checkbox"/> Retention of study data for 10 years. |

See also "Specification of Clinical chemistry"

Time limit

Projects will be active for 12 months following completion of the last scheduled activity (e.g. last subject out or final report). Any requests for data clarifications, copies of archived documentation or similar will be handled within the specified budget during this 12-month period. Thereafter any services will be charged at Quintiles current hourly rates.

Specification of clinical chemistry

Analyses to be performed are listed below. Also included Quintiles Uppsala full range of analyses for the Prana to review

	Screening	During	Follow Up
Haematology			
B-Differential white blood cells	1	4	1
B-Eryt. Sediment.rate			
B-Hemoglobin	1	4	1
B-Hematocrit (EVF)	1	4	1
B-MCH			
B-MCHC	1	4	1
B-MCV	1	4	1
B-Platelets	1	4	1
B-Red Blood cells	1	4	1
B-Reticulocytes			
B-White blood cells	1	4	1
Extra haematology analysis			
Coagulation			
P-APTT			
P-Prothrombin complex			
Fibrinogen			
Antithrombin III			
Fibrin D-Dimer			
Clinical Chemistry			
HbA1C			
A/G ratio			
Laktat			
S-ALAT	1	4	1
S-Albumin	1	4	1
S-alfal-Microglobuline			
S-Alkaline phosphat	1	4	1
S-Amylase			
S-ASAT	1	4	1
S-beta2-Microglobuline			
S-Bicarbonate			
S-Bilirubin (conjug)			
S-Bilirubin (total)	1	4	1
S-Bilirubin (unconj.)			
S-Calcium	1	4	1

S-Calcium (albmodif)			
S-Chloride			
S-Cholesterol			
S-Creatinine kinase			
S-Creatine kinase MB			
S-Creatinine	1	4	1
S-CRP			
S-Cystatin C			
S-Ferritin	1	4	1
S-Free fatty acid			
S-Fruktofamine			
S-GGT	1	4	1
S-Glucose	1		
S-Haptoglobin			
S-HDL			
S-Iron	1	4	1
S-LD			
S-LDL			
S-Magnesium			
S-N-acetylglucosaminidase			
S-Orosomucoid			
S-Osmolality			
S-Phosphate	1	4	1
S-Potassium	1	4	1
S-Protein (total)	1	4	1
S-Sodium	1	4	1
S-TIBC			
S-Transferrin			
S-Triglycerides			
S-UREA	1	4	1
S-Uric Acid			
S-TIBC			
S-Myoglobin			
S-Zinc (External Lab)	1	4	1
S-Copper (External Lab)	1	4	4
Extra serum analyses			
<i>Urine</i>			
Creatinine clearance	1	4	1

Creatinine clearance according to customer			
U-Albumin			
U-Alkaline Phosphatase			
U-alpha 1 -Microglobuline			
U-beta2-Microglobuline			
U-Chloride			
U-Creatinine			
U-GGT			
U-Glucose			
U-LD			
U-N-acetylglucosaminidase			
U-Osmolality			
U-Potassium			
U-Pregnancy test			
U-Sediment			
U-Sodium			
U-Urea			
Urine Microscopy for Casts and RBC	1		1
Extra urine analysis			
Extra urine analysis			
<i>U-stix</i>			
U-Bilirubin	1	4	1
U-Glucose	1	4	1
U-Ketones	1	4	1
U-Nitrite	1	4	1
U-Opiates	1	4	1
U-pH	1	4	1
U-Protein	1	4	1
U-Red blood cells	1	4	1
U-Specific Gravity	1	4	1
U-Urobilinogen	1	4	1
U-White blood cells	1	4	1
Other analyses			
S-Anti-HCV	1		
S-Anti-HIV1/HIV2	1		
S-B12	1	4	1

Cobalamine			
S-E2			
S-Estradiol			
FOB			
S-Folat	1	4	1
S-FSH (half the population)	1		
S-fT4			
S-fT3			
Hbc IgM			
S-HBsAg	1		
S-hCG			
S-Helicobakter Pylori			
S-Hepatitis A IgM	1		
S-Insulin			
S-Luteinizing Hormone (LH)			
S-Pro lactine			
RBC-Folat			
S-Pregnancy test			
S-Sex Hormone Binding Globuline (SHBG)			
S-Testosterone	1		
S-TSH			
CSF Analyses (External Lab)			
Zinc	1 (Baseline)	1 (Visit 6)	
Copper	1 (Baseline)	1 (Visit 6)	

TIMELINES

Timelines

Quintiles involvement begins	May 2006
First patient in	September 2006
Last patient in	December 2006
Last patient out	April 2007
Database lock	May 2007
Availability of all statistical outputs	June 2007
Draft integrated clinical trial report	Mid June 2007
Final integrated clinical trial report	Mid July 2007
Quintiles involvement ends	August 2007

ATTACHMENT 2
BUDGET AND PAYMENT SCHEDULE

ACTIVITY	UNIT	NUMBER OF UNITS	COST/UNIT	TOTAL HOURS	TOTAL COST (\$)	ASSUMPTIONS
STUDY MATERIAL DEVELOPMENT						
Protocol development/review						
Protocol	Protocol	1.00	1,673.00	8.00	1,673.00	
CRF development/review	CRF	1.00	1,389.00	8.00	1,389.00	
Study reference manual	Manual	1.00	9,601.00	52.00	9,601.00	
STUDY START-UP						
Kick-off meeting						
Kick-off meeting	Meeting	1.00	20,994.00	120.00	20,994.00	1 Kick off meeting, attended by PM, PA, CTL, CTA, DM Lead, Biostats and Pharmacovigilance
Project planning and team training	Study	1.00	18,827.00	70.00	18,827.00	
Site identification	Identified site	13.00	623.92	41.00	8,111.00	
Site selection visits	Visit	8.00	2,600.75	104.00	20,806.00	
Ethics committee applications	Application	1.00	857.29	30.00	6,001.00	
Negotiate investigator contracts	Initiated site	7.00	1,067.86	42.00	7,475.00	
Site initiation visits	Visit	7.00	3,000.71	105.00	21,005.00	
Assemble and ship study documents	Initiated site	7.00	573.71	30.00	4,016.00	
REGULATORY ACTIVITIES						
Regulatory Support & Consulting	Study month	14.96	216.02	16.00	3,232.00	
Submission of Regulatory Applications	Country submission	1.00	8,158.00	55.00	8,158.00	
European Clinical Trial Directive Compliance	Study	1.00	989.00	6.00	989.00	
INVESTIGATOR MEETING						
Meeting planning and coordination						
Meeting planning and coordination	Meeting	1.00	10,414.00	44.00	10,414.00	1 Investigator Meeting, attended by PM, CTL, CTA, DM Lead, Pharmacovigilance
Meeting travel and attendance	Meeting	1.00	18,325.00	100.00	18,325.00	
CLINICAL MONITORING & SITE MANAGEMENT						
Interim monitoring visits	Visit	49.00	3,132.80	756.00	153,507.00	
Site contact/in-house monitoring	Clinical month	12.19	3,095.31	196.00	37,739.00	
Maintenance of study files	Clinical month	12.19	1,009.57	91.00	12,309.00	
Investigator Payment Administration	Payment	4.06	778.52	19.00	3,164.00	Assumes quarterly payments
SITE CLOSE-OUT						
Close-out visits	Visit	7.00	3,708.86	126.00	25,962.00	
Study archiving	Active site	7.00	154.57	5.00	1,082.00	
MEDICAL SUPPORT						
CRA and site support	Study month	14.96	3,019.34	188.00	45,174.00	

PHARMACOVIGILANCE				383.00	61,142.00
Safety database and project set-up	Study	1.00	18,048.00	94.00	18,048.00
SAE processing	SAE	24.00	1,188.58	216.00	28,526.00
Medical review of SAEs	SAE	24.00	271.71	24.00	6,521.00
Regulatory reporting	Expedited SAE	2.00	678.50	9.00	1,357.00
Investigator alert letters	Alert letter	28.00	17.68	4.00	495.00
Project administration and system maintenance	Clinical month	12.19	508.11	36.00	6,195.00
DATA MANAGEMENT				961.00	110,588.00
Database design and build	Unique CRF	11.00	4,877.73	480.00	53,655.00
Database QC	Patient	80.00	8.69	4.00	695.00
Data monitoring	DCF issued	81.00	98.05	97.00	7,942.00
Data import/export	Import	10.00	371.10	34.00	3,711.00
Database maintenance and management	DM month	10.65	2,697.84	235.00	28,732.00
Data coding	Coded item	640.00	7.88	57.00	5,040.00
EDC training	Study	1.00	10,813.00	54.00	10,813.00
BIOSTATISTICS				788.00	118,966.00
Consulting and analysis plan	Study	1.00	25,295.00	162.00	25,295.00
Data manipulation	Study	1.00	26,663.00	197.00	26,663.00
Final tables, figures and listings	Output	105.00	509.54	391.00	53,502.00
DSMB support	Study	1.00	7,958.00	37.50	7,958.00
Biostatistical report	Report	1.00	5,548.00	38.00	5,548.00
MEDICAL WRITING				265.00	51,977.00
Integrated study report	Report	1.00	51,977.00	265.00	51,977.00
PROJECT MANAGEMENT				1,869.00	403,802.00
Project management	Study month	14.96	5,762.31	413.00	86,213.00
Clinical management	Clinical month	12.19	16,795.51	919.00	214,951.00
Client meetings	Meeting	2.00	18,793.50	188.00	37,587.00
Client teleconferences	Teleconference	14.96	766.30	59.00	11,465.00
Internal team meetings	Study month	14.96	3,581.58	290.00	53,586.00

CENTRAL LABORATORIES

Services	Cost (SEK)	Cost (USD)
Screening Costs		
Screening labs	264,050	36,944
In-study labs (incl post-study)	534,800	74,826
Administrating/Shipping Costs		
Administration Clinical Chemistry	28,782	3,643
Sample kit Blood 50SEK/Kit	25,000	3,498
Sample Kits CSF 50SEK/Kit	9,000	1,259
Total	861,632	120,554
Discount of 5% on Professional Fees	-43,081	-6,027
	818,551	114,527

Additional Samples to be analysed at Karolinska Hospital Laboratory

Services	Cost (SEK)	Cost (USD)
Sample		
S-Zinc 480x194SEK	93,120	13,035
S-Copper 480x210SEK	100,800	14,110
CSF-Zinc160x194SEK	31,040	4,346
CSF-Copper160x512SEK	81,920	11,470
Total (External LAB Costs)	306,880	42,961
TOTAL		
Quintiles Laboratory	818,551	114,527
Karolinska Laboratory (External)	306,880	42,961
Total Cost	1,125,431 SEK	157,488 USD

TOTAL LABOUR FEES **1,343,916.00**

Study Passthroughs	117,980.16
Regulatory expenses	6,460.00
Investigator meeting expenses	11,100.00
Clinical monitoring travel	34,944.00
Client/training meeting expenses	37,762.00
Translations	886.00
Printing & courier costs	2,217.48
Other expenses (specify)	22,624.68
GRAND TOTAL	1,461,896.16

Currency Exchange Rate Effective as of: Wed: 1-Feb-2006

Proposal Currency: US Dollar

Exchange Rates: 1USD =

0.8257 EUR Euro

1 USD US Dollar

0.5643 GBP United Kingdom Pound

7.6182 SEK Swedish Krona

PAYMENT SCHEDULE

Professional Fees

Milestone Payments

Milestone	Total (USD)
Signature of LOI	116,083
Signature of GSA	107,513
25% of Patients Randomised	89,789
75% of Patients Randomised	89,789
Last Patient In Treatment Start	53,757
100% Sites Closed	53,752
Quintiles Involvement Ends	26,878
Total	537,561

Monthly Payments

Month	Total (USD)
July 2006	62,027
August, 2006	62,027
September, 2006	62,027
October, 2006	62,027
November, 2006	62,027
December, 2006	62,027
January, 2007	62,027
February, 2007	62,027
March, 2007	62,027
April, 2007	62,027
May, 2007	62,027
June, 2007	62,027
July, 2007	62,027
Total	806,355
Grand Total	1,343,916

Estimated Pass-through Expenses

Pass-through expenses are estimated to be \$117,980.16. Pass-through expenses will be invoiced monthly based on actual expenses incurred by Quintiles in conjunction with the services of the contract. This will be reconciled upon final invoice.

Third party costs

Some additional costs might be incurred during the course of the study, which would be treated as pass through costs, and invoiced to Prana Biotechnology with a 5% handling charge where appropriate.

ATTACHMENT 3 TO GENERAL SERVICES AGREEMENT CLINICAL TRIAL AGREEMENT

Made between «**INVNAME**», having a place of business at [address] (the “Investigator”), «**SITENAME**», having a place of business at [address] (the “Institution”; *[if applicable, add «Research Company» at «RCADD»]* (the “Research Company”) and *[insert name of Quintiles entity]*, having a place of business at *[insert address]* (“Quintiles”) representing the interests of **[SPONSOR LEGAL NAME]** (the “Sponsor”).

PROTOCOL NUMBER:

PROTOCOL TITLE:

PROTOCOL DATE:

SPONSOR:

«**INVNAME**»

PRINCIPAL INVESTIGATOR: *Note: If Investigator is not a party to the Agreement, then Investigator must be an actual employee of the Institution, and the following language must be included after the Investigator's name: “an employee of Institution”*

WHEREAS, the Investigator and Institution [or “and Research Company”], if any, (hereafter, jointly, the “Site”) are willing to conduct a clinical trial (the “Study”), in accordance with the above-referenced protocol and any subsequent amendments thereto (the “Protocol”) and Quintiles requests the Site to undertake such Study;

NOW THEREFORE, the following is agreed:

1. Quintiles hereby appoints the Site to conduct the Study, and the Site agrees to ensure that the Site and the Site's employees, agents, and staff will conduct the Study in accordance with the Protocol, the terms of this agreement, including the Terms and Conditions attached as Attachment A, the Payment Schedule and Budget attached as Attachment B, and any other the attachments hereto, which all are incorporated by reference herein (the “Agreement”), good clinical practices, and all applicable laws and regulations. The Site hereby confirms that it has enough time and resources to perform the Study according to the highest quality standards.
2. Payments shall be made in accordance with the provisions set forth in Attachment B, with the last payment being made after the Site completes all its obligations hereunder, and Quintiles has received all completed case report forms (“CRFs”) and, if Quintiles requests, all other Confidential Information as defined in Attachment A, Section 2 (Confidential and Proprietary Information). The Site will act as an independent contractor, and shall not be considered the employee or agent of Quintiles or Sponsor. Neither Quintiles nor Sponsor shall be responsible for any employee benefits, pensions, workers' compensation, withholding, or employment-related taxes as to the Site. The Site acknowledges and agrees that Investigator's judgment with respect to Investigator's advice to and care of each subject is not affected by the compensation Site receives hereunder. The parties agree that the payee designated below is the proper payee for this Agreement, and that payments under this Agreement will be made only to the following payee (the “Payee”):

PAYEE NAME:

Please note: This should be a business name and must match the business name used to file for your tax EIN or other tax ID number

«PayeeName»

«PayeeAddress»

PAYEE ADDRESS:

Please Note: this should be street address, not a PO Box

«PayeeAddress2»

«PayeeCity», «PayeeState» «PayeePostal_Code»

THE TAX ID MUST EXACTLY MATCH THE PAYEE NAME INDICATED ABOVE

TAX ID NUMBER

[For Canada, Insert: GST & PROVINCIAL TAX IF APPLICABLE]

For Canada:

GST tax number or applicable provincial tax number

or Tax exempt _____

If the Payee is in the United States of America (“U.S.”), the Payee's 9 Digit Tax Identification Number and SSN/EIN designation will be required before any payments can be made under this Agreement.

[For Canada, include “If the Payee is in Canada, the Payee's applicable tax numbers or Tax exempt status designation will be required before any payment can be made under this Agreement.”]

Site will have thirty (30) days from the receipt of final payment to dispute any payment discrepancies during the course of the Study.

The parties acknowledge that the designated Payee is authorized to receive all of the payments for the services performed under this Agreement. If the Investigator is not the Payee, then the Payee's obligation to reimburse the Investigator will be determined by a separate agreement between Investigator and Payee, which may involve different payment amounts and different payment intervals than the payments made by Quintiles to the Payee. **Investigator acknowledges that if Investigator is not the Payee, Quintiles will not pay Investigator even if the Payee fails to reimburse Investigator.**

3. This Agreement will become effective on the date on which it is last signed by the parties and shall continue until completion or until terminated in accordance with the provision in Attachment A. In the event of a conflict between the Protocol and this Agreement, the terms of the Agreement will govern.

[INSERT ANY SPECIAL COUNTRY REQUIREMENTS, IF APPLICABLE]

For Sites in the European Union, the following language must be included due to Data Privacy laws and regulations: Prior to and during the course of the Study, the Site and Site staff may provide personal data relating to its investigators, Site staff or other personnel, which may be subject to data privacy laws or regulations. Such personal data may include names, contact information, work experience, qualifications, publications, resumes, educational background, performance information, facilities, staff capabilities, and other information relating to the Site's conduct of clinical trials. If the Site is in the European Union, the Sponsor would be the data controller for such personal data. The Site hereby consents to the use and processing of its personal data and the personal data of its investigators, staff and personnel for the following purposes: a) the conduct of the Study; b) review by governmental or regulatory agencies, Sponsor, Quintiles, and their agents, and affiliates; c) satisfying legal or regulatory requirements; and, d) storage in databases for use in selecting sites in future clinical trials. The Site further consents to the transfer of such data to countries other than the Site's own country, even though data protection may not exist or be as developed in those countries as in the Site's own country. The Site agrees to ensure that its staff and personnel are aware that their personal data will be used, processed and stored for above-stated purposes and may potentially be transferred to other countries and that they consent to such use, storage and transfer.”

For Sites in the U.S. insert the following provision: "Institution and Principal Investigator agree that their judgment with respect to the advice and care of each patient will not be affected by the compensation they receive from this Agreement, that such compensation does not exceed the fair market value of the services they are providing, and that no payments are being provided to them for the purpose of inducing them to purchase or prescribe any drugs, devices or products. If the Sponsor or Quintiles provides any free products or items for use in the Study, Institution and Principal Investigator agree that they will not bill any patient, insurer or governmental agency, or any other third party, for such free products or items. Institution and Principal Investigator agree that they will not bill any patient, insurer, or governmental agency for any visits, services or expenses incurred during the Study for which they have received compensation from Quintiles or Sponsor, or which are not part of the ordinary care they would normally provide for the patient."

ACKNOWLEDGED AND AGREED BY [Insert legal name of Quintiles entity]

By: _____
Title: _____
Date: _____

ACKNOWLEDGED AND AGREED BY THE PRINCIPAL INVESTIGATOR:

«INVNAME»
Date: _____

ACKNOWLEDGED AND AGREED BY [Insert legal name of Institution], if applicable:

By: _____
Title (must be authorized to sign on Institution's behalf): _____
Date: _____

ACKNOWLEDGED AND AGREED BY [Insert legal name of Research Company], if applicable:

By: _____
Title (must be authorized to sign on Research Company's behalf): _____
Date: _____

ATTACHMENT A
TERMS AND CONDITIONS

1) Conduct of the Study. The parties to the attached agreement (the “Agreement”) agree that the clinical trial described therein (the “Study”) will be performed in strict accordance with the applicable protocol, and any subsequent amendments thereto (the “Protocol”), applicable federal, state, and local laws, regulations and guidelines, and good clinical practices (“GCPs”). The Principal Investigator (the “Investigator”) shall review all case report forms (“CRFs”) to ensure their accuracy and completeness, shall review and understand the information in the investigator’s brochure or device labeling instructions, as applicable, shall ensure that all informed consent requirements are met, and shall ensure that all required reviews and approvals (or favorable opinions) by applicable regulatory authorities and Institutional Review Boards (“IRBs”) or Independent Ethics Committees (“IECs”) are obtained. The Investigator and the institution(s) (the “Institution”), if any, conducting the trial (jointly, the “Site”) agree to ensure that all clinical data are accurate, complete, and legible. The Site shall promptly and fully produce all data, records and information relating to the Study to Quintiles and the sponsor of the Study (the “Sponsor”) and their representatives during normal business hours, and shall assist them in promptly resolving any questions and in performing audits or reviews of original subject records, reports, or data sources. The Site agrees to cooperate with the representatives of Quintiles and Sponsor who visit the Site, and the Site agrees to ensure that the employees, agents and representatives of the Site do not harass, or otherwise create a hostile working environment for, such representatives. The Site shall use the drug, device, product or compound being tested (the “Investigational Product”), and any comparator products provided in connection with the Study, solely for the purpose of properly completing the Study and shall maintain all Investigational Product and any comparator products in a locked, secured area at all times. Upon completion or termination of the Study, the Site shall return all unused Investigational Product, comparator products, equipment, and materials and all Confidential Information (as defined below).

2) Confidential and Proprietary Information. All information (including, but not limited to, documents, descriptions, data, CRFs, photographs, videos and instructions), and materials (including, but not limited to, the Investigational Product and comparator products), provided to the Site by Quintiles, Sponsor, or their agents, (whether verbal, written or electronic), and all data, reports and information, relating to the Study or its progress (hereinafter, the “Confidential Information”) shall be the property of Sponsor. The Site shall keep the Confidential Information strictly confidential and shall disclose it only to its employees involved in conducting the Study on a need-to-know basis. These confidentiality obligations shall continue until ten (10) years after completion of the Study, but shall not apply to Confidential Information to the extent that it: a) is or becomes publicly available through no fault of the Site; b) is disclosed to the Site by a third party not subject to any obligation of confidence; c) must be disclosed to IRBs, IECs, or applicable regulatory authorities; d) must be included in any subject’s informed consent form; e) is published in accordance with Article 3 herein; or, f) is required to be disclosed by applicable law. The existing inventions and technologies of Sponsor, Quintiles, or the Site are their separate property and are not affected by this Agreement. Sponsor shall have exclusive ownership of any inventions or discoveries arising in whole or in part from Confidential Information or arising as a result of the Study. The Site will, at Sponsor’s expense, execute any documents and give any testimony necessary for Sponsor to obtain patents in any country or to otherwise protect Sponsor’s interests in such inventions or discoveries.. The Site agrees to comply with any applicable data privacy or data protection legislation of the country in which the data originated.

4) Inspection and Debarment. When given reasonable notice, the Site agrees to allow authorized Quintiles, Sponsor or regulatory authority personnel direct access to the Site's records relating to the Study, including subject medical records, for monitoring, auditing, and inspection purposes. The Site shall immediately notify Quintiles of, and provide Quintiles copies of, any inquiries, correspondence or communications to or from any governmental or regulatory authority relating to the Study, including, but not limited to, requests for inspection of the Site's facilities, and the Site shall permit Quintiles and Sponsor to attend any such inspections. The Site will make reasonable efforts to separate, and not disclose, all confidential materials that are not required to be disclosed during such inspections. The Investigator and the Institution, if any, shall be jointly responsible for maintaining essential Study documents for the time and in the manner specified by current good clinical practice ("GCP") guidelines, local laws, and Sponsor requirements and shall take measures to prevent accidental or premature destruction of these documents. If the Investigator leaves an institution, then responsibility for maintaining Study records shall be determined in accordance with applicable regulations. If an investigator or sub-investigator leaves an institution or otherwise changes addresses, he or she shall promptly notify Sponsor and Quintiles of his or her new address. The Site represents and warrants that neither it, nor any of its employees, agents or other persons performing the Study under its direction, has been debarred, disqualified or banned from conducting clinical trials or is under investigation by any regulatory authority for debarment or any similar regulatory action in any country, and the Site shall notify Quintiles immediately if any such investigation, disqualification, debarment, or ban occurs.

5) Termination. Quintiles may terminate this Agreement effective immediately upon written notice. The Site may terminate upon written notice if circumstances beyond the Site's reasonable control prevent the Site from completing the Study, or if the Site reasonably determines that it is unsafe to continue the Study. Upon receipt of notice of termination, the Site shall immediately cease any subject recruitment, follow the specified termination procedures, ensure that any required subject follow-up procedures are completed, and make all reasonable efforts to minimize further costs, and Quintiles shall make a final payment for visits or milestones properly performed pursuant to this Agreement in the amounts specified in the Attachment B; provided, however, that ten percent (10%) of this final payment will be withheld until final acceptance by Sponsor of all subject CRF pages and all data clarifications issued and satisfaction of all other applicable conditions set forth in the Agreement. Neither Quintiles nor Sponsor shall be responsible to the Site for any lost profits, lost opportunities, or other consequential damages. If a material breach of this Agreement appears to have occurred and termination may be required, then, except to the extent that subject safety may be jeopardized, Quintiles may suspend performance of all or part of this Agreement, including, but not limited to, subject enrollment.

6) Claims and Disclaimers. The Site shall promptly notify Quintiles and Sponsor in writing of any claim of illness or injury actually or allegedly due to an adverse reaction to the Investigational Product and allow Sponsor to handle such claim (including settlement negotiations), and shall cooperate fully with Sponsor in its handling of the claim. **Quintiles expressly disclaims any liability in connection with the Investigational Product, including any liability for any product claim arising out of a condition caused by or allegedly caused by the administration of such product except to the extent that such liability is caused by the negligence, willful misconduct or breach of this Agreement by Quintiles.** Neither Quintiles nor Sponsor will be responsible for, and the Site agrees, to the extent allowed by law, to indemnify and hold them harmless from, any loss, claim, cost (including reasonable attorney fees) or demand arising from any injuries or damages resulting from the Site's negligence, failure to adhere to the Protocol, failure to obtain informed consent, unauthorized warranties, breach of this Agreement or willful misconduct. If the Site is in the U.S., it shall maintain professional liability insurance coverage with limits of not less than two hundred thousand dollars (\$200,000 USD) per occurrence and four hundred thousand dollars (\$400,000 USD) aggregate throughout the term of this Study if the policy is an occurrence policy, and for an additional five (5) years after completion of the Study if such insurance is a claims-made policy, and will provide, upon request, a certificate of insurance. If the Site is in Canada, the Investigator shall obtain, and maintain in good standing, membership with the Canadian Medical Protective Association. If the Site is outside of the U.S. or Canada, it shall maintain a commercially reasonable level of insurance, and, upon request, shall provide a certificate of insurance to Quintiles; or, alternatively, if applicable insurance is provided by a governmental agency, the Site shall satisfy all requirements necessary to remain eligible for such governmental insurance during the Study.

7) Financial Disclosure. If Quintiles or Sponsor provides financial disclosure forms to the Site pursuant to U.S. regulatory requirements, then the Site agrees that, for each listed or identified investigator or subinvestigator who is directly involved in the treatment or evaluation of research subjects, it shall promptly return to Quintiles a financial disclosure form that has been completed and signed by such investigator or subinvestigator, which shall disclose any applicable interests held by those investigators or subinvestigators or their spouses or dependent children. Quintiles may withhold payments if it does not receive a completed form from each such investigator and subinvestigator. The Site shall ensure that all such forms are promptly updated as needed to maintain their accuracy and completeness during the Study and for one (1) year after its completion. The Site agrees that the completed forms may be subject to review by governmental or regulatory agencies, Sponsor, Quintiles, and their agents, and the Site consents to such review. The Site further consents to the transfer of its financial disclosure data to the Sponsor's country of origin, and to the U.S. if the Site is outside of the U.S., even though data protection may not exist or be as developed in those countries as in the Site's own country.

8) Shipping of Dangerous Goods and Infectious Materials. The shipment of dangerous goods and infectious materials (including infectious subject specimens) is subject to local, national, and international laws and regulations. The Site is responsible for ensuring that each individual who packages or handles any dangerous goods or infectious materials for shipping from the Site complies with all applicable laws and regulations.

9) Additional Requirements for Medical Device Studies. If the Study will be used in support of an FDA investigational device exemption (IDE) application, then, in addition to all other provisions of this Agreement, the requirements of this Section shall apply. The Investigator agrees to perform the Study in accordance with 21 CFR Section 812, including, but not limited to, Sections 812. 25, 812.100, 812.110, 812. 140, 812.145, and 812.150, and with the investigational plan as defined in Section 812.25, and with all conditions of approval imposed by the reviewing IRB or IEC, or FDA. The Investigator shall supervise all testing of the device involving human subjects. If the Study is terminated, the Investigator shall dispose of or return the device as directed by Quintiles or Sponsor, unless such disposal or return would jeopardize the rights, safety or welfare of a subject.

10) Additional Contractual Provisions. This Agreement, including these Terms and Conditions, constitutes the sole and complete agreement between the parties and replaces all other written and oral agreements relating to the Study. No amendments or modifications to this Agreement shall be valid unless in writing and signed by all the parties. Failure to enforce any term of this Agreement shall not constitute a waiver of such term. If any part of this Agreement is found to be unenforceable, the rest of this Agreement will remain in effect. This Agreement shall be binding upon the parties and their successors and assigns. The Site shall not assign or transfer any rights or obligations under this Agreement without the written consent of Quintiles. Upon Sponsor's request, Quintiles may assign this Agreement to Sponsor or to a third party, and Quintiles shall not be responsible for any obligations or liabilities under this Agreement that arise after the date of the assignment, and the Site hereby consents to such an assignment. Site will be given prompt notice of such assignment by the assignee. The terms of this Agreement that contain obligations or rights that extend beyond the completion of the Study shall survive termination or completion of this Agreement. This Agreement shall be interpreted under the laws of the state or province and country in which such Site conducts the Study.

Attachment 4

Certificate of Insurance

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STRATHEARN INSURANCE BROKERS

*Secure Enterprises Pty Ltd as Trustees for the Strathearn Unit Trust
ACN 060 973 908 ABN 94 695 040 625
AFSL 229831*

CERTIFICATE OF CURRENCY

We confirm that cover has been bound by Lloyds of London (Newline Syndicate) as outlined below.

CLASS OF INSURANCE:

No Fault Compensation Insurance for Clinical Trials and/or Human Volunteer Studies Insurance

INSURED:

PRANA BIOTECHNOLOGY LIMITED

The definition of 'Insured' extends to include the following:

- a) any director or partner of the Insured whilst acting in their respective capacities for the Insured;
- b) any employee of the Insured including Medical Persons but only whilst acting within the scope of their duties;
- c) any past employee who acted for the Insured and who agrees to be bound by the terms of this policy;
- d) any sub contractor doctor consultant physician hospital or contract research organization or nurse who will be performing work for the Insured in respect of a Trial covered by this Policy;
- e) any Ethics Committee or its members that has approved a Trial which is the subject of this Policy;

but only in respect of Claims arising out of The Trial covered by this Policy.

SCOPE OF COVER

The Company shall indemnify the Insured against all sums in excess of the Deductible that the Insured shall become liable to pay as damages or compensation and claimants costs and expenses in respect of any Claim made by Research Subjects for Bodily Injury caused by an Occurrence happening after the Retroactive Date within the Policy Territory and arising out of the Business undertaken by or on behalf of the Insured

LIMIT OF INDEMNITY: AUD\$5,000,000 any one claim and in the aggregate

EXCESS: AUD\$25,000 each and every claim

PERIOD OF INSURANCE:

From : 23rd Nov 2005
To : 23rd Nov 2006

Both days at 16:00 Hours Local Standard Time.

- With effect from 14th August 2006 you cover is endorsed to include the following changes.

/s/ STRATHEARN INSURANCE BROKERS
STRATHEARN INSURANCE BROKERS

<i>Perth Office</i>	<i>Brisbane Office</i>	<i>Sydney Office</i>
<i>Level 2, 8 Kings Park Road, West Perth, WA 6005 PO Box 7344, Cloisters Square, WA 6850 Telephone: (08) 9321 0022 Facsimile: (08) 9321 0029</i>	<i>Level 4, 97 Creek Street, Brisbane, QLD 4000 GPO Box 859, Brisbane, QLD, 4001 Telephone: (07) 3221 2611 Facsimile: (07) 3221 2688</i>	<i>Level 4, 221 Miller Street, North Sydney, NSW, 2060 PO Box 63, North Sydney, NSW 2060 Telephone: (02) 9922 8100 Facsimile: (02) 9922 8181</i>

STRATHEARN INSURANCE BROKERS

Secure Enterprises Pty Ltd as Trustees for the Strathearn Unit Trust
ACN 060 973 908 ABN 94 695 040 625
AFSL 229831

It is hereby noted and agreed that with effect from the 14th August 2006, cover is extended to include Liability arising from Protocol PBT2-201-EURO

ENDORSEMENT ATTACHING TO AND FORMING PART OF THIS POLICY.

With effect from the 27th October 2006 your cover is endorsed to include the following changes.

LEGAL LIABILITY EXTENSION

In the event of a Research Subject not being offered or not agreeing to any compensation being determined in accordance with the Conditions of Compensation or refusing to accept the award of an Independent Lawyer the Company shall indemnify the Insured for all sums for which the Insured shall become legally liable (including the costs and expenses awarded to the Research Subject) as damages for Bodily Injury caused by the Research Subject's participation in a Trial (but excluding any liability which attaches by virtue of any contract or agreement and which would not have applied in the absence of such contract or agreement) in accordance with the law applicable in the country where the Claim is made and subject to the Limits of Indemnity stated in the Schedule

TERRITORIAL LIMITS: Worldwide excluding U.S.A and/or Canada

RETROACTIVE DATE: 23rd November 2004

INSURERS:

Lloyds of London (Newline syndicate number 1218)
Suite 5/4 The London Underwriting Centre
3 Minster Court, Mincing Lane
London EC3R 7DD

Signed by and on behalf of Strathearn Insurance Brokers

/s/ STRATHEARN INSURANCE BROKERS
STRATHEARN INSURANCE BROKERS

Dated: 27-10-06

<i>Perth Office</i>	<i>Brisbane Office</i>	<i>Sydney Office</i>
<i>Level 2, 8 Kings Park Road, West Perth, WA 6005 PO Box 7344, Cloisters Square, WA 6850 Telephone: (08) 9321 0022 Facsimile: (08) 9321 0029</i>	<i>Level 4, 97 Creek Street, Brisbane, QLD 4000 GPO Box 859, Brisbane, QLD, 4001 Telephone: (07) 3221 2611 Facsimile: (07) 3221 2688</i>	<i>Level 4, 221 Miller Street, North Sydney, NSW, 2060 PO Box 63, North Sydney, NSW 2060 Telephone: (02) 9922 8100 Facsimile: (02) 9922 8181</i>



Elkington Bishop Molineaux
Insurance Brokers Pty Ltd
AFS Licence No. 246986 ABN 31 009 179 640

Suite 4, 651 Victoria Street,
Abbotsford, Victoria 3067

Telephone: (03) 9425 1890
Facsimile : (03) 9425 1899
Email : ebm@ebminsurance.com.au
Website : www.ebminsurance.com.au

Ms K Rowe
Prana Biotechnology Limited
Level 2
369 Royal Parade
PARKVILLE VIC 3052

TAX INVOICE I0537953

Invoice Date	:	07.04.2006	Premium	2,000.00
Our Reference	:	EBM MEL P0485 0094642/006	Stamp Duty	220.00
Invoice No	:	I0537953		
Class	:	Broadform Liability	Broker Fee	50.00
Placement with/by	:	CGU INSURANCE	SubTotal Excl. GST	2,270.00
Policy No	:	10M1091762	GST Total	205.00
Period	:	30.04.2006 to 30.04.2007	Total Amount	\$ 2,475.00

Your account is managed by:

Gino Renzella ginor@ebminsurance.com.au
Kylie Allen kyliea@ebminsurance.com.au

TRANSACTION DESCRIPTION

** RENEWAL **

INSURED: Prana Biotechnology Limited

BRIEF DESCRIPTION:
Public Liability \$20,000,000

[SEAL]

IMPORTANT NOTICES

1. We are confirming your instructions or inviting Renewal and advising cover has been arranged. To ensure continuity of cover, please forward your remittance within 14 days.
2. The Insured has a legal obligation to reveal to the Insures any material fact which might affect their judgement in acceptance of the insurance and/or assessing the premium. Failure to do so could void any contract from inception. Claims must be notified immediately as late notification may cause prejudice in some instances.

-----tear here-----

Please return this with your remittance to:

EBM Insurance Brokers
Suite 4, 651 Victoria Street
ABBOTSFORD VIC 3067



Biller Code: 13581
Reference: 23152204850053795368

Our Ref	:	EBM MEL P0485 0094642/006
Invoice No	:	I0537953
Client Name	:	Prana Biotechnology Limited
Contact	:	Gino Renzella
Brief Description	:	Liab \$20,000,000 2006/07
Total Amount	\$	2,475.00

Please see overleaf for payment options.



COVER SUMMARY

CLIENT

Ms K Rowe
Prana Biotechnology Limited
Level 2
369 Royal Parade
PARKVILLE VIC 3052

PLACEMENT WITH/BY

07.04.06

CGU Insurance Limited
PO Box 390D
MELBOURNE VIC 3001

Your account is managed by:

Gino Renzella ginor@ebminsurance.com.au
Kylie Allen kyliea@ebminsurance.com.au

CLASS OF RISK

Broadform Liability
Policy No : 10M1091762

PERIOD OF INSURANCE

From: 4.00 pm on 30th April 2006
To : 4.00 pm on 30th April 2007
Our Ref : EBM MEL P0485 0094642/006

COVER SUMMARY

This summary is not a policy document and is only an outline of the cover. The terms conditions and limitations of the Insurer's policy shall prevail at all times.

INSURED : Prana Biotechnology Limited

INTEREST INSURED : The Insurer will indemnify you against:

1. Public Liability; or
 2. Products Liability;
- if shown in the Schedule as an insured item.

DEFINITIONS

: PUBLIC LIABILITY means:

Your legal liability to pay damages for an Occurrence (and for consequential loss caused by the Occurrence), in the course of Your Business, but excludes products Liability.

PRODUCTS LIABILITY means:

Your legal liability to pay damages for an Occurrence (and for consequential loss caused by the Occurrence), caused by an Unknown Defect in Your Products, but excludes Public Liability

OCCURRENCE means:

Personal Injury or Damage to Property that:

1. is neither intended nor expected from the standpoint of a reasonable person in your position;
2. is caused by an Event; and
3. occurs:
 - (a) within the Geographical Limits
 - (b) during the Period of Insurance

GEOGRAPHICAL LIMITS	: Worldwide excluding the United States of America and Canada and any state or territory incorporated in, or administered by, or from, either USA or Canada.
BUSINESS	: A) Testing and Marketing a cure for Alzheimers and similar age related diseases B) Property owners and/or occupiers
LIMITS OF LIABILITY	: (a) Public Liability \$20,000,000 any one occurrence (b) Products Liability NOT INSURED
EXCESS	: \$500 each Occurrence for Property Damage Claims
ENDORSEMENT	: We will not indemnify you against any liability in connection with any events or business activities other than as office occupiers and office administration at and from the premises situated at the 4 listed locations.
MAJOR EXCLUSIONS	: Employer's Liability (Workers' Compensation or accident compensation legislation or any industrial award, agreement or determination) Discrimination and harassment Assault and battery Waiver of rights Contractual Liability Intentionally or recklessly caused injury or damage Faulty Workmanship Product recall or repair Reinstatement, repair or replacement of your products Loss of use of Property from delay in or lack of performance by you or inadequacy of your products Aircraft products Watercraft exceeding 8 metres, Hovercraft and Aircraft and areas used for Aircraft Vehicles requiring registration, other than as a "Working Tool" Earthquake, civil commotion and the like Pollution Asbestos Building and demolition (other than for buildings owned or occupied by you where the total cost of alterations does not exceed \$ 1,000) Vibration or removal or weakening of, or interference with, support to land, buildings or any other property of support Treatment, design and professional risks Medical/Clinical testing Libel and slander made prior to commencement of this insurance, or made knowing it's falsity or related to publishing, advertising, broadcasting or telecasting activities Fines and punitive damages Foreign non-admitted cover Vehicle mounted cranes

Radioactive contamination
Electronic date recognition
War
Terrorism

TERRORISM INSURANCE ACT 2003 - APPLICATION TO THIS POLICY

(This application is to take effect with all business with an inception date on or after 1 October 2003).

The Insurers of this policy have determined that this policy (or part of it) is a policy to which the Terrorism Insurance Act 2003 applies.

They have reinsured their liability under the Act with the Commonwealth Government reinsurer, The Australian Reinsurance Pool Corporation (ARPC).

As a consequent, they are required to pay a premium to ARPC and that amount (together with the costs of that part of the cover provided by them and administrative costs associated with the legislation) is reflected in the premium charged to you.

As with any other part of the premium, it is subject to government taxes and charges such as GST, Stamp Duty and where applicable Fire Service Levy.

INSURER	POLICY NUMBER	PROPORTION
CGU Insurance Limited A.B.N. 27 004 478 371 CGU Centre, Level 5, 485 LaTrobe Street MELBOURNE VIC 3000	10M1091762	100.0000%

PROPOSAL FOR THE GMP MANUFACTURE OF PBT2

MAY 25, 2007

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ATTACHMENT 1 : FEE FOR SERVICE BREAKDOWN
ATTACHMENT 2 : CONTRACTUAL AGREEMENT

INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED
PROPOSAL FOR THE GMP MANUFACTURE OF PBT2 – MAY 25 2007

1. BACKGROUND

IDT manufactured 8.3kg of PBT2 in April 2005 and 3.5kg of PBT2 in September 2006 under GMP conditions by the route 3 synthetic method. The synthetic method has been subsequently developed to use acetyl chloride and pyridine in dichloromethane instead of neat acetic anhydride for the acetylation step. Prana have requested that IDT initially manufacture a 4kg batch of PBT2, followed by manufacture of up to 30kg of PBT2 using this modified manufacturing method.

2. TECHNOLOGY

The use of the newly developed acetylation conditions has resulted in removal of the impurity at RRT 1.10 in the finished product and elimination of the difficulties with the acetylation reaction that were experienced during the previous manufacturing campaign. For the purposes of the current proposal it is assumed that the N-oxide manufacture will be completed in two batches and that the acetylation process will be telescoped to the diol reaction as a single batch. All other manufacturing processes will be the same as for the previous GMP manufacture.

3. GMP MANUFACTURING FACILITIES

3.1 Design

Bulk active pharmaceutical ingredient manufacturing plants have been constructed at IDT's Boronia site. Validation of these facilities was completed in 1996. These facilities have been designed as multipurpose facilities with a manufacturing capability in the 10L - 2000L range.

3.2 Construction

The facilities are situated within the outer shell of the building at 55 Wadhurst Drive, Boronia and are used to manufacture active raw materials for clinical administration. The controlled environment areas are designed to achieve US Class 100,000 conditions and are subject to an environmental monitoring program. Single pass air is used with terminal HEPA filtering for both inlet and outlet air in the cytotoxic areas.

The manufacturing rooms are maintained at appropriate pressure differentials relative to atmosphere.

The facilities are designed to meet TGA, FDA and European GMP requirements.

3.3 Services

Operators wear PVC "spacesuits" or tyvec suits and breathing air is piped into the work rooms. Other services including distilled water, low pyrogen water, compressed air, vacuum, steam and cold glycol circulation are provided. Both liquid and solid wastes are collected for incineration or removal by an authorized waste management company.

3.4 Equipment

The facilities utilize glass lined stainless steel vessels, glass vessels and glass, polypropylene and stainless steel piping.

3.5 GMP

Installation Qualification and Operational Qualification are completed for the plant and equipment. As the plants are designed to manufacture several active raw materials, stringent measures to prevent cross contamination have been developed and implemented. Emphasis is placed on cleaning procedures and swabbing techniques. The facilities are extensively monitored for viable and non-viable particulate levels.

3.6 Analytical Testing

Analytical testing will be conducted in IDT's facilities at 45 Wadhurst Drive, Boronia. The GMP facilities at this site are approved by the Australian Therapeutic Goods Administration for manufacture of pharmaceutical materials for human use. The laboratory includes validated Thermoline® Stability cabinets established to store samples under ICH controlled temperature and humidity conditions for long term stability trials.

4. LABORATORY DEVELOPMENT / GMP MANUFACTURE

4.1 Laboratory Development

Raw Material and In Process Test Methods

Test methods need to be developed for any starting materials not used in the previous GMP manufacturing process.

Scale-Up Development

Further development may be required to implement recommendations from the previous manufacturing campaign.

Finished Product Test Methods

A test method for the API has been validated. The PBT2 produced will be evaluated using the validated test procedure. If new process impurities are present in the batch that co-elute with the main band some re-validation may be required. This will be evaluated at the time. If any further analytical validation is required a proposal will be generated and at that time.

4.2 Documentation

Batch Records

Batch records will re-evaluated and rewritten to incorporate the recommendations from the previous GMP manufacture of PBT2. The batch records will define the reaction parameters and procedures, and incorporate safety requirements specific to the equipment and process.

Development Report

A summary of the GMP synthesis and laboratory scale-up will be produced, if requested by Prana.

4.3 GMP Manufacturing

Manufacture and analytical testing of the 30kg batch of PBT2 active pharmaceutical ingredient under GMP will be undertaken to yield product suitable for stability, formulation, toxicology and clinical trials.

4.3 QC Release Testing

The batch will undergo full QC release testing including, assay, purity, identity and appearance. A signed certificate of analysis will be issued.

Extra testing will be done as part of the development, as required. This may include physico-chemical properties such as pH of solution, XRD and TGA/DTA and LC-MS characterisation of new process impurities.

4.4 Stability Testing

A full stability trial to ICH standard will be conducted on the GMP batch if required. This will include storage at normal and accelerated conditions, with QC testing at up to 6 time points per trial. The protocol will be approved by Prana.

5. FEE STRUCTURE

The proposed "Fee Structure" for the GMP manufacture of PBT2 is given in Attachment 1.

INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED
PROPOSAL FOR THE GMP MANUFACTURE OF PBT2 – MAY 25 2007

All raw materials, reagents and outside analytical testing will be disbursed to Prana at cost. IDT will invoice Prana for the disbursements and work conducted at IDT as promptly as possible.

6. TIMELINES

Some of the raw materials required for the manufacture of PBT2 are sea freight items. At least 8 weeks should be allowed for delivery of sea freight items from time of order.

After completion of the process and analytical development (and validation, if required), the time-line for completion of the bulk GMP API manufacture, QC testing and release is 17 weeks from receipt of the bulk raw materials.

7. CONTRACTUAL AGREEMENT

A formal contractual document is given as Attachment 2.

8. OTHER INFORMATION

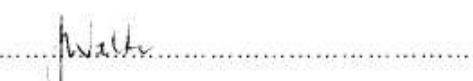
This proposal has been compiled in response to a request from the Client and remains the copyright property of IDT until such time as a formal contract for undertaking the defined activities is entered into.

The content of this proposal must not be disclosed to any third party, who may reasonably be seen as a competitor to IDT in relation to this project.

This proposal is valid for 30 days from the date of issue specified below, after which a new proposal may be issued.

As IDT is a Registered Research Agency (RRA) with the Industry Research and Development Board, the cost of all work undertaken by IDT for clients on eligible R & D activities could be claimed against their assessable income.

A Project Authorisation form is attached, together with a copy of IDT's Standard Terms and conditions. If the above proposal is acceptable could you please sign and return the Project Authorisation to IDT.

SIGNED: 

Justine Walter, R & D Project Leader

DATE: 12/6/07

ATTACHMENT 1

*INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED
PROPOSAL FOR THE GMP MANUFACTURE OF PBT2 – MAY 25 2007*

ACTIVE PHARMACEUTICAL INGREDIENT MANUFACTURE

COSTING FOR GMP MANUFACTURE OF 30KG OF PBT2 (MAY 2007)

	<u>Estimated Cost AUD</u>
TECHNICAL FEE	
Project management, including additional raw material /consumable sourcing, receipt etc	\$10,000
Process development	\$20,000
Analytical Testing of Raw Materials and Finished Product	\$30,000
Manufacture of 30kg of Product under GMP (excluding raw materials)	\$450,000
Hazop assessment	\$10,000
DOCUMENTATION	
cGMP Documentation including preparation and issue of Test Methods, Process Batch Records	\$20,000
TOTAL	\$540,000
OPTIONAL EXTRAS	
Stability trials	\$40,000*
Development Report	\$20,000

RAW MATERIALS

Reagents, solvents, laboratory consumables and any specific analytical columns to be sourced by IDT and disbursed at cost. Waste is disposed of at cost. External analysis also disbursed at cost.

* To be paid on commencement of stability trial (assumes 6 time points)

INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED
PROPOSAL FOR THE GMP MANUFACTURE OF PBT2 – MAY 25 2007

ATTACHMENT 2

*INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED
PROPOSAL FOR THE GMP MANUFACTURE OF PBT2 – MAY 25 2007*

PROJECT AUTHORISATION

TO : Justine Walter
R&D Project Leader
IDT Australia Limited
45 Wadhurst Drive
BORONIA VIC 3155

Dear Justine

I have read your proposal for the GMP Manufacture of 30Kg of PBT2, dated 25th May 2007 and the accompanying Standard Terms and conditions.

We wish to proceed with the project as described.

SIGNED :



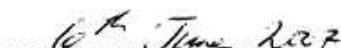
TITLE :



COMPANY :



DATE :



CC :

Dr R Elliott
General Manager



**INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED
(ABN 66 006 522 970)**

TERMS AND CONDITIONS FOR CONSULTING WORK

1. PAYMENT

Invoices for work done or services provided shall be submitted by Institute of Drug Technology Australia Ltd (ABN 66 006 522 970) ("the Company") either at fixed stages as specified in the proposals or at intervals of not more than three months. All such invoices shall be paid by the client within thirty (30) days of the date of invoice. The Company reserves the right to charge interest on the unpaid balance of any invoice at the expiration of thirty (30) days from the date of that invoice at the current National Australia Bank prime lending rate for small borrowers.

2. CANCELLATION

If the client cancels the project after authorisation is given and work has commenced a 15% cancellation fee will apply to the remainder of the uncompleted work.

If the client fails to pay the Company for work done or services provided as required by these terms and conditions, or if the client shall:-

- (a) go into liquidation or commit any act of bankruptcy;
- (b) have a Receiver or Manager or Provisional Liquidator appointed; or
- (c) enter into any arrangement or composition with its creditors or assignment for the benefit of its creditors

then the Company shall have the right to cancel any contract with the client and discontinue any work for the client and all sums owing to the Company by the client at that time shall become an immediate debt due to the Company recoverable as on account stated.

3. RESPONSIBILITY

- (a) The Company and its servants or agents shall carry out all tests, research and development in accordance with accepted standards of laboratory practice and good clinical research practice and shall manufacture and deliver the subject products in accordance with the detailed specifications separately agreed between the parties [Contract Specifications] and shall advise with due care and skill, but shall not be liable for any loss or damage, direct or indirect, of whatsoever kind, unless the same results directly or indirectly from noncompliance with the above described standards or the Contract Specifications, or a negligent, reckless or intentionally harmful act or omission on the part of the Company or its servants or agents.
- (b) The client shall indemnify and hold harmless the Company in respect of any and all claims or demands by any third party against the Company alleging loss, damage or injury arising out of the work done and/or services provided by the Company save and except for loss, damage or injury arising directly or indirectly from noncompliance with the above described standards or the Contract Specifications, or a negligent, reckless or intentionally harmful act or omission on the part of the Company or its servants or agents.

- (c) Any delay or failure to perform on the part of the Company arising from causes beyond the reasonable control of the Company or its servants or agents shall not be deemed a default on the part of the Company or put an end to the agreement between the Company and the client which agreement shall continue in suspense or part performance until such cause or causes shall have ceased whereupon it shall continue upon the same terms and conditions as before. If such cause preventing performance of this Agreement continues for a period of six months, either party may terminate this agreement by notice to the other with no further liability other than amounts accrued as of the date of cessation of performance.

4. CONFIDENTIALITY

The Company will preserve the security and secrecy of information supplied to the Company by the client which the client specifies to be confidential information and any information, data and material generated in the course of the work covered by this contract and carried out for the client by the Company. Nothing in these terms and conditions shall impose upon the Company any obligation not to disclose:-

- (a) information already known to the Company prior to its disclosure to the Company by the client;
- (b) information lawfully received by the Company from a third party;
- (c) information which is in the public domain through no fault of the Company's.

4A OWNERSHIP OF INFORMATION

The client shall own all the any information, data and material generated in the course of the work covered by this contract and carried out for the client by the Company

5. MEDIATION

If any dispute or difference arises between parties in relation to the operation of this Agreement, its termination or the consequences thereof, the parties agree to first endeavour to settle such dispute or difference by mediation. In such circumstances the mediation shall be conducted in accordance with the following rules:

- (a) the mediation shall be administered by the Australian Commercial Dispute Centre;
- (b) the mediator shall be a person agreed by the parties or in default by the President of the Australian Commercial Dispute Centre;
- (c) the mediator shall be a person having knowledge and experience in relation to intellectual property and an understanding of the pharmaceutical industry;
- (d) the mediation shall be commenced by either party serving on the other a notice of dispute specifying the matter which it requires to be determined. Forthwith, and in any event within 14 days, the parties shall agree a mediator and in default thereof, the Australian Commercial Dispute Centre shall be requested to appoint a mediator;

- (e) the mediator shall have control of the timetable for the undertaking of the mediation, but in any event the mediation is to be completed within 60 days of service of the notice of dispute;
- (f) until a matter has been subject to mediation, neither party will commence any form of legal proceeding against the other in relation to that matter.

6. LAW APPLICABLE

All questions, disputes and differences between the client and the Company together with the construction and interpretation of these terms and conditions shall be governed by and subject to the law of the State of Victoria, Australia.

7. GENERAL

All work done and services provided by the Company are subject to these terms and conditions which shall govern the relationship between the parties and all other terms, conditions, warranties and representations, whether express or implied, are hereby specifically excluded. The agreement including these terms and conditions will take effect on the date of signature of the client or completion of services to the client's reasonable satisfaction, whichever occurs later. The Company's obligations under paragraphs 3(b) and 4 shall survive any termination or expiration of the subject agreement.

8. GOODS AND SERVICES TAX

The parties hereby agree to the provisions set forth in Schedule 1 with respect to the implementation of a Goods and Services Tax.

Schedule 1

GST means the Goods and Services Tax as imposed by the GST Law.

GST Amount means any Payment (or the relevant part of the Payment) multiplied by the appropriate rate of GST (currently 10%).

GST Law has the meaning given to that term in A New Tax System (Goods and Services Tax) Act 1999, or, if that Act does not exist for any reason, means any Act imposing or relating to the imposition or administration of a goods and services tax in Australia and any regulation made under that Act.

Input Tax Credit has the meaning given to that term under GST Law.

Payment means any amount payable under or in connection with this Agreement including any amount payable by way of indemnity, reimbursement, or otherwise (other than a GST Amount) and includes the provision of any non-monetary consideration.

Tax Invoice has the meaning given to that term by GST Law. **Taxable Supply** has the meaning given to that term by the GST Law.

1. The parties agree that:
 - (a) all Payments have been calculated without regard to GST;
 - (b) each party will comply with its obligations under the Trade Practices Act 1974 when calculating the amount of any Payment and the amount of any relevant payments will be adjusted accordingly;
 - (c) if the whole or any part of any Payment is the consideration for a Taxable Supply for which the payee is liable for GST, the payer must pay to the payee an additional amount equal to the GST Amount, either concurrently with that Payment or as otherwise agreed in writing;
 - (d) any reference to a cost or expense in the Agreement excludes any amount in respect of GST forming part of the relevant cost or expense when incurred by the relevant party for which that party can claim an Input Tax Credit. That relevant party will be assumed to be entitled to full Input Tax Credits unless it can claim otherwise prior to the date of any Payment; and
 - (e) the payee will provide to the payer a Tax Invoice at the same time as any GST Amount is payable.
2. The Company will provide to the Client any information reasonably requested by the client relating to the Company's input Tax Credits and the amount of any costs incurred by the Investigator directly in connection with supplies made by the Investigator under this Agreement.

PROPOSAL FOR THE GMP MANUFACTURE OF PBT2

MAY 25, 2007

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ATTACHMENT 1 : FEE FOR SERVICE BREAKDOWN

ATTACHMENT 2 : CONTRACTUAL AGREEMENT

INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED
PROPOSAL FOR THE GMP MANUFACTURE OF PBT2 – MAY 25 2007

II-0879-Management API-GMP-001 - 2007 PBT2 4Kv API May 25 2007 RWA/ JAW

1. BACKGROUND

IDT manufactured PBT2 under GMP conditions in April 2005 and September 2006 using route 3. Prana have requested that IDT manufacture a batch of PBT2.

IDT has conducted further development on the acetylation process. The process modification has resulted in the removal of the impurity at RRT 1.10 in PBT2 and elimination of the difficulties with the acetylation reaction that were experienced during the previous manufacturing campaign. It is expected that 20kg of chlorquinaldol will produce 4kg of PBT2.

2. TECHNOLOGY

The synthetic pathway will include the newly developed acetylation process using acetyl chloride and pyridine in dichloromethane. The acetylation reaction is then telescoped to the diol reaction. All other manufacturing processes will be the same as for the previous GMP manufacture.

3. GMP MANUFACTURING FACILITIES

3.1 Design

Bulk active pharmaceutical ingredient manufacturing plants have been constructed at IDT's Boronia site. Validation of these facilities was completed in 1996. These facilities have been designed as multipurpose facilities with a manufacturing capability in the 10L - 2000L range.

3.2 Construction

The facilities are situated within the outer shell of the building at 55 Wadhurst Drive, Boronia and are used to manufacture active raw materials for clinical administration. The controlled environment areas are designed to achieve US Class 100,000 conditions and are subject to an environmental monitoring program. Single pass air is used with terminal HEPA filtering for both inlet and outlet air in the cytotoxic areas.

The manufacturing rooms are maintained at appropriate pressure differentials relative to atmosphere.

The facilities are designed to meet TGA, FDA and European GMP requirements.

3.3 Services

Operators wear PVC "spacesuits" or tyvec suits and breathing air is piped into the work rooms. Other services including distilled water, low pyrogen water, compressed air, vacuum, steam and cold glycol circulation are provided. Both liquid and solid wastes are collected for incineration or removal by an authorized waste management company.

3.4 Equipment

The facilities utilize glass lined stainless steel vessels, glass vessels and glass, polypropylene and stainless steel piping.

3.5 GMP

Installation Qualification and Operational Qualification are completed for the plant and equipment. As the plants are designed to manufacture several active raw materials, stringent measures to prevent cross contamination have been developed and implemented. Emphasis is placed on cleaning procedures and swabbing techniques. The facilities are extensively monitored for viable and non-viable particulate levels.

3.6 Analytical Testing

Analytical testing will be conducted in IDT's facilities at 45 Wadhurst Drive, Boronia. The GMP facilities at this site are approved by the Australian Therapeutic Goods Administration for manufacture of pharmaceutical materials for human use. The laboratory includes validated Thermoline® Stability cabinets established to store samples under ICH controlled temperature and humidity conditions for long term stability trials.

4. LABORATORY DEVELOPMENT / GMP MANUFACTURE

4.1 Laboratory Development

Scale-Up Development

Step two of the synthesis required further development prior to manufacture. In previous two manufacturing campaigns, the diacetate was precipitated out of solution by the addition of water to the reaction mixture of diacetate in acetic anhydride. The precipitation of the product was accompanied by an exotherm caused by hydrolysis of the acetic anhydride to acetic acid. During the 2006 manufacturing campaign, the temperatures produced by the exotherm caused the product to precipitate out as large lumps which could not be filtered. Therefore, development of this step to control the exotherm was required prior to proceeding with the manufacture.

The development work was undertaken under a separate proposal. Alternative conditions for the acetylation reaction were found. The new conditions use 2.2 equivalents of acetyl chloride and 2.2 equivalents of pyridine in dichloromethane at ambient temperature. The new conditions have the dual benefit of eliminating the exotherm from the quenching of the acetylation reaction and removing the major impurity at RRT 1.10 from PBT2.

The new acetylation conditions will be used in the manufacturing campaign to produce 4kg of PBT2.

4.2 Documentation

Batch Records

The existing batch records will be evaluated and reissued to incorporate the recommendations from the previous GMP manufacture of PBT2, as required.

4.3 GMP Manufacturing

Manufacture and analytical testing of 4kg of PBT2 active pharmaceutical ingredient under GMP will be undertaken to yield product suitable for stability, formulation, toxicology and human clinical trials.

4.3 QC Release Testing

Each batch will undergo full QC release testing including, assay, purity, identity and appearance. A signed certificate of analysis will be issued.

Extra testing will be done as part of the development, as required. This may include physico-chemical properties such as pH of solution, XRD and TGA/DTA and LC-MS characterisation of process impurities.

4.4 Stability Testing

A full stability trial to ICH standard will be conducted on the GMP batch if required by Prana. The protocol will be approved by Prana.

5. FEE STRUCTURE

The proposed "Fee Structure" for the GMP manufacture of PBT2 is given in Attachment 1.

All raw materials, reagents and outside analytical testing will be disbursed to Prana at cost. IDT will invoice Prana for the disbursements and work conducted at IDT as promptly as possible. The estimated cost for additional raw materials for a 4kg batch is less than \$20,000AUD.

6. TIMELINES

After completion of the process development, the time-line for completion of the bulk GMP API manufacture, QC testing and release is 9 weeks from commencement of manufacture. IDT expects to complete the manufacture by the end of August 2007.

INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED
PROPOSAL FOR THE GMP MANUFACTURE OF PBT2 – MAY 25 2007

// PBT2ManuCommAPIv01RevIDT - 2007/PBT2 API Rev May 15 2007 RMAN v01

7. CONTRACTUAL AGREEMENT

A formal contractual document is given as Attachment 2.

8. OTHER INFORMATION

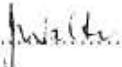
This proposal has been compiled in response to a request from the Client and remains the copyright property of IDT until such time as a formal contract for undertaking the defined activities is entered into.

The content of this proposal must not be disclosed to any third party, who may reasonably be seen as a competitor to IDT in relation to this project.

This proposal is valid for 30 days from the date of issue specified below, after which a new proposal may be issued.

As IDT is a Registered Research Agency (RRA) with the Industry Research and Development Board, the cost of all work undertaken by IDT for clients on eligible R & D activities could be claimed against their assessable income.

A Project Authorisation form is attached, together with a copy of IDT's Standard Terms and conditions. If the above proposal is acceptable could you please sign and return the Project Authorisation to IDT.

SIGNED: .....

Justine Walter, R & D Project Leader

DATE: 12/6/07.....

INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED
PROPOSAL FOR THE GMP MANUFACTURE OF PBT2 –MAY 25 2007
IDT070525PBT2-A6v1.ART May 24 2007 AWWA 0001

ATTACHMENT 1

**INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED
PROPOSAL FOR THE GMP MANUFACTURE OF PBT2 – MAY 25 2007**
(L:\PBT2\Manufacturing\API\Quotes\IDT - 2007\PBT2 4Kg API May 25 2007 FINAL.doc)

ACTIVE PHARMACEUTICAL INGREDIENT MANUFACTURE

COSTING FOR GMP MANUFACTURE OF 4KG OF PBT2 (MAY 2007)

PBT2 MANUFACTURE AND ANALYSIS	ESTIMATED COST
Manufacture of 4Kg of Product under GMP (excluding raw materials)	280,000
QC Testing and QA Release of PBT2 API	10,000
	<hr/>
	\$290,000
	<hr/>

MATERIALS / OUTSIDE SERVICES

Consumables / Raw Materials / Outside services
/ Waste disposal - to be disbursed at cost

Optional Extras

Stability Trial to ICH	\$40,000*
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*To be paid on commencement of stability trial
(assumes up to 6 time points)

ATTACHMENT 2

*INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED
PROPOSAL FOR THE GMP MANUFACTURE OF PBT2 – MAY 25 2007
(L:\PBT2\Manufacturing\API\Quotes\IDT - 2007\PBT2 4kg API May 25 2007 FINAL.dwt)*

PROJECT AUTHORISATION

TO : Justine Walter
R & D Project Leader
IDT Australia Limited
45 Wadhurst Drive
BORONIA VIC 3155

Dear Justine

I have read your proposal for the GMP Manufacture of PBT2, dated 25th May 2007 and the accompanying Standard Terms and conditions.

We wish to proceed with the project as described.

SIGNED : 

TITLE : 

COMPANY : 

DATE : 6th June 2007

CC : Dr R Elliott
General Manager 

**INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED
(ABN 66 006 522 970)**

TERMS AND CONDITIONS FOR CONSULTING WORK

1. PAYMENT

Invoices for work done or services provided shall be submitted by Institute of Drug Technology Australia Ltd (ABN 66 006 522 970) ("the Company") either at fixed stages as specified in the proposals or at intervals of not more than three months. All such invoices shall be paid by the client within thirty (30) days of the date of invoice. The Company reserves the right to charge interest on the unpaid balance of any invoice at the expiration of thirty (30) days from the date of that invoice at the current National Australia Bank prime lending rate for small borrowers.

2. CANCELLATION

If the client cancels the project after authorisation is given and work has commenced a 15% cancellation fee will apply to the remainder of the uncompleted work.

If the client fails to pay the Company for work done or services provided as required by these terms and conditions, or if the client shall:-

- (a) go into liquidation or commit any act of bankruptcy;
- (b) have a Receiver or Manager or Provisional Liquidator appointed; or
- (c) enter into any arrangement or composition with its creditors or assignment for the benefit of its creditors

then the Company shall have the right to cancel any contract with the client and discontinue any work for the client and all sums owing to the Company by the client at that time shall become an immediate debt due to the Company recoverable as on account stated.

3. RESPONSIBILITY

- (a) The Company and its servants or agents shall carry out all tests, research and development in accordance with accepted standards of laboratory practice and good clinical research practice and shall manufacture and deliver the subject products in accordance with the detailed specifications separately agreed between the parties [Contract Specifications] and shall advise with due care and skill, but shall not be liable for any loss or damage, direct or indirect, of whatsoever kind, unless the same results directly or indirectly from noncompliance with the above described standards or the Contract Specifications, or a negligent, reckless or intentionally harmful act or omission on the part of the Company or its servants or agents.
- (b) The client shall indemnify and hold harmless the Company in respect of any and all claims or demands by any third party against the Company alleging loss, damage or injury arising out of the work done and/or services provided by the Company save and except for loss, damage or injury arising directly or indirectly from noncompliance with the above described standards or the Contract Specifications, or a negligent, reckless or intentionally harmful act or omission on the part of the Company or its servants or agents.

- (c) Any delay or failure to perform on the part of the Company arising from causes beyond the reasonable control of the Company or its servants or agents shall not be deemed a default on the part of the Company or put an end to the agreement between the Company and the client which agreement shall continue in suspense or part performance until such cause or causes shall have ceased whereupon it shall continue upon the same terms and conditions as before. If such cause preventing performance of this Agreement continues for a period of six months, either party may terminate this agreement by notice to the other with no further liability other than amounts accrued as of the date of cessation of performance.

4. CONFIDENTIALITY

The Company will preserve the security and secrecy of information supplied to the Company by the client which the client specifies to be confidential information and any information, data and material generated in the course of the work covered by this contract and carried out for the client by the Company. Nothing in these terms and conditions shall impose upon the Company any obligation not to disclose:-

- (a) information already known to the Company prior to its disclosure to the Company by the client;
- (b) information lawfully received by the Company from a third party;
- (c) information which is in the public domain through no fault of the Company's.

4A OWNERSHIP OF INFORMATION

The client shall own all the any information, data and material generated in the course of the work covered by this contract and carried out for the client by the Company

5. MEDIATION

If any dispute or difference arises between parties in relation to the operation of this Agreement, its termination or the consequences thereof, the parties agree to first endeavour to settle such dispute or difference by mediation. In such circumstances the mediation shall be conducted in accordance with the following rules:

- (a) the mediation shall be administered by the Australian Commercial Dispute Centre;
- (b) the mediator shall be a person agreed by the parties or in default by the President of the Australian Commercial Dispute Centre;
- (c) the mediator shall be a person having knowledge and experience in relation to intellectual property and an understanding of the pharmaceutical industry;
- (d) the mediation shall be commenced by either party serving on the other a notice of dispute specifying the matter which it requires to be determined. Forthwith, and in any event within 14 days, the parties shall agree a mediator and in default thereof, the Australian Commercial Dispute Centre shall be requested to appoint a mediator;

- (e) the mediator shall have control of the timetable for the undertaking of the mediation, but in any event the mediation is to be completed within 60 days of service of the notice of dispute;
- (f) until a matter has been subject to mediation, neither party will commence any form of legal proceeding against the other in relation to that matter.

6. LAW APPLICABLE

All questions, disputes and differences between the client and the Company together with the construction and interpretation of these terms and conditions shall be governed by and subject to the law of the State of Victoria, Australia.

7. GENERAL

All work done and services provided by the Company are subject to these terms and conditions which shall govern the relationship between the parties and all other terms, conditions, warranties and representations, whether express or implied, are hereby specifically excluded. The agreement including these terms and conditions will take effect on the date of signature of the client or completion of services to the client's reasonable satisfaction, whichever occurs later. The Company's obligations under paragraphs 3(b) and 4 shall survive any termination or expiration of the subject agreement.

8. GOODS AND SERVICES TAX

The parties hereby agree to the provisions set forth in Schedule 1 with respect to the implementation of a Goods and Services Tax.

Schedule 1

GST means the Goods and Services Tax as imposed by the GST Law.

GST Amount means any Payment (or the relevant part of the Payment) multiplied by the appropriate rate of GST (currently 10%).

GST Law has the meaning given to that term in A New Tax System (Goods and Services Tax) Act 1999, or, if that Act does not exist for any reason, means any Act imposing or relating to the imposition or administration of a goods and services tax in Australia and any regulation made under that Act.

Input Tax Credit has the meaning given to that term under GST Law.

Payment means any amount payable under or in connection with this Agreement including any amount payable by way of indemnity, reimbursement, or otherwise (other than a GST Amount) and includes the provision of any non-monetary consideration.

INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED
PROPOSAL FOR THE GMP MANUFACTURE OF PBT2 – MAY 25 2007
(L:\PBT2\Manufacturing\API\Quotations\IDT - 2007\PBT2 4kg API May 25 2007 FINAL.doc)

Tax Invoice has the meaning given to that term by GST Law. **Taxable Supply** has the meaning given to that term by the GST Law.

1. The parties agree that:

- (a) all Payments have been calculated without regard to GST;
 - (b) each party will comply with its obligations under the Trade Practices Act 1974 when calculating the amount of any Payment and the amount of any relevant payments will be adjusted accordingly;
 - (c) if the whole or any part of any Payment is the consideration for a Taxable Supply for which the payee is liable for GST, the payer must pay to the payee an additional amount equal to the GST Amount, either concurrently with that Payment or as otherwise agreed in writing;
 - (d) any reference to a cost or expense in the Agreement excludes any amount in respect of GST forming part of the relevant cost or expense when incurred by the relevant party for which that party can claim an Input Tax Credit. That relevant party will be assumed to be entitled to full Input Tax Credits unless it can claim otherwise prior to the date of any Payment; and
 - (e) the payee will provide to the payer a Tax Invoice at the same time as any GST Amount is payable.
2. The Company will provide to the Client any information reasonably requested by the client relating to the Company's input Tax Credits and the amount of any costs incurred by the Investigator directly in connection with supplies made by the Investigator under this Agreement.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), dated as of 21 September, 2007, between Prana Biotechnology Limited, an Australian corporation (the "Company") with its principal offices at Level 2, 369 Royal Parade, Parkville, Victoria, Australia and Geoffrey Kempler (the "Executive") residing at 19 Crotonhurst Avenue, North Caulfield 3161 Victoria, Australia.

WHEREAS, the Company desires to employ the Executive, and the Executive desires to be employed by the Company, upon the terms and conditions set forth herein;

1. Employment

The Company hereby employs the Executive, and the Executive agrees to accept such employment, upon the terms and conditions herein set forth.

2. Employment Period

The term of employment hereunder shall commence on the date hereof, 21 September, 2007, and continue until termination as provided herein (the "Employment Period"). It is acknowledged that the Executive has previously provided services to the Company, this Agreement applies only to his employment as from (and including) 21 September, 2007 and prior accrued entitlements of the Executive are not adversely affected by this Agreement.

3. Position and Duties

The Executive hereby agrees to serve as our Executive Chairman and Chief Executive Officer (CEO) of the Company and shall have the duties, responsibilities and authority in respect of his CEO function as more fully set forth on Attachment A attached hereto. In such capacity the Executive shall report to the Board of Directors of the Company and shall serve on the Board of Directors. As an existing Director of the Company, termination of the CEO role will not terminate the Executive's directorship on the Board. The Executive shall devote his best efforts and attention to the performance of services to the Company in accordance with the terms hereof and as may reasonably be requested by the Company.

4. Compensation and Other Terms of Employment

(a) Base Compensation

In consideration of the performance of his duties for the Company, for the period beginning 21 September, 2007 through and including the termination of this Agreement as provided herein, the Executive's base salary compensation will be no less than \$386,400 (including superannuation) per year (the "Base Salary") payable in accordance with the Company's regular payroll practices (eg, timing of payments and standard employee deductions, such as income and employment tax withholdings). Made up as \$315,000 (including superannuation) for Executive Chairman and \$71,400 (including superannuation) for additional CEO duties to be increased by CPI annually, commencing 1 February 2008. The foregoing salary may be increased, but not decreased, at the discretion of the Board of Directors.

(b) Bonus Compensation

The Company will pay the Executive the following bonuses:

- Bonus of \$50,000 following a capital raising of at least A\$7m (before costs) prior to 30 September 2007.
- Bonus of \$25,000 following a further capital raising of at least A\$12m (before costs) anytime in the 2008 financial year.
- Bonus of \$25,000 for attaining a share price above \$0.60 for at least four consecutive trading days by 30 June 2008
- Bonus of \$50,000 for implementation of the following:
 - o Completion of clinical trial recruitment by 30 September 2007 - \$10K bonus
 - o Completion of signed Statistical Analysis Report by 29 February 2008 - \$10K bonus
 - o Regular meetings (minimum twice yearly) of the full Integrated Advisory Board - \$6K bonus
 - o Review and provide written proposal to the board of Prana's Intellectual Property Portfolio to determine other value add opportunities for license, merger and acquisition or divestment by 31 December 2007 - \$14K bonus
 - o Develop Prana staff retention strategy and action plan by 31 October 2007 and implement by 31 December 2007 - \$10K bonus

Upon termination of this Agreement pursuant to the Executive's death or disability pursuant to Section 5(e) below, the company shall pay a pro-rata bonus pursuant to Section 5(e).

(c) It is intended that the Executive should have no disincentive to his spending additional days each year in the USA. Accordingly, the Base Salary and bonus will be adjusted each year (by the agreement between the Executive and the Board of Directors) to compensate the Executive for differences in Australian and United States tax rates in the event that this difference has penalized the Executive for spending significant time in the USA.

(d) Business Expenses

Upon presentation of vouchers and similar receipts, the Executive shall be entitled to receive reimbursement in accordance with the policies and procedures of the Company maintained from time to time or all reasonable business expenses actually incurred in the performance of his duties for the Company.

(e) Vacation

The Executive shall be entitled to twenty (20) days of vacation during each calendar year of the Employment Period. Any vacation days that the Executive does not use in a calendar year will automatically be carried over for the use in the following year to a maximum carry of two years. Any vacation days that the Executive has not used at the termination of the Employment Period will be paid to the Executive at his Base Salary rate in effect at the time of termination.

(f) Benefits

The Executive shall be entitled to participate in such employment benefits, including but not limited to a retirement plan, health, dental, life insurance, and short and long term disability plans as are established by the Company and as in effect from time to time applicable to executives of the Company.

(g) Review

The Remuneration Committee of the Company (or if there is no Remuneration Committee for the time being, the Board or a committee of the Board) shall not less than once each year consider and if thought fit recommend to the Board (or, in the case of the Board, propose) changes to the salary to be received by the Executive pursuant to this Agreement or as applying after an earlier review or amendment of terms. The purpose of the review and recommended or proposed changes shall be to ensure that the salary of the Executive, when considered together with all other benefits to which the Executive is or may become entitled under this Agreement, is comparable with and maintains parity with salaries representatives payable to executives in like circumstances when benefits to which such executives may reasonably be expected to be or to become entitled are taken into account. Such review shall be carried out in accordance with the Corporate governance policies of the Company applicable at the time (if any). The Executive shall not be involved in any discussions or decision concerning recommendations or proposals.

5. Terminations and Consequences

(a) The Executive's Right to Terminate

Notwithstanding any other provision of this Agreement to the contrary, the Executive may terminate this Agreement;

- (i) at any time during the Employment Period for Good Reason (as defined in Section 5 (f) below), on at least thirty (30) days' prior written notice; or
- (ii) without Good Reason on at least ninety (90) days' prior written notice to the Company.

(b) The Company's Right to Terminate

Notwithstanding any other provision of this Agreement to the contrary, the Company may terminate this Agreement;

- (i) at any time during the Employment Period for Good Reason (as defined in Section 5 (f) below), on at least thirty (30) days' prior written notice; or
- (ii) without Good Reason on at least ninety (90) days' prior written notice to the Executive.

(c) Consequences of Termination Without Cause or for Good Reason

If the Company terminates this Agreement without Cause, or if the Executive terminates this Agreement with Good Reason, the Company shall:

- (i) pay the Executive within ninety (90) days of the termination date \$1,000,000 provided the Company has sufficient capital requirements to fulfil this clause,
- (ii) immediately pay the Executive all unreimbursed business expenses and accrued, unused vacation days; and
- (iii) accelerate the vesting of any unvested options to purchase ordinary shares and permit Executive to exercise such options during the remainder of the exercise period for such options.

(d) Consequences of Termination With Cause or Without Good Reason

If the Company terminates this Agreement with Cause or the Executive terminates this Agreement Without Good Reason, then the

- (i) Executive's Base Salary shall be discontinued upon the termination of the Employment Period;
- (ii) Bonus Compensation shall be pro-rated only if termination with Cause occurs in the first year; and
- (iii) Company shall pay the Executive all unreimbursed business expenses and accrued, unused vacation days; and
- (iv) Executive shall be permitted to exercise only unvested options to purchase shares that pre-existed this contract.

(e) Consequences of Termination for Death or Disability

If the Executive dies during the term of this Agreement, then the Agreement shall terminate except that the Company shall pay to Executive's estate all accrued Base Salary, pro-rate Bonus Compensation and unreimbursed business expenses and accrued, unused vacation days that the Executive would otherwise have been entitled to receive. Executive's estate shall also be permitted to exercise Executive's vested options for shares. If the Executive is unable to perform his functions because of Disability and the Agreement is terminated for that reason, the Executive shall be entitled to receive the same amount that the Company would be obligated to pay if the Executive had died during the term of this Agreement less the amounts of payment under any disability policy maintained by the Company.

(f) Definition of Good Reason

"Good Reason" means:

- (i) a material reduction of the Executive's duties and responsibilities from those in effect immediately prior to the reduction or change,
- (ii) a requirement that the Executive relocate his primary office more than 50 kilometers from North Caulfield, Victoria, or
- (iii) material breach by the Company of any provision of this Agreement after receipt of ten (10) days written notice thereof from the Executive and failure by the Company to cure the breach within thirty (30) days thereafter, or
- (iv) the occurrence of an event described in sub-paragraphs i), ii), iii) or iv) of Section 5(i) where notice is given by the Executive in accordance with sub-paragraph (BB) of Section 5(i).

- (g) **Definition of Cause**
“Cause” means the Executive’s:
(i) conviction of a felony,
(ii) commission of acts of fraud, misappropriation, embezzlement, or theft, or
(iii) willful or repeated failure to follow lawful specific directives of the Board of Directors to act or refrain from acting, which directives are consistent with the Executive’s position as Chief Executive Officer of the Company. Before the Company can terminate the Executive for Cause under clause (g)(iii) of this Section 5(g), the Company must give the Executive written notice setting forth the Company’s dissatisfaction with the Executive and the reasons therefore, and give the Executive thirty (30) days to cure the circumstances supporting the for Cause determination.

- (h) **Definition of Disability**
“Disability” means the inability of the Executive to perform the Executive’s duties of employment to the Company pursuant to the terms of this Agreement, because of physical or mental disability where such disability shall have existed for a period of more than sixty (60) consecutive days or an aggregate of ninety (90) days in any 365 day period. The existence of a Disability means that the Executive’s mental and/or physical condition substantially interferes with the Executive’s performance of his substantive duties for the Company as specified in this Agreement. The fact of whether or not a Disability exists hereunder shall be determined by a professionally qualified medical expert selected by the Company and the Executive.

- (i) **Change of Control**
Despite anything to the contrary in this Agreement in the event that:
(i) there is an effective change of control of fifty percent (50%) of the issued capital of the Company;
(ii) the business, operations or capital of the Company is merged in or combined with that of another entity or entities; or
(iii) the membership of the Board changes to the extent that at least 50% of the Board did not hold office at the date of this Agreement; or
(iv) control of the composition of the Board changes to the extent that control of the composition of the Board is or can be exercised by the parties who did not control the Composition of the Board at the date of this Agreement,

then, without limiting the other circumstances in which Section 5(c) may apply, Section 5 (c) shall apply:

- (AA) if the company subsequently terminates this Agreement without Cause (as herein defined); and
(BB) if the Executive terminates this Agreement, which termination shall be deemed to have been termination with Good Reason (as herein defined) provided always that the Executive gives at least one (1) month’s written notice to the Company within a period of six (6) months immediately following the occurrence of an event described in sub-paragraphs i), ii), iii) or iv) of this Section 5(i)

- (j) **Non-disparagement**
In the event that Executive terminates this Agreement with or without Good Reason, or that the Company terminates this Agreement with or without Cause, the Company and the Executive agree that they will not disparage each other in any way.

- (k) **Resignation as a Director**
If the Executive resigns as a Director he shall immediately resign (or be deemed to have resigned) as Chief Executive Officer (CEO) and to have terminated this Agreement. The provisions of this Section 5 shall apply to such termination of this Agreement (that is, such termination or deemed termination of this Agreement by the Executive shall either have been with Good Reason or not with Good Reason, as the case may be, as provided for above).

6. Records and Confidential Data

(a) Acknowledgement

The Executive acknowledges that in connection with the performance of his duties during the term of his employment the Company will make available to the Executive, or the Executive will have access to, certain Confidential Information (as defined below) of the Company. The Executive acknowledges and agrees that any and all Confidential Information learned or obtained by the Executive during the course of his employment by the Company or otherwise whether developed by the Executive alone or in conjunction with others or otherwise, shall be and is the property of the Company and its affiliates.

(b) Confidentiality Obligations

During the term of his employment and thereafter Executive shall keep all Confidential Information confidential and will not use such Confidential Information other than in connection with the Executive's discharge of his duties hereunder, and will be safeguarded by the Executive from unauthorized disclosure. This covenant is not intended to, and does not limit in any way Executive's duties and obligations to the company under statutory and common law not to disclose or make personal use of the Confidential Information or trade secrets.

(c) Return of Confidential Information

Following the Executive's termination of employment as soon as possible after the Company's written request, the Executive will return to the Company all written Confidential Information which has been provided to the Executive and the Executive will destroy all copies of any analyses, compilations, studies or other documents prepared by the Executive or for the Executives' use containing or reflecting any Confidential Information.

(d) Definition

For the purposes of this Agreement, "Confidential Information" shall mean all confidential and proprietary information of the Company, and its affiliates, including, without limitation the company's scientific information, marketing strategies, pricing policies or characteristics, customers and customer information, product or product specifications, designs, software systems, leasing costs, cost of equipment, customer lists, business or business prospects, plans, proposals, codes, marketing studies, research, reports, investigation or other information or similar character. For Executives' obligations under the Section 6 shall not extend to:

- (i) information which is generally available to the public,
- (ii) information obtained by the Executive from third persons, other than Executives of the Company, the Company and the Company's affiliates, not under agreement to maintain the confidentiality of the same and
- (iii) information which is required to be disclosed by law or legal process and
- (iv) information known to Executive prior to commencement of his employment with the Company, as evidenced by written documentation.

7. Arbitration

(a) Good Faith Discussions

The parties shall meet and discuss in good faith any dispute between them arising out of this Agreement.

(b) Mediation

If the discussions referred to in the preceding Section 7(a) fail to resolve the relevant dispute, either party may (by written notice to the other party) require that the dispute be submitted for mediation by a single mediator nominated by the President for the time being of the Victorian Law Institute. In the event of any such submission to mediation:

- i) The mediator shall be deemed to be not acting as an expert or as an arbitrator;
- ii) The mediator shall determine the procedure and timetable for the mediation; and
- iii) The cost of the mediation shall be shared equally between the parties

- (c) **Legal Proceedings**
Neither party may issue any legal proceedings in respect of any such dispute unless that party has first taken all reasonable steps to comply with Sections 7(a) and (b).

8. **Miscellaneous Provisions**

- (a) **Notices**
All notices, offers or other communications required or permitted to be given or made
(i) if delivered personally;
(ii) after the expiration of thirty (30) days from the date upon which such notice was mailed from within the United States or Australia by certified mail, return receipt requested, postage prepaid; or
(iii) upon receipt by prepaid telegram, facsimile transmission or electronic mail transmission (with written confirmation of receipt for each kind of transmission).
- All notices given or made pursuant hereto shall be so given or made to the Executive at the address contained in the Company's personnel records and to the Company at its headquarters, addressed to the attention of the Chair of the Board of Directors.
- (b) **The Executive's Representations and Warranties**
The Executive hereby represents and warrants that he is not a party to any agreement, contract or understanding that would in any way restrict or prohibit him from undertaking or performing any of his obligations under this Agreement.
- (c) **Amendments**
Except as set forth Section 4 above, this Agreement shall not be changed or amended unless in writing and signed by both the Executive and the Company.
- (d) **Governing Law**
This Agreement shall be governed by and construed in accordance with the laws of the State of Victoria applicable to contracts executed in and to be performed entirely within that jurisdiction. Each party irrevocably submits to the non-exclusive jurisdiction of courts of that state and the courts of appeal therefrom and waives any right to object to such jurisdiction on the basis of domicile or of being an inconvenient forum.
- (e) **Counterparts**
This Agreement may be executed in counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been executed as of the date of year first above written.

PRANA BIOTECHNOLOGY LIMITED

George Mihaly
Remuneration Committee

THE EXECUTIVE:

Geoffrey Kempler

ATTACHMENT A

DESCRIPTION OF DUTIES

The Executive shall have the responsibilities and functions generally associated with the position of Chief Executive Officer (CEO), including but not limited to:

- Develop and implement a business plan approved by the Board of Directors to provide a clear and rational basis for the ongoing prioritization of the Company's activities and resource allocation, updated as required.
- Develop and expand the management team of the Company.
- Demonstrate strong commerciality in dealing with Company's assets.
- Direct and oversee relationships with major pharmaceutical companies, government regulatory agencies, investors and others.
- Work to continually improve the capitalization and ensure the ongoing funding of the Company.
- Comply with the current or future Company policies.



12 June 2007

Ms Dianne Angus
9 Rostrevor Parade
Mont Albert Vic 3127

Dear Dianne,

**Salary Review
Payment of Bonus**

I confirm that your base salary increased from \$195,000 to \$268,125 effective 1st September 2006. The salary increase reflects the following changes:

- 1) Increase of working week, from 4 days to 5.
- 2) Addition to position responsibilities and duties.
- 3) Movement in the CPI since the date of your last salary review.

In addition to your salary, the company will contribute \$24,131, the equivalent of 9% of your base salary to your nominated superannuation fund, bringing your total salary package to \$292,256.

Leave entitlements remain unchanged to your contract, dated 2nd October 2006, however it is noted that sick leave is cumulative in accordance with the current *Workplace Relations Act 1996*.

In recognition of the company's achievements and your performance during the past year, the Board has approved a bonus equity issue of 250,000 zepo options to be issued under the Company's 2004 Employees', Directors' and Consultants' Share and Option Plan. The options will expire on 7 August 2014. No options may be exercised until and unless the price of the Company's ordinary shares has achieved and maintained a minimum value of \$0.40 for five consecutive trading days from the date of this letter.

Yours sincerely,

A handwritten signature in black ink.

Geoffrey Kempler
Chairman and CEO

A handwritten signature in black ink.

Brian Meltzer
Remuneration Committee Chairman

PRANA BIOTECHNOLOGY

Limited ACN 080 699 085



Level 2, 369 Royal Parade
Parkville Vic 3052 Australia
Telephone: +61 3 9349 4906
Facsimile: +61 3 9348 0377

12 June 2007

Ms Dianne Angus
9 Rostrevor Parade
Mont Albert Vic 3127

Dear Dianne,

I am pleased to confirm your new position as Chief Operating Officer of Prana Biotechnology Limited, effective 31 May 2007. The terms and conditions of your current employment agreement will continue to apply.

Yours sincerely,

Geoffrey Kempler
Executive Chairman and CEO
Prana Biotechnology Limited

Assignment and Novation Deed

Biomolecular Research Institute Limited

Commonwealth Scientific and Industrial Research
Organisation

Prana Biotechnology Ltd

Piper Alderman
Lawyers

Level 24
385 Bourke Street
Melbourne Vic 3000
Australia
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Assignment and Novation Deed

Parties

1. Biomolecular Research Institute Limited ABN 90 050 135 012 of 343 Royal Parade, Parkville, Victoria 3252, Australia (BRI)
2. Commonwealth Scientific and Industrial Research Organisation ABN 41 687 119 230 of Limestone Avenue, Campbell, Australian Capital Territory 2601, Australia (CSIRO)
3. Prana Biotechnology Ltd ABN 37 080 699 065 of Level 1, 100 Dorcas Street, South Melbourne, Victoria 3205, Australia (Prana)

Introduction

- A. BRI and Prana are parties to the Principal Agreement.
- B. On and from the Effective Date BRI wishes to assign to CSIRO all BRI's rights under the Principal Agreement including BRI's entitlement to royalties under that Agreement.
- C. Prana wishes to evidence its consent to the abovementioned assignment and on and from the Effective Date to novate its obligations under the Principal Agreement in favour of CSIRO.
- D. The parties agree to the preceding on the terms and conditions of this Deed.

Operative clauses

1. Definitions

In this deed:

Deed means this deed and all schedules and attachments;

Effective Date means the date on which this Deed is signed by the last party to do so; and

Principal Agreement means the agreement entitled "Assignment of Patents and Intellectual Property Licensing in relation to the treatment of Alzheimer Disease" dated 7 February 2000 between BRI and Prana, as amended by the "Variation Agreement" and "Deed of Assignment" both dated 11 December 2001 between BRI and Prana, copies of which are annexed to this Deed.

2. Interpretation

In this deed, headings and boldings are for convenience only and do not affect the interpretation of this Deed and, unless the context otherwise requires:

- (a) words importing a gender include any gender;

- (b) words importing the singular include the plural and vice versa;
- (c) headings and clause headings have been inserted for guidance only and shall not be deemed to form any part of the context of this Deed;
- (d) all references to clauses and schedules are to clauses and schedules of this Deed and includes such clause or schedule as amended or replaced from time to time pursuant to this Deed;
- (e) where any word or phrase has been given a defined meaning, any other part of speech or other grammatical form in respect of that word or phrase has a corresponding meaning; and
- (f) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and any governmental agency.

3. Assignment of rights

3.1 Assignment

On and from the Effective Date BRI assigns to CSIRO all BRI's rights under the Principal Agreement including BRI's entitlement to royalties under that Agreement.

3.2 Consent and confirmation

Prana hereby consents to the assignment referred to in clause 3.1 and confirms that the rights so assigned continue in existence on and from the Effective Date.

3.3 Representation and warranty

BRI represents and warrants to CSIRO that:-

- (a) it is absolutely entitled to assign the rights referred to in clause 3.1;
- (b) the rights so assigned are unencumbered; and
- (c) on and from the Effective Date neither it nor any of its successors in title will claim any benefit to the rights so assigned.

4. Novation and releases

4.1 Novation of obligations

On and from the Effective Date, the parties agree that CSIRO is substituted for BRI as the party to whom Prana owes its obligations under the Principal Agreement.

4.2 Representation and warranty

Prana represents and warrants to CSIRO that it is capable of performing its obligations under the Principal Agreement in favour of CSIRO and will do so.

4.3 Releases

- (a) On and from the Effective Date, BRI releases Prana from its obligations to BRI arising on or after the Effective Date under the Principal Agreement.
- (b) On and from the Effective Date Prana releases BRI from its obligations to Prana under the Principal Agreement which arise after the Effective Date.

5. Survival and assignment

The parties agree that, notwithstanding any provision of the Principal Agreement:

- (a) CSIRO's entitlement to the benefit of the rights assigned under this Deed shall not be terminable and shall not be terminated by the exercise of any right by Prana or BRI.
- (b) Prana must not, without CSIRO's prior written consent (which shall not be unreasonably or capriciously withheld), permit any other party to perform or be obliged to perform its obligations in favour of CSIRO novated under this Deed.

6. Notices

- (a) Any notice or other communication including but not limited to any request, demand, consent or approval, to or by a party to this Deed is to be sent as follows:

(1) BRI

Address: 343 Royal Parade, Parkville Victoria 3052
with a copy to John Maciel, Piper Alderman

Attention: The Company Secretary

Facsimile: (03) 9662 7301 with a copy to (03) 8665 5500

(2) CSIRO

Address: CSIRO Business Services
P.O. Box 93 North Ryde, NSW 1670

Attention: Chief of Staff, CSIRO Business Development and
Commercialisation

Facsimile: (02) 9490 8260

(3) Prana

Address: Level 2, 369 Royal Parade, Parkville, VIC 3052

Attention: Chief Operating Officer

Facsimile: (03) 9348 0377

- (b) Any such notice, request or other communication shall be delivered by hand or sent by prepaid post or facsimile, to the address of the party to which it is sent.

- (c) If it is sent by or transmitted electronically or by facsimile a confirmation copy is to be sent to the recipient by pre-paid post within 1 business day of sending or transmitting the notice electronically or by facsimile.
- (d) A notice, request or other communication will be deemed to be received:
 - (1) if delivered by hand, upon delivery;
 - (2) if sent by pre-paid ordinary post within Australia, upon the expiration of 2 business days after the date on which it was sent; and
 - (3) if transmitted electronically or by facsimile, upon receipt by the sender of an electronic or facsimile acknowledgment that the communication has been properly transmitted to the recipient.
- (e) A party may change the address for service of notices by giving written notice of that change to the other parties.

7. Governing law and jurisdiction

- (a) This Deed is governed by the laws of the State of Victoria.
- (b) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of the State of Victoria.
- (c) Each party irrevocably waives any objection to the venue of any legal process on the basis that the process has been brought in an inconvenient forum.

Execution

Executed as a deed on the

day of

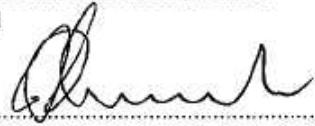
2007

Signed for and on behalf of
Biomolecular Research Institute
Limited

Director

J. V. PLUNKETT

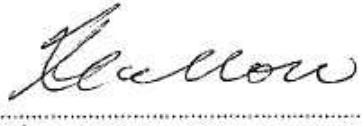
Name (please print)



Director / Company Secretary

I. R. C. ALLOW

Name (please print)



Signed sealed and delivered)
for and on behalf of the Commonwealth)
Scientific and Industrial Research)
Organisation by)

T. STEELE

CHIEF OF STAFF
CSIRO BUSINESS SERVICES

Name (please print)

Date: 10 SEPTEMBER 2007



Signed for and on behalf of
Prana Biotechnology

Director

B. D. MEITZER

Name (please print)



Director / Company Secretary

GEOFFREY KEMPLER

Name (please print)



Annexure**Principal Agreement**

Assignment of Patents and Intellectual Property Licensing in relation to Treatment of Alzheimer Disease between Biomolecular Research Institute Limited and Prana Biotechnology Ltd dated 7 February 2000.

Variation Agreement between Biomolecular Research Institute Limited and Prana Biotechnology Ltd dated 11 December 2001.

Deed of Assignment between Biomolecular Research Institute Limited and Prana Biotechnology Ltd dated 11 December 2001.

DATED 7th Day of FEBRUARY 2000

Agreement between

BIOMOLECULAR RESEARCH INSTITUTE LIMITED A.C.N. 050 135 012

and

PRANA BIOTECHNOLOGY LTD. A.C.N. 080 699 065

for the

**ASSIGNMENT OF PATENTS AND INTELLECTUAL PROPERTY
LICENCISING**

in relation to

TREATMENT OF ALZHEIMER DISEASE

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PATENT ASSIGNMENT AGREEMENT

THIS AGREEMENT is made the..... day of, 2000

Between:

Biomolecular Research Institute Limited [ACN 050 135 012], of 343 Royal Parade, Parkville, Victoria, 3052 ('the BRI')

And

Prana Biotechnology LTD. A.C.N. 080 699 065, a company registered under the Corporations Law which has an office at Level 1, 100 Dorcas St, South Melbourne, 3205 ('the Company')

BACKGROUND:

- A. The BRI is the registered proprietor of the patents and the patent applications set out in Section 1 of Schedule 1 (the 'Patents') and BRI has know-how in structural biology, drug design and synthesis.
- B. The BRI has incurred and will continue to incur considerable costs and expenses in securing and maintaining the Patents, which costs and expenses are unlikely to be met from independent exploitation of the Patents by the BRI.
- C. The Company has represented that it holds rights over other patents for inventions complementary to the inventions disclosed in the Patents, and that the Patents are best exploited for the benefit of the BRI by assigning the Patents to the Company for independent exploitation by the Company.
- D. The Company has requested, and the BRI has agreed to, the assignment of the Patents in accordance with the terms and conditions set out in this Agreement.

NOW THE PARTIES AGREE as follows:

1. INTERPRETATION

- 1.1. In this Agreement, unless the contrary intention appears:

"Agreement" means this agreement and includes all Schedules and Attachments hereto;

"BRI Use" means use by BRI for any research or educational purposes, including any such use by a third party (not being a for profit research or academic

institution) for, on behalf of, or in collaboration with BRI (and excluding commercial use or research for commercialization or commercial purposes except as provided for in clause 9.1).

"Commencement Date" means the date this Agreement is executed by the Party last to sign, or a date otherwise agreed in writing by the Parties;

"Confidential Information" means information (whether oral or recorded in any form or medium) directly or indirectly disclosed by, or acquired from, a Party ('the disclosing Party') which relates to this Agreement or a subject matter within this Agreement, which is by its nature confidential or otherwise designated as confidential by the disclosing Party, and which includes, without limiting any of the foregoing, information relating to:

- (a) any know-how and trade secrets relating to the use or exploitation of the Patents; and
- (b) administration, policies, conduct, or businesses of the BRI, or of any academic staff member, student, consultant, agent, licensee or contractor of the BRI;
- (c) but which does not include information which:
- (d) is already in the public domain or which hereafter becomes part of the public domain otherwise than through a breach of an obligation of confidence by the recipient Party; or
- (e) the recipient Party can prove was independently created by it, or was in its lawful possession before it received, obtained or accessed the information under this Agreement; or
- (f) is lawfully and bona fide obtained by the recipient Party from a third party who is not under an obligation of confidence in relation to the information;

"exploit" means the exercise of any of the rights secured by the registration of the Patents in any patent jurisdiction, and **"exploitation"** has a corresponding meaning;

"Fee" means the payments made or to be made under clause 5 in consideration of the assignment of Patents in clause 2.1;

"Improvement" means any improvement in, variation of, or modification of, the Inventions and includes any further development (including derivative product, technology and know-how) of the Inventions, irrespective of whether the same is patentable or capable of design registration;

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"Intellectual Property" means all rights under statute, common law or equity in relation to inventions (including patents), copyright, registered and unregistered trade marks (including service marks), registered designs, circuit layouts, Confidential Information, and other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields;

"Inventions" means the inventions disclosed in the Patents, excluding any Intellectual Property (including Confidential Information) that is not expressly claimed and described in the Patents;

"Listing Date" means the date upon which the Company's securities are granted official quotation on the Australian Stock Exchange Limited which, unless the parties otherwise agree in writing, shall be a date not more than twelve months after the date of this Agreement.

"Materials" includes documents, equipment, computer software, goods, information and data stored by any means;

"Net Invoice Price" means the gross invoice price payable for the sale of a Product (excluding any payments to the Company for contracted research or development of a Product) less any bona fide amounts included therein for packing, freight, transit insurance, trade, quantity or cash discounts or rebates actually allowed or taken, and government taxes and charges, PROVIDED THAT where a sale of a Product is not at arms length, or is to a person directly or indirectly controlling, controlled by, under common control with, or enjoying a special relationship for favoured course of dealing with the Company or any licensee or sub-licensee of the Patents, the **"Net Invoice Price"** is the amount that would be charged on an arms length basis to a bona fide third party, less any of the above deductions as are factually applicable;

"Parties" means the parties to this Agreement, and **'Party'** means either party as the context indicates;

"Product" means any product produced or sold and any service provided with the use of the Patents or Inventions, where such production, sale or service in the place where it is carried out would, but for the ownership of the Patents by the Company or a licence of the Patents granted by the Company, amount to an infringement of the Patents;

"Research" means the research to be conducted by the BRI utilising the funds paid by the Company under clause 5.2 which is more particularly described in Section 2 of Schedule 1;

"Royalties" means any amount received by the Company by way of royalties on Products sold by licensees and sub-licensees of the Patents, to the extent such payments derive from the exploitation by the licensees and sub-licensees of the Patents;

"sale", "sell", "sold" includes selling, licensing, hiring out, assigning or otherwise supplying or disposing of, or allowing the use by third parties of, or providing to third parties any Inventions or any Product.

1.2. In this Agreement, unless the contrary intention appears:

- (a) clause headings are for reference only, and are not relevant to the interpretation of the provisions under them;
- (b) a reference to a clause includes a reference to all of its sub-clauses;
- (c) words in the singular includes the plural and vice versa;
- (d) words importing a gender includes any other gender;
- (e) a person includes a body corporate, a partnership and an unincorporated association;
- (f) where a word or phrase is given a particular meaning, other parts of speech and grammatical forms of that word or phrase have corresponding meanings; and
- (g) all monetary amounts are in the Australian currency.

1.3. If a conflict arises between a provision in a clause of this Agreement and a provision in a Schedule or Attachment, the provision in the clause prevails over that in the Schedule and Attachment, and the provision in a Schedule prevails over that in an Attachment.

2. AGREEMENT

2.1. The BRI agrees, on the terms and conditions of this Agreement, to assign the Patents to the Company.

2.2. The assignment in clause 2.1 does not override or automatically satisfy any laws or other requirements applicable to an exercise of the rights granted in clause 2.1. The Company must comply, and is solely responsible for complying, with such laws and requirements before exercising any such rights.

2.3. This Agreement commences on the Commencement Date and remains in effect until terminated by written agreement by the Parties or under clause 13.

3. RESTRICTIONS

3.1. In relation to the rights assigned under clause 2.1 the Company hereby grants to BRI the irrevocable, royalty-free right of BRI to use and authorise the use of the Patents for any BRI Use provided BRI does not create any commercial product for a third party through such use.

4. ASSISTANCE BY THE BRI

4.1. The Company is solely responsible for preparing all necessary documents that may be required to give effect to the assignment in clause 2.1. The BRI will, at the request and cost of the Company, sign such documents and do such acts as are necessary or desirable to give effect to the assignment. The BRI will also, at the request and cost of the Company, sign such documents and do such acts as are necessary or desirable to obtain and secure the registration and obtaining of the Patents, and procure any necessary assistance required from the inventors in this regard.

4.2. As soon as is reasonably practicable after the Commencement Date, the BRI will make available to the Company all information and materials relating to any intellectual property relevant to the Patents in the language, units and forms in which they currently exist with BRI.

4.3. If requested in writing by the Company, the BRI will, subject to availability of personnel and resources provide the Company with such technical assistance as the Company may require to exploit the Patent, provided that the Company shall compensate the BRI for providing such assistance in accordance with reasonable commercial terms.

5. FEES AND PAYMENT

5.1. In consideration of the BRI's assignment of the Patents under clause 2.1, the Company agrees to:

(a) pay \$350,000 to the BRI:

(i) within thirty (30) days after the Listing Date; or

(ii) if the Company has not been admitted to the official list of the Australian Stock Exchange Ltd within twelve months of the date of this agreement (or within such longer period as may be agreed by the parties for the purposes of this Agreement) and has not terminated this

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Agreement under sub-clause 13.3, within thirty (30) days of the end of that twelve month period (or agreed longer period); and

- (b) make periodic and other payments in accordance with clauses 5.2 and 5.3.

5.2. In addition to the above, the Company agrees to pay all the agreed costs of the Research (to be conducted by BRI in accordance with the directions of, and under the supervision of, the Company) as set out in Section 2 of Schedule 1, such costs to be agreed in writing before the Research commences.

5.3. In relation to the payments within clause 5.1(b), the Company must pay to BRI:

- (a) 1.5% of Net Invoice Price of all Products sold by or on behalf of the Company whilst title to the Patents remains with the Company; or;
- (b) the lesser of:
 - (i) 1.5% (subject to any reduction under clause 5.7) of the Net Invoice Price of Products sold by; and
 - (ii) 10% of the Royalties received from any licensee or sub-licensee of the Patents from the Company whilst title to the Patents remains with the Company such calculation being done separately for each licensee or sub-licensee;
- (c) a minimum aggregate amount of \$2,000 in each twelve-month period during the term in relation to payments within clause 5.3(a) and (b); and
- (d) if the Patents are assigned or otherwise disposed of by the Company before Fees to a total of \$20,000 have been paid to the BRI under 5.3(a) and (b), the difference between the Fees paid under clause 5.3(a) and (b) and the said \$20,000, and the difference is deemed a Fee payable together with other payments payable under clause 5.4 during the period in which the Patents are assigned to and held by the Company.

5.4. A sale within clause 5.2 is deemed to have occurred:

- (a) in the case of sales of a Product by the Company on the Company's receipt of the relevant payment comprising the Net Invoice Price; and
- (b) in the case of an assignment or disposal of any of the Patents within clause 5.3(d), on the Company's receipt of the total consideration for the assignment or disposal; and

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- (c) in any other case, when the sale is reported to the Company by the licensee or sub-licensee.

Where no payment is charged for any of the above transactions, a sale is deemed to have occurred on the earlier of the date of delivery of the Product and the date the agreement to licence, sub-licence or assign the Patents, as applicable, is to take effect.

5.5. The Fees payable in sub-clauses 5.35.3(a) and 5.3(b) must be paid biannually within two (2) months following the end of each December and June during the term of this Agreement in relation to:

- (a) Royalties received from, or payable by, licensees or sub-licensees in that period; and
- (b) Products sold or deemed sold under clause 5.4 in the six month period, or a lesser period at the beginning and end of the term.

5.6. All Fees (excepting payments out of Royalties which will be calculated on the cash actually received by the Company, that is net of withholding tax, if any) must be paid in Australian currency and without any deduction, demand, set-off, counter-claim, withholding tax, and any bank or government charges or duties, and must be paid by:

- (a) electronic transfer of funds to an account of the BRI nominated by the BRI; or
- (b) a bank cheque made out to The Biomolecular Research Institute, and mailed or handed to:

General Manager

The Biomolecular Research Institute
343 Royal Parade
Parkville, Victoria, 3052.

5.7. The Company must, on demand in writing by the BRI and only from the date of receipt of such demand, pay the BRI interest at the rate of 2% higher than the average weighted yield of 13-week Australian Treasury Notes in relation to any amount that is payable and remains unpaid under this Agreement. This obligation, and the BRI's corresponding right, is without prejudice to any other rights and remedies of the BRI under this Agreement or at law.

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- 5.8. Where the exploitation of any Product which attracts a payment pursuant to the preceding provisions of this clause 5, (other than clause 5.3(b)(ii)) also attracts an obligation to pay a royalty or percentage of such payment to any third party, then the percentage of the payment required to be paid by the Company to the BRI will be varied, to limit the Company's total royalty commitment to all and any parties to 1.5%, in accordance with the following provision.

$$R_{new} = \frac{1.5\%}{R_{total}} \times 1.5\%$$

Where:

R_{new} is the new rate at which payment is to be made.

R_{total} is the total of the royalty rates payable in respect of the Product, expressed as a percentage of the total Net Invoice Price.

- 5.9. If BRI objects to the calculation of the new royalty (*R_{new}*) pursuant to the preceding sub-clause 5.8, and the parties do not resolve such objection by agreement within 30 days, BRI may submit the question of the correct calculation of the new royalty (*R_{new}*) to an umpire (being a qualified accountant experienced in valuation of intellectual property royalties and having at least five years practicing experience who has not acted for the parties) nominated by the President of the Accounting Association of Australia and New Zealand or failing him or her the President of the Law Institute of Victoria. Such objection or referral shall not prevent or delay the Company proceeding with the Company's exploitation of the Product under the preceding sub-clause 5.8 provided that the Company shall pay to BRI (or BRI shall refund to the Company) such amount as may be required to adjust the payments made to equal the payments which would have been required to be made if the new royalty determined by the Umpire had applied from the time of the change.
- 5.10. Upon payment of the amount provided for by clause 5.2 the BRI shall commence to undertake the Research and shall thereafter provide regular and at least monthly reports to the Company as to the conduct and status of the Research and the expenditure of the funds provided by the Company.
- 5.11. If at any time after the date of this agreement any supply made by one party (the "Supplier") to the other party or any amount payable by the other party in respect of any supply, including specifically the Fees, (the "Price") becomes subject to any value added tax, goods and services tax or taxation of a similar nature ("GST") then the Price will be adjusted by adding an amount equal to the amount of the GST to which the supply or payment is subject. The Supplier may require payment of such amount at any time, including specifically after the supply has

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occurred, payment has been made, or this agreement has been otherwise completed.

6. STATEMENTS AND RECORDS

- 6.1. The Company must provide to the BRI a true statement of each payment payable under clause 5 by no later than the last day on which the relevant payment is due. Where no payment is payable in a payment period, the Company must provide the BRI with a statement to that effect.
- 6.2. Unless the BRI otherwise specifies in writing, all statements under clause 6.1 must include, for the Company and each licensee, sub-licensee, and assignee, as applicable:
 - (a) the subject matter to which the payment relates;
 - (b) the number of Products sold, the Royalties received, the nature of the rights granted in relation to the Patents,
 - (c) the gross amounts payable in relation to the sale or sales in (b) by the purchaser, licensee, sub-licensee, and/or assignee; and
 - (d) the nature and amount of deductions made from the gross amounts in (c);
- 6.3. The Company must keep, and must require that all of its licensees and sub-licensees keep, true records and books of account relating to all activities which attract Fee payments under clause 5 giving true and clear particulars for calculation of the Fees and other amounts payable under this Agreement.
- 6.4. The BRI has the right, and the Company must secure for the BRI the right, to inspect the records and books of account in clause 6.3, at any reasonable time during business hours by its authorised representatives (including external accounts and auditors), provided that the BRI shall conduct no more than one (1) inspection in any calendar year and shall provide the Company with at least thirty (30) days written notice of its intention to undertake an inspection. The Company must give such representatives such assistance as is necessary to enable the amount of Fees payable under this Agreement to be ascertained and verified. This includes providing access to facilities under the control of the Company and other documents of the Company and permitting the taking of copies and extracts of the records and books of account.

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7. MAINTENANCE OF THE PATENTS

- 7.1. The Company must maintain the Patents until they expire in the relevant patent jurisdiction. If the Company wishes to stop Patents maintenance on the basis of a reasonable opinion that the expenditure involved is likely to be disproportionate to the benefit to be obtained therefrom, or for any other reason, the Company must advise the BRI of its decision and the reasons for its decision and give the BRI the option to have the Patents reassigned to the BRI at no charge to the BRI.
- 7.2. The Company may discontinue Patents maintenance if the BRI accepts the reasons given under clause 7.1 but does not exercise its option under that clause. The Company must not discontinue Patents maintenance if the BRI nevertheless wishes Patents registration to be continued and agrees to and does pay the maintenance fees from thereon.
- 7.3. Nothing herein shall require the Company or BRI to defend, challenge or otherwise contest any objection dispute or claim made by a third party in any jurisdiction against one or more of the Patents.

8. WARRANTY AND DISCLAIMER

- 8.1. The BRI warrants that it is the sole registered proprietor of the Patents and that persons contractually bound to BRI at the time in respect of inventions or creations included in the Patents invented or created such, and, on this basis, the BRI warrants that it has the sole and exclusive title to the Patents. The BRI represents that at the date of this Agreement after due enquiry it is not aware of any claim or information that may invalidate the Patents.
- 8.2. The BRI warrants and represents in respect of the Patents that:
 - (a) no third party has any right or interest in the Patents whether by way of option or otherwise, and the BRI has the full right and capacity to assign the Patents absolutely to the Company; and
 - (b) at the Commencement Date it is not aware that:
 - (i) any third party intellectual property was used in the creation of the Inventions; and
 - (ii) to the extent that any third party intellectual property was used in the creation of the Inventions, it had the full right to use such third party intellectual property and such use does not give such third party any right or claim whether contractual, in common law or equity to the Inventions or to the Patents.

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8.3. The Company acknowledges and agrees that:

- (a) no prototype Product has been developed or tested by the BRI to demonstrate the validity or efficacy, of the Patents or Inventions; and
- (b) the BRI is not aware, and there is no reason for the BRI to be aware, that the Patents, Inventions, and/or intellectual property may not be valid, useful or effective for diagnosing or treating Alzheimer's Disease.

8.4. The Company assumes the sole risk of interpreting, applying, and exploiting Intellectual Property. The Company releases and agrees to indemnify and hold harmless the BRI and its employees, students, agents, consultants, contractors and sub-contractors ('the Indemnified') from and against all liability of any kind arising from the use or exploitation of the Patents or intellectual property by or through the Company, irrespective of whether the liability arises:

- (a) from loss or damage to property or business or from personal injury or death of any person (including any of the Indemnified); or
- (b) from claims made by the Company or its employees, agents, licensees, sub-licensees, contractors or sub-contractors or by any other person; or
- (c) directly or indirectly from the sale, use or application of, or reliance on, any Intellectual Property by any person whatsoever (including the Company and its employees, agents, licensees, sub-licensees, contractors, and sub-contractors),

except to the extent that such liability may arise from the negligent or deliberate acts or omissions of the BRI, its employees or contractors. The Company's obligation in this sub-clause 8.4 is a continuing obligation and shall survive the termination of this Agreement and the sale or assignment of Intellectual Property by the Company.

8.5. Except as provided in clause 8.1, nothing in this Agreement is to be construed as a representation or warranty by the BRI that:

- (a) exploitation of the Invention, Patents, Products and Intellectual Property (collectively referred to in this sub-clause 8.5 as 'IPPL'), or the manufacture and/or supply of the Product will not infringe any third party Intellectual Property rights;
- (b) there will be no challenge to the Patents, or that such a challenge, if made, will not succeed;

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- (c) the IPPL are safe, useful, effective or suitable for any purpose whatsoever; or
- (d) the use or application of IPPL will achieve or give rise to a particular result or outcome.

Any warranty or condition which, apart from and notwithstanding the provisions in this clause 8.5, could be implied by law is hereby excluded to the fullest extent permitted by law.

9. IMPROVEMENTS, INVENTIONS AND NEW TECHNOLOGY

- 9.1. The Company will have title to all Improvements to the Patents made by or on behalf of the Company PROVIDED THAT BRI will have an irrevocable, royalty-free right and licence to use such Improvements (including any new inventions by the Company) for any BRI Use that does not involve creating commercial product for a third party through such use. Subject to the terms of any other licences granted by the Company in favour of third parties, BRI may obtain a licence from the Company to use such Improvements including the aforesaid inventions for non-BRI Use on such reasonable terms and conditions (including the payment of royalty) as the Parties may agree in writing.
- 9.2. The BRI agrees in respect of any concept, application, know-how, formula and/or process that arises from the Research or any further research conducted in relation to or arising out of the assigned Patents (collectively 'New Technology') upon the BRI becoming aware of any New Technology it must, as soon as is practicable for it so to do:
 - (i) disclose in reasonable detail the nature of that New Technology to the Company; and
 - (ii) execute (and where persons employed by, contacted to or likewise connected with the BRI are or have been involved with such further research, procure those persons to execute) such further documents as may be necessary or reasonably desirable to vest in the Company all title to and rights in the New Technology, provided such documents shall be prepared by or at the direction of the Company.

9.3. The BRI agrees in respect of the Research as follows:

- (a) all Intellectual Property (including any patentable invention) created in the course of conduct of the Research belongs absolutely to the Company which will have the sole right to seek patent registration, disclose and use the same, save that the Company grants to BRI an irrevocable royalty-free right to use the same for any BRI Use provided BRI does not create any commercial product for a third party through such use;

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- (b) to promptly disclose to the Company the results of the Research; and
- (c) that the Research will be conducted in accordance with a general research plan to be agreed with the Company.

10. CONFIDENTIALITY

- 10.1. Each Party ('the recipient Party') agrees to treat, and to ensure that its employees, students, agents, licensees, sub-licensees contractors, and sub-contractors treat Confidential Information of the other Party ('the disclosing Party') as proprietary and confidential. The recipient Party agrees not to directly or indirectly disclose or cause to be disclosed any such Confidential Information other than:
 - (a) to its employees and agents to the extent that they have a need to know for the purpose of exercising a right or discharging an obligation on behalf of the Company under this Agreement;
 - (b) to its actual or prospective licensees, sub-licensees, contractors, and sub-contractors to the extent that they have a need to know for a purpose authorised by this Agreement, provided that they have signed and delivered to the disclosing Party through the recipient Party an undertaking of non-disclosure on terms no less favourable to the disclosing Party than those in this clause 10; and/or
 - (c) as and when compelled to do so under law.
- 10.2. The recipient Party must not use, and must ensure that its employees, agents, licensees, sub-licensees, contractors, and sub-contractors do not use Confidential Information other than in connection with, or as permitted by, this Agreement.
- 10.3. Any use or disclosure of Confidential Information by any employees, agents, licensees, sub-licensees, contractors, and sub-contractors of the recipient Party is deemed use or disclosure of the recipient Party.
- 10.4. For the purposes of this clause the BRI must treat Intellectual Property and any Invention, new invention or New Technology as Confidential Information of the Company protected under this clause 10, so as and to the extent necessary to protect the commercial interest of the Company in relation thereto under this Agreement.
- 10.5. The Company agrees to inform BRI of, and provide BRI reasonable opportunity to negotiate with the Company in respect of the provision by BRI of,

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the Company's biotechnology research requirements particularly in the areas of structural biology, drug design and synthetic chemistry (if any) arising from time to time during the term of this Agreement.

11. ACTION IN RELATION TO INFRINGEMENT

- 11.1. If a Party becomes aware of any infringement or threatened infringement of any Intellectual Property rights arising from the assignment of the Patents, or an exercise of rights in relation to the Patents, or the sale or use of a Product under this Agreement, that Party must promptly inform the other Party in writing and provide to the other Party particulars of the infringement or threatened infringement. Either Party may submit a proposal for dealing with the infringement or threatened infringement, and may call a meeting with a view to reaching a decision on action to be taken in relation thereto including as to costs.
- 11.2. If the Parties cannot agree on a course of action to deal with the infringement or threatened infringement, either Party may act independently and may request the other Party to provide it with such information, Materials and assistance as are relevant to its action. The other Party must use its best endeavours to comply with such a request, provided that the request is reasonable.
- 11.3. The Company agrees to pay BRI's reasonable cost and expenses in providing information, Materials and assistance in accordance with clause 11.2.

12. COMPLIANCE WITH LAW

- 12.1. Without limiting the generality of the provisions in clause 2.2, the Company shall be responsible for obtaining and maintaining at its own cost all licences, approvals and registrations necessary for performing its obligations or exercising its rights pursuant to this Agreement. The Company must comply with the laws from time to time in force in the place where such acts are or will be carried out by or on behalf of the Company.

13. TERMINATION

13.1. The BRI has the right, without prejudice to any of its other rights or remedies under this Agreement or under law, to terminate this Agreement by written notice to the Company if:

- (a) any amount payable by the Company under this Agreement is in arrears and the Company fails to pay within sixty (60) days after receipt of the BRI's written notice requiring payment;
- (b) the Company fails to perform or observe any other terms and conditions on its part to be performed under this Agreement, and fails to remedy the breach

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within sixty (60) days of its receipt of the BRI's written notice to remedy the breach;

13.2. The Company has the right, without prejudice to any of its other rights or remedies under this Agreement or under law, to terminate this Agreement by written notice to the BRI if the BRI fails to perform or observe any other terms and conditions on its part to be performed under this Agreement, and fails to remedy the breach within thirty (30) days of its receipt of the Company's written notice to remedy the breach.

13.3. The Company may terminate this agreement by notice in writing to the BRI if the Company has not been admitted to the official list of the Australian Stock Exchange Ltd within twelve months of the date of this agreement (or within such longer period as may be agreed by the parties). This agreement shall thereupon be terminated without compensation to either party (but without prejudice to any then existing and accrued rights or remedies for prior breach).

14. REPRESENTATIONS

14.1. In relation to the Patents and the Inventions, the Company must not:

- (a) make or allow to be made by a person or entity under its control any representations or statement that is false, inaccurate or misleading; or
- (b) use or permit to be used by a person or entity under its control the name of the BRI or any logo or device of BRI which may imply endorsement by, or a connection with, BRI without the prior written consent of BRI.

15. FORCE MAJEURE

15.1. Where a Party is unable, wholly or in part, by reason of Force Majeure, to carry out an obligation under this Agreement and that Party

- (a) gives the other Party prompt notice (which in any event must not exceed fourteen (14) days following the occurrence of the Force Majeure) of that Force Majeure with reasonably full particulars thereof and the efforts it has undertaken to remove the Force Majeure; and
- (b) uses all reasonable diligence to remove the Force Majeure with minimum delay and minimise the consequence thereof,

that obligation is suspended so far as it is affected by Force Majeure during the continuance thereof.

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15.2. If after a period of two (2) months the Force Majeure has not ceased, the Parties must meet in good faith and use their best efforts to achieve a mutually satisfactory resolution to the problem.

15.3. An obligation to pay money is not excused by Force Majeure.

15.4. The requirement that any Force Majeure must be removed with all reasonable diligence does not require the settlement of strikes, lockouts or other labour disputes, or claims or demands by any government, on terms contrary to the wishes of the Party affected by the Force Majeure.

15.5. In this clause, 'Force Majeure' means an event beyond the reasonable control of a Party and which makes that Party's performance of its obligations under this Agreement impossible or so impracticable as reasonably to be considered impossible in the circumstances. These events include, without limitation, war, riots, civil disorder, earthquake, fire, explosion, storm, flood or other adverse weather conditions, strikes, lockouts, or other industrial action, and electrical failure; and excludes any event which is caused by:

- (a) the negligence or intentional act or omission of the Party affected or its employees, agents, licensees, sub-licensees, contractors, or sub-contractors ('those Liable'); or
- (b) the failure of those Liable to observe good engineering, scientific or management practices.

16. WAIVER AND VARIATION

16.1. A waiver by either Party in respect of a breach of a provision in this Agreement shall not be taken to be a waiver with respect to any other breach. The failure by either Party at any time to enforce a provision of this Agreement shall not be construed a waiver by that Party of that provision or in anyway affect the validity of this Agreement or any part of it.

16.2. A variation to this Agreement will be binding and has effect only if both Parties agree in writing to the variation.

17. DISPUTES

17.1. A Party seeking to resolve a dispute under this Agreement ('the Dispute') must notify the other Party in writing the existence and nature of the Dispute. Upon the other Party receiving the notice, the Parties must exercise good faith in resolving the dispute by negotiation between themselves through their nominated representatives.

ASSIGNMENT OF PATENTS

Agreement between The Biomolecular Research Institute and Prana Corporation P/L

Page 16 of 21

17.2. If the Dispute cannot be resolved by negotiation under sub-clause 15.1 within thirty (30) days of the notice, a Party in dispute may refer the Dispute for mediation by a person nominated by the Parties, or submit the Dispute to arbitration according to the Rules for the Conduct of Commercial Arbitration for the time being of the Institutes of Arbitrators Australia. The Parties may be legally represented during such arbitration.

17.3. Nothing in this clause prevents a Party from initiating proceedings in a court seeking urgent relief, including injunction and other interlocutory remedy.

18. COSTS AND STAMP DUTY

18.1. Each Party must bear its own costs in relation to the preparation and execution of this Agreement. The Company must pay all government duties and charges payable on this Agreement and on all documents executed pursuant to this Agreement.

19. SEVERABILITY

19.1. If any provision of this Agreement is held invalid, unenforceable or illegal for any reason in any jurisdiction, this Agreement shall remain otherwise in full force in that jurisdiction apart from such provision which is deemed deleted.

20. GOVERNING LAW

20.1. This Agreement is governed by, and shall be construed in accordance with, the laws in force in the State of Victoria, Australia, and the Parties submit to the non-exclusive jurisdiction of the Courts in that State.

21. NOTICE

21.1. All notices under this Agreement must be in writing signed by the following authorised representative of the sending Party, and must be delivered by hand, or sent by pre-paid post or facsimile transmission to the person and address of the receiving Party, as specified below:

(a) in respect of the BRI:

Biomolecular Research Institute Ltd
343 Royal Parade
Parkville, Victoria, 3052
Australia

Fax: (613) 9662 7221

ASSIGNMENT OF PATENTS

Agreement between The Biomolecular Research Institute and Prana Corporation P/L

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(b) in respect of the Company:

Prana Biotechnology Ltd
Level 1, 100 Dorcas St
South Melbourne, 3205
Australia

Fax: (613) 9690 8587
Authorised representative: Mr. Geoffrey Kempler

21.2. A notice given in accordance with clause 21.1 is deemed given:

- (a) if delivered by hand, upon delivery;
- (b) if sent by mail, three days after posting; and
- (c) if sent by facsimile transmission, on the next business day after dispatch, provided that the sending Party receives a statement advising successful transmission of the notice.

21.3. Either Party may replace its authorised representative or change the address details by notice in writing to the other Party of the replacement or change.

22. ENTIRE AGREEMENT AND SURVIVAL OF CLAUSES

22.1. This Agreement constitutes the entire agreement between the Parties and supersedes all prior representations, agreements, statements and understandings, whether verbal or in writing. A party shall not be deemed to have waived the right to contradict or impugn a statement, assertion, claim, warranty or representation contained or referred to in this Agreement where made by the other party to this Agreement.

22.2. This clause and the provisions in clauses 8, 9, 10, 15, and 18 survive the termination of this Agreement.

23. ASSIGNMENT

23.1. The Company may assign any of its rights under this Agreement without further permission or consent from BRI provided such assignment expressly provides that the assignee undertakes to BRI's benefit to perform all obligations to BRI as set out in this Agreement. (This clause shall not apply to a licence of rights.)

ASSIGNMENT OF PATENTS

Agreement between The Biomolecular Research Institute and Prana Corporation P/L
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24. RELATIONSHIP BETWEEN THE PARTIES

24.1. The Parties are independent contractors. They are not to be construed as partners or agents of each other. None of either Party's employees, agents, contractors and licensees is to be construed as employees, agents, contractors and licensees of the other Party.

25. CONFLICT OF INTEREST

25.1. The Company warrants to the best of its knowledge and belief that, at the date of this Agreement, no conflict of interest exists or is likely to arise in relation to its performance of this Agreement.

25.2. If during the term of this Agreement a conflict risk of conflict of interest arises, the Company must notify the BRI immediately in writing of that conflict or risk, and must do everything it can (including complying with any reasonable requirements of the BRI) to remove the conflict or risk of conflict.

IN WITNESS WHEREOF the Parties have executed this Agreement on the date written above.

The COMMON SEAL of)
BIOMOLECULAR RESEARCH)
INSTITUTE LIMITED A.C.N. 050 135)

012 has been affixed by the authority of the)
directors in the presence of:)

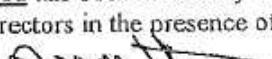
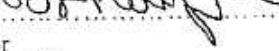
Director)
.....)

Director/secretary)



ASSIGNMENT OF PATENTS

Agreement between The Biomolecular Research Institute and Prana Corporation P/L
Page 19 of 21

The COMMON SEAL of PRANA
BIOTECHNOLOGY LTD A.C.N. 080
699 065 has been affixed by the authority of
the directors in the presence of:

.....
Director

.....
Director/secretary



ASSIGNMENT OF PATENTS

Agreement between The Biomolecular Research Institute and Prana Corporation P/L
Page 20 of 21

SCHEDULE 1

Section 1
Patents:

Title: Beta-amyloid peptide inhibition
[Insert correct details]

[Signature]
4/2/00

Australian Provisional Patent Application
No. PQ1804

(initials) 4/2/00

BSPM JK 7/2/00

Section 2
Research:

The Company, on the recommendation of its Scientific Advisory Board, shall in discussion with Dr Peter Colman as team leader and representative of BRI establish milestones for the initial 12 months of the Research. Initially, the Research will involve a team lead or directed by Dr Colman of about 2.5 people in BRI (80% of a Post Doctoral position, 60% of a senior chemist and 100% of a chemistry research assistant) (with a multiplier of 3 applied to the amount of the direct salaries to account for indirect expenses), and the funding of such Research will be determined in accordance with clause 5.2. The Research will include NMR studies and the synthesis of compounds and synthetic peptides.

The Company and Dr Colman shall work cooperatively to achieve competitive grants, such grants to be used to satisfy in part or in whole the Company's obligations to fund Research.

The Company and Dr Colman shall in good faith set new milestones by mutual agreement for each 6 monthly period.

ASSIGNMENT OF PATENTS

Agreement between The Biomolecular Research Institute and Prana Corporation P/L
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COPY

VARIATION AGREEMENT

Dated this 11th day of December 2001

BETWEEN

**BIOMOLECULAR RESEARCH INSTITUTE LIMITED, A.C.N. 050 135 012 of 343
Royal Parade, Parkville, Victoria 3052, Australia ("the BRI")**

AND

**PRANA BIOTECHNOLOGY LIMITED, ACN 080 699 065 of Level 1, 100 Dorcas
Street, South Melbourne 3205, Victoria, Australia ("the Company")**

RECITALS

- A. The Parties entered into an Agreement dated 7 February 2000 pursuant to which BRI assigned certain patents to the Company and in return the Company agreed to make certain payments to BRI ("the Assignment Agreement").
- B. The Parties wish to vary the Assignment Agreement in accordance with the terms of this Variation Agreement.

AGREEMENT

1. In return for good and valuable consideration, the Parties agree that Section 1 of Schedule 1 to the Assignment Agreement shall be deleted and replaced by the Schedule attached to this Agreement.
2. In addition, the Parties agree that the Assignment Agreement shall be further amended as follows:
 - 2.1. Recital A shall be deleted and replaced by the following:

"A. The BRI is named as an applicant in the patent applications set out in Section 1 of Schedule 1 and BRI has know-how in structural biology, drug design and synthesis".
 - 2.2. In clause 1.1 a new definition shall be inserted as follows:

““Patents” means the patent applications set out in Section 1 of Schedule 1 and any patent issued thereupon in any jurisdiction.”

- 2.3 In clause 2.1, the words “its interest in” shall be inserted after “assign”.
 - 2.4 A new sub clause 5.3(e) shall be inserted as follows:

“5.4 Notwithstanding anything else contained in this Agreement, with respect to Patent 2 as referred to in Section 1 of Schedule 1, the amounts payable to the BRI under sub-clause 5.3 shall represent the proportion of the BRI’s interest in Patent 2. The proportional interest of the BRI in Patent 2 will be based on an independent determination by a third party of the number of named applicants as of the priority date who are actually inventors of Patent 2. For the avoidance of doubt if all five applicants currently named in Patent 2 are determined to be inventors, then the BRI will be entitled to a 20% share of the payments referred to in clause 5.3. If fewer than four of the non BRI currently named applicants of Patent 2 are deemed to be inventors, then the proportional interest of BRI in Patent 2 will rise accordingly.”
 - 2.5 In the second sentence of clause 7.1, the words “the Patents re-assigned to the BRI at no charge to the BRI” shall be deleted and replaced with “the BRI’s interest in the Patents re-assigned to the BRI at no charge to the BRI, to the extent that such a re-assignment is possible”.
 - 2.6 The first sentence of Clause 8.1 shall be deleted in its entirety and replaced with the following:

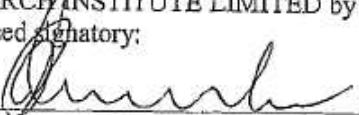
“The BRI warrants that it is an applicant for the Patents and that persons contractually bound to BRI at the time in respect of inventions or creations included in the Patents invented or created such and, on this basis, the BRI warrants that it has the sole and exclusive title to its interest in the Patents.”
 - 2.7 Sub clause 8.2(a) shall be deleted in its entirety and replaced with the following:

“8.2(a) no third party other than the BRI’s co-applicants has any right or interest in the Patents whether by way of option or otherwise, and the BRI has the full right and capacity to assign its interest in the Patents absolutely to the Company; and”
 - 2.8 In clause 8.2(b)(i), the words “other than that of the named co-applicants” shall be inserted after “property”.
 3. In all other respects, the Assignment Agreement remains the same.
-

EXECUTED AS AN AGREEMENT

IN WITNESS WHEREOF the parties hereto have executed this document on the date shown on page 1.

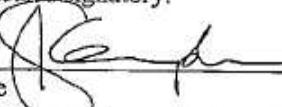
Signed for and on behalf of BIOMOLECULAR RESEARCH INSTITUTE LIMITED by an authorised signatory:

Name 

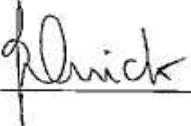
Title Chairman

Witness 

Signed for and on behalf of PRANA BIOTECHNOLOGY LIMITED by an authorised signatory:

Name 

Title Executive Chairman

Witness 

SCHEDULE 1

Section 1 - Patents

Patent 1.

Title: Beta-amyloid peptide inhibitors

International Patent Application No PCT/AU00/00886

Patent 2

Title: Amyloid Precursor Protein Copper Binding Domain

Australian Provisional Patent Application No PR2024

COPY

DEED OF ASSIGNMENT

THIS DEED dated this 11th day of December 2001

BETWEEN

**BIOMOLECULAR RESEARCH INSTITUTE LIMITED, A.C.N. 050 135 012, of
343 Royal Parade, Parkville, Victoria 3052, Australia ("the Assignor")**

AND

**PRANA BIOTECHNOLOGY LIMITED, ACN 080 699 065 of Level 1, 100 Dorcas
Street, South Melbourne 3205, Victoria, Australia ("the Assignee")**

RECITALS

- A. The Parties entered into an Assignment Agreement dated 7 February 2000 in which the Assignor agreed to assign certain patents and patent applications to the Assignee in return for payment of fees to the Assignor ("the Assignment Agreement"). Further, the Assignee agreed to make financial contributions to the Assignor to carry out research into the treatment of Alzheimer's Disease.
- B. The Parties agreed that all intellectual property (including any patentable invention) created in the course of conduct of the research pursuant to the Assignment Agreement would belong absolutely to the Assignee who would have the sole right to seek patent registration.
- C. The Assignor, together with other parties has filed the Patent Applications.
- D. The Parties entered into a Variation Agreement dated this day 11th of December 2001, pursuant to which the Schedule to the Assignment Agreement was amended to add Provisional Patent Application No. PR2024/00 to section 1 of the Schedule 1 of the Assignment Agreement.
- E. The Parties wish to formalize and record in this Deed the assignment to the Assignee of the Assignor's interest in the Inventions, the Know-How and the Patent Applications including the right to apply for and obtain corresponding letters patent in any country in the world.

AGREEMENT

1. Definitions

In this Deed:

"Inventions" means any and all inventions described in the Patent Applications.

"Know-How" means know-how which the Assignor has acquired and developed with respect to the Inventions.

"Patent Applications" means the patent applications described in the Schedule.

"Parties" means the Assignor and the Assignee.

2. Assignment

The Assignor assigns to the Assignee all its right, title and interest in the Patent Applications, Know-How and Inventions including:

- a) the right to apply for letters patent for the Inventions including continuing applications, reissues, extensions, renewals and re-examinations of the Patent Applications;
- b) all benefits arising from any letters patent granted in relation to them; and
- c) the right to apply for and obtain corresponding letters patent in any country in the world;
- d) the right to sue for past infringement and the right to enjoy for its sole benefit the reward of such action.

3. Consideration

The Assignor acknowledges having received good and valuable consideration for the assignment effected by this Deed.

4. Warranties

The Assignor warrants that:

- a) neither the execution of this Deed nor the performance by the Assignor of its obligations will cause the Assignor to be in breach of any agreement to which it is a party;
- b) it has not assigned, licensed or otherwise encumbered, in any manner, the Know-How, the Patent Applications or the Inventions.

5. Confidential Information

The Assignor must hold all the Know-How and information in relation to the Invention which is not generally available to the public in strict confidence unless and until the Know-How or information comes into the public domain otherwise than by disclosure by the Assignor in breach of this Deed.

6. Further Assistance

The Assignor must provide to the Assignee such further assistance as is reasonably requested by the Assignee to facilitate:

- a) the filing of applications for grant of letters patent in respect of the Inventions in Australia and any other jurisdiction;
- b) the granting of letters patent on such applications by the Assignee for letters patent for the Invention in Australia and any other jurisdictions;
- c) the protection of the Know-How;

EXECUTED AS A DEED

IN WITNESS WHEREOF the Parties hereto have executed this document on the date shown on page 1.

THE COMMON SEAL of BIOMOLECULAR)
RESEARCH INSTITUTE LIMITED was)
hereunto affixed in accordance with its)
Constitution in the presence of :)

Dunnebier
Name

CHAIRMAN
Title

THE COMMON SEAL of PRANA)
BIOTECHNOLOGY LIMITED was hereunto)
affixed in accordance with its Constitution)
in the presence of :)

B. Bond
Name
Executive Chairman
Title

Ann Quick
Witness



K. Wallace
Name

SECRETARY
Title



A. Wallace
Name
Executive Director
Title

Ann Quick
Witness

SCHEDULE

Patent Applications

Application No	Title	Filing Date	Country
PQ1804	Beta-amyloid Peptide Inhibitors	23/07/1999	Australia
PCT/AU00/00886	Beta-Amyloid Peptide Inhibitors	21/07/2000	International Application
PR2024/00	Amyloid Precursor Protein Copper Binding Domain	12/12/2000	Australia

Kindle INTERNATIONAL

24 September 2004

A Clinical Development
Organisation

Melbourne Office:
156 Drummond Street
Oakleigh Victoria 3166
Australia
Tel + 61 3 9564 8090
Fax + 61 3 9564 8336

Sydney Office:
2nd Floor, 20 Falcon Street
Crows Nest NSW 2065
Australia
Tel + 61 2 9437 3033
Fax + 61 2 9437 3044

Corporate Headquarters:
Cincinnati, Ohio

North America

Europe

Asia/Pacific

Dr Ross Murdoch, PhD
President & COO
Prana Biotechnology
Level 2, 369 Royal Parade,
Parkville, VIC, Australia, 3052

Re: Clioquinol Phase III Alzheimer's Disease Clinical Trial

Dear Ross,

Prana Biotechnology ("Prana") and Kindle Australia Pty Limited ("Kindle") are currently in the process of negotiating terms under which Kindle will provide to Prana, clinical research services in connection with the above mentioned study.

In order to ensure that optimal use is made of the time between September 2004 and availability of study drug (estimated March 2005) and that study timelines do not slip, it is necessary for Kindle to conduct certain preliminary, preparatory activities prior to our completion of the contract negotiations. These activities may include, but are not limited to (protocol drafting assistance, study site targeting and formal study feasibility, CRF and database preparation, initial Project Management).

Prana agrees to pay Kindle on a fee for service basis, based on submitted monthly invoices by Kindle, up to an amount not exceeding \$90,000 AUD to cover the costs of such activities.

Prana agrees to reimburse Kindle for all reasonable costs and expenses, including third party fees and expenses and non-cancelable costs, incurred by Kindle and pre-approved in writing by Prana, in connection with such activities.

It is understood that nothing contained in this letter is intended to impose on either Prana or Kindle any obligation to enter into a definitive agreement.

Please acknowledge your acceptance of these terms by signing and returning to Kindle a duplicate of this letter.

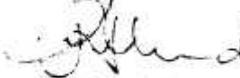
Yours Sincerely,

ACCEPTED AND AGREED:

Kindle Australia Pty Limited


Ric DeGaris PhD
Business Development Director
24 September 2004

Prana Biotechnology Limited


Ross Murdoch PhD
President & COO
24 September 2004

Kindle Pty Limited
ABN 81 379 182 044
www.kindle.com

Kendle

INTERNATIONAL

A Clinical Development
Organisation

Melbourne Office
156 Drummond Street
Oakleigh Victoria 3166
Australia
Tel + 61 3 9564 8090
Fax + 61 3 9564 6336

Sydney Office
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Crows Nest NSW 2065
Australia
Tel + 61 2 9437 3033
Fax + 61 2 9437 3044

Corporate Headquarters
Cincinnati, Ohio

North America

Europe

Asia/Pacific

01 March 2005

Dr Ross Murdoch
President and COO
Prana Biotechnology
Level 2, 369 Royal Parade
Parkville 3052

Dear Ross,

Re: PLACQUE study

Prana Biotechnology (Prana) and Kindle Australia Pty Limited (Kindle) are continuing the process of negotiating terms under which Kindle will provide services to Prana in connection with the above mentioned study.

In order to ensure optimal use of time, and ensure that study timelines were met, it was necessary for Kindle to conduct certain preliminary and preparatory activities prior to completion of the proposal and contract negotiations. To facilitate this, an initial Letter of Intent (LOI) was signed by Prana and Kindle on 24 September 2004, for the amount of AUD\$90,000.00.

As contract negotiations have taken longer than anticipated, the amount covered in the initial LOI has now been reached. In order to continue work on this study, Kindle are seeking another LOI for an additional AUD\$90,000.

Prana agrees to continue to reimburse Kindle for all reasonable costs and expenses, including third party fees and expenses and non-cancellable costs, incurred by Kindle in connection with trial activities.

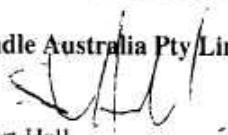
It is understood that nothing contained in this letter is intended to impose on either Prana or Kindle any obligation to enter into a definitive agreement.

Please acknowledge your acceptance of these terms by signing and returning to Kindle a duplicate of this letter.

Yours sincerely,

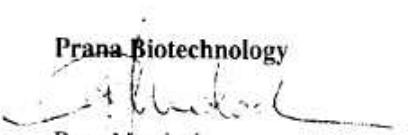
ACCEPTED AND AGREED:

Kindle Australia Pty Limited


Stuart Hall
Director, Clinical Division

Date: 11/3/05

Prana Biotechnology


Ross Murdoch
President and COO

Date: 7 Mar 05

Kindle Pty Limited
ABN 61 379 182 044
www.kindle.com

PATHEON PROPOSAL :PRA-FTR1-0401-1206-R0

1. Parties: Patheon Inc. ("Patheon") Prana Biotechnology, Ltd.
("Client")
7070 Mississauga Road, Suite 350 Prana Biotechnology
Mississauga, Ontario Level 2, 369 Royale Parade,
Canada Parkville, VIC, Australia, 3052
2. Product: • PBT2 Immediate Release Capsules ("Product")
3. Indication: • Alzheimer's disease
4. Contract: This Proposal (including the Project Scope, Budget Summary, Standard Terms and Conditions for Pharmaceutical Development Services ("Terms and Conditions") when accepted by Client shall become a contract binding on the parties ("Contract").
5. Description of Services: See Project Scope (Part A).
6. Payment and Currency: See Budget Summary (Part B).
7. Legal Terms: See Terms and Conditions (Part C).
8. Effective Date: 22 May, 2007
9. Term: From the Effective Date until completion by Patheon of the pharmaceutical development services ("Services").
10. Date of Confidentiality Agreement: November 13, 2006
11. Date of PatheonPartner™ External User Account / Access Form: _____, 200 [If applicable]
12. Date: 22 May, 2007
- Patheon Inc. By: 
Name: Colin Minshall
Title: VP PDS Canada
- Prana Biotechnology, Ltd. By: 
Name: Diane Evans
Title: Chief Operating Officer.

CONFIDENTIAL

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Prana Biotechnology, Ltd.
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PBT2 Immediate Release Capsules - Formulation Development and Clinical Trial Manufacturing

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PART A:

**PBT2 Immediate Release Capsules
Formulation Development and Clinical Trial
Manufacturing**

For

Prana Biotechnology, Ltd.

Proposal No.: PRA-FTR1-0401-1206-R0

Dated: May 04, 2007

Prana Biotechnology, Ltd.
PBT2 Immediate Release Capsules - Formulation Development and Clinical Trial Manufacturing

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The proposal outlines the Services that Patheon is proposing to perform for the Client relating to the Product. The initial sections describe the Services to be performed by Patheon that address Client's specific project requirements. The section below entitled *General Information* provides additional background information on pharmaceutical development services by Patheon. The check boxes under the *General Information* section will indicate whether or not a particular item is applicable to this specific project.

1. Project Scope

For general information on the pharmaceutical development services provided by Patheon please refer to the section below entitled "General Information".

Patheon will perform the following activities to support the Formulation Development and Clinical Trial Manufacturing (Phase II) of PBT2 Immediate Release Capsules:

- Project Initiation
- Environmental, Health and Safety
- Microbiology
- Analytical Development and Services
- Preformulation
- Formulation Development
- Manufacturing
- Stability

2. Project Initiation

Project Initiation Fee covers a series of activities at the start of a project that are performed by cross functional team members.

3. Environmental, Health and Safety

Active Pharmaceutical Ingredient(s):

- PBT2
- Patheon's preliminary categorization = Category 2

Prana Biotechnology, Ltd.
PBT2 Immediate Release Capsules - Formulation Development and Clinical Trial Manufacturing

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Prior to the commencement of analytical method development, formulation development and manufacturing activities, a thorough review by Patheon of the Environmental, Health and Safety (EH&S) requirements for the API will be completed. The Budget Summary for this Project Scope assumes that the EH&S review will determine that the API can be safely handled at Patheon. A summary report of the evaluation will be provided to the Client.

4. Analytical Services

Patheon will perform method development and method validation for the Client.

The following documents will be generated for each method to support the analytical work:

- Protocols (except for development work)
- Reports (data summary will be generated for development work)

Analytical Methods

- 4.1. Cleaning Residuals Assay – 1 Surface Material (Method Development and Validation)
- 4.2. Product Potency and Related Substances Assay (Method Development)
- 4.3. Product Potency and Related Substances Assay (Method Validation Phase II)
- 4.4. Forced Degradation Study - Product
- 4.5. Product Dissolution Assay – Profile by HPLC (Method Development)
- 4.6. Product Dissolution Assay – Profile by HPLC (Method Validation Phase II)

5. Microbiology

Patheon will validate the test methods required for Microbial Limit Tests (MLT) in order to support the Formulation Development and Clinical Trial Manufacturing program.

Testing will be done in compliance with USP/NF, EP.

6. Preformulation

Patheon will provide a protocol and report for Preformulation.

6.1. Excipient Compatibility Studies

- 8-10 excipients
- 1:1 blends with API placed in amber glass
- Storage conditions: 25°C / 60 % RH and 40° C / 75 % RH
- Tested at 40° C / 75 % RH at 0, 4, 8 and 12 week time points
- Potency and Physical Appearance
- Active will be placed on stability as control samples
- HPLC method

7. Formulation Development

Patheon will provide a protocol and report for Formulation Development.

7.1. Prototype Batches

- Powder filled capsules, 10, 25, 50 and 100mg
- 6 Batches (3 batches each of high and low strength)
- Approximately 0.5 ~ 1 kilograms per batch
- Bulk packaged for stability
- Process i.e. granulation and encapsulation (three granulations will be attempted for the formulation development, one per strength)
- Non-GMP
- No QA review

Prototype batches will be tested for:

- Content uniformity
- Dissolution(profile)
- Potency / Related substances
- Physical testing including appearance, moisture etc.

8. Stability – Formulation Development Prototype Batches

- 2 batches (lead and back up) for stability testing
- All 6 batches to be stored on stability for contingency with 2 batches to be tested

The following storage conditions and test-points are suggested for testing:

- ⇒ 2 weeks, 1 and 3 months for $40^{\circ}\text{C} \pm 2^{\circ}\text{C}$ / $75\% \pm 5\%$ RH
- ⇒ 2 weeks, 1 and 3 months for $25^{\circ}\text{C} \pm 2^{\circ}\text{C}$ / $60\% \pm 5\%$ RH

Testing per sample:

- Potency/Related substances
- Dissolution(profile by HPLC)
- Physical testing (appearance)

9. Feasibility Manufacturing

Patheon will manufacture:

- Powder filled capsules
- 1 batch (high strength)
- Approximately 30,000 capsules (~ 1kg)
- Excipients released as per USP/NF/EP
- Batch record
- Bulk packaged
- cGMP conditions
- No QA review

Feasibility Manufacturing Process Train

- Blender
- Granulator
- Fluid bed dryer
- Sieve
- Encapsulator

The following in-process and finished product testing is based upon one set of analysis for each of the described tests. If additional sample testing is required,

these will be considered as additional activities for which a separate costing will be provided to the Client.

Testing (one set of analysis):

In-Process Testing:

- Blend Homogeneity
(One blend, 10 samples)
- Bulk and Tap Densities
(Including one sieve analysis)
- Moisture (LOD or KF)
- Physical Parameters (i.e. appearance, weight, weight variation etc.)

Finished Product Testing:

- Content Uniformity (as per USP)
- Potency / Related Substances
- Dissolution (profile by HPLC)
- Moisture (LOD or KF)
- Microbial Limit Testing

10. Clinical Trial Material (CTM) Placebo Manufacturing

Patheon will manufacture the following direct blend process:

- One strength
- 1 CTM Placebo batch
- Approximately 45,000 capsules
- Excipients released as per USP/NF/EP
- Batch record
- Packaged into HDPE bottles (i.e. 35's)
- cGMP conditions
- QA review

CTM Manufacturing Process Train

- Blender
- Sieve
- H&K 1200 Encapsulator

The following in-process and finished product testing is based upon one set of analysis for each of the described tests. If additional sample testing is required, these will be considered as additional activities for which a separate costing will be provided to the Client.

Testing (one set of analysis):

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In-Process Testing:

- Physical Parameters (i.e. appearance, weight, weight variation, for beginning, middle and end run)
- Absence of Active
- Moisture (LOD or KF)
- Microbial Limit Testing

Finished Product Testing:

11. Stability – Placebo CTM Batch

Patheon shall design a stability program to monitor:

- 1 batch under ICH conditions

The following storage conditions and test-points are suggested for testing:

⇒ 3, 6, 9, 12, 18 and 24 months for $25^{\circ}\text{C} \pm 2^{\circ}\text{C}$ / $60\% \pm 5\%$ RH

Testing per sample:

- Physical testing including appearance, moisture
- Microbial Limit Testing (annually)

12. Clinical Trial Material (CTM) Active Manufacturing

It is assumed two separate blends will be required for the CTM manufacturing of 2 strengths. Multiple granulation sub lots will be combined into a single blend lot. Both strengths will be manufactured in a single campaign. If the manufacturing is not performed in a single campaign, this will be considered as additional activities for which a separate costing will be provided to the Client.

Patheon will manufacture:

- Powder filled capsules (two strengths)
- 2 CTM Active batches
- Approximately 45,000 capsules per lot
- Excipients released as per USP/NF/EP
- Two batch records
- Packaged into HDPE bottles (i.e. 35's)
- cGMP conditions
- QA review

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- Manufacturing report

CTM Manufacturing Process Train

- Blender
- Granulator
- Fluid bed dryer
- Sieve
- Encapsulator

The following in-process and finished product testing is based upon one set of analysis for each of the described tests. If additional sample testing is required, these will be considered as additional activities for which a separate costing will be provided to the Client.

Testing (one set of analysis):

In-Process Testing:

- Blend Homogeneity
(One blend, 10 samples)
- Bulk and Tap Densities
(Including one sieve analysis)
- Moisture (LOD or KF)
- Physical Parameters (i.e. appearance, weight, weight variation etc.)

Finished Product Testing: (tested for each strength)

- Content Uniformity (as per USP)
- Potency / Related Substances
- Dissolution (profile by HPLC)
- Moisture (LOD or KF)
- Microbial Limit Testing

13. Stability – Active CTM Batches

Patheon shall design a stability program to monitor:

- 2 batches under ICH conditions
- Additional samples will be stored as contingency samples if required to generate long-term stability of the product

The following storage conditions and test-points are suggested for testing:

- ⇒ 1, 3 and 6 months for 40°C ± 2°C / 75% ± 5% RH
- ⇒ 1, 3, 6, 9, and 12 months for 30°C ± 2°C / 65% ± 5% RH*
- ⇒ 1, 3, 6, 9, 12, 18 and 24 months for 25°C ± 2°C / 60% ± 5% RH

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(* Tested only if required due to significant changes in the next level condition)

Testing per sample:

- Potency / Related substances
- Dissolution (profile by HPLC)
- Physical testing (appearance)
- Microbial Limit Testing (annually)

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14. Project Support

Patheon will provide project management support to monitor the progress of the project against established timelines and will provide the Client with frequent updates. The project manager will coordinate regular biweekly teleconference meetings and quarterly face-to-face meetings. The fee for project management is incorporated in the breakdown cost for each activity in the Budget Summary.

15. High Level Timeline

The attached High Level Timeline is presented at this stage as a projected estimate of the duration and achievable milestones, based upon Patheon's experience and history. The High Level Timeline should not be taken as part of an agreed legal deliverable of this proposal.

Once the project has been awarded to Patheon and the relevant legal documentation is in place, a revised Timeline detailing set milestones and duration of deliverables will be agreed upon between Patheon and the Client. The revised Timeline would likely have a similar duration and would be based upon resources and the availability of manufacturing time at the initiation of the project.

16. General Information

This section provides additional background information on the pharmaceutical development services performed by Patheon. The check boxes below indicate whether or not a particular item is applicable to the project described above.

Standard Assumption:

1. The approach used would be outlined in a more detailed protocol prepared by Patheon and on request approved by the Client. Further studies may be required in the later development stages of the project. Where required these would be discussed and agreed separately with the Client.
2. It is assumed that the API and/or formulation do not absorb/adsorb to any metal, glass or other components used during the processing and analytical testing of the batch. The fees for any investigational work associated with the API and/or formulation interacting with components are not included within this proposal.
3. The identification of unknown impurities detected during the study is not included as part of this proposal.

A) Project Initiation

<input checked="" type="checkbox"/>	Applicable	<input type="checkbox"/>	Not Applicable
-------------------------------------	------------	--------------------------	----------------

The Project Initiation Fee covers a series of activities at the start of a project. These activities include (but are not limited to) scientific review of Client documentation, literature research and review, procurement of project specific equipment and tooling, analytical method research and attendance by cross functional team members for initial Client "kick-off" meetings.

B) Environmental, Health & Safety

<input checked="" type="checkbox"/>	Applicable	<input type="checkbox"/>	Not Applicable
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If it is determined by Patheon's Environmental Health and Safety personnel that any of the active ingredients are a Category III or Category IV compound (an occupational exposure level) then an air sampling method will be required at Client's expense prior to commercialization. Patheon reserves the right, in its sole and absolute discretion, to conduct an air sampling method on Category I and II compounds, at such price and upon such terms as may be mutually agreed to between the parties prior to commercialization.

Prior to commercialization, Patheon will evaluate the Product and the proposed launch volume and, at the Client's request, select the appropriate Patheon facility for commercialization. The Patheon facility used for performance of the Services will not necessarily be the facility available for commercialization.

Patheon will not receive any active pharmaceutical ingredients (API) from the Client until a MSDS has been received, Patheon has completed the categorization of the API and that the Client has completed and returned the EH&S Survey to Patheon.

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C) Analytical Services

Cleaning Residuals Assay

The Cleaning Residuals Assay method development and validation is for the detection of the API. If an excipient, other than the API, in the product formulation has a therapeutic effect (e.g. Vitamin E), the Client must advise Patheon. Patheon will evaluate the need for a cleaning residuals assay for the excipient. If needed and possible, Patheon will develop and validate a combined cleaning method for the API and the concerned excipient without additional cost. Otherwise, a separate cleaning method may be required for the excipient at an additional cost to the Client through a Change of Scope.

Analytical Protocols and Reports

<input checked="" type="checkbox"/>	Applicable	<input type="checkbox"/>	Not Applicable
-------------------------------------	------------	--------------------------	----------------

Analytical protocols will be drafted by Patheon for validation activities only and submitted to the Client for approval prior to execution with the exception of the Cleaning Residuals Assay, which will be approved internally by Patheon. No protocols will be issued for method development activities. Upon completion of the development activities, a summary of the data will be provided to the Client. The analytical methods have been based upon HPLC unless otherwise stated.

An analytical report will be provided to the Client once the method validation is complete. If method validation is not specified in the title of an analytical method under this Project Scope, then the validation of such analytical method is not included in this Project Scope and the additional method validation costs will be quoted separately by Patheon.

API Receipt and Release

<input type="checkbox"/>	Applicable	<input checked="" type="checkbox"/>	Not Applicable
--------------------------	------------	-------------------------------------	----------------

Patheon will receive and release the active pharmaceutical ingredients (API) for Clinical Trial Material (CTM) manufacture based on the following: (i) Identification testing; and (ii) the accompanying Certificate of Analysis (COA) from the API Vendor (Client qualified) and COA from the Client.

Non-GMP Excipient Receipt and Release

Patheon will receive and release materials / Excipients (other than API) for non-GMP Formulation Development Batches based on receipt of a Certificate of Analysis (CoA), Certificate of Conformance (CoC), or an equivalent document from the vendor of such materials/excipients, the client, or a third party testing lab. At a minimum the document must contain the results from ID testing and assay.

Reference Standards for APIs and Related Substances

<input checked="" type="checkbox"/>	Applicable	<input type="checkbox"/>	Not Applicable
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The Client shall provide Patheon with accurate, appropriate, sufficient and the most current applicable reference standards (such as USP, NF, BP, EP, and JP) for the APIs and related substances to complete the scope of work outlined herein.

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Method Development

<input checked="" type="checkbox"/>	Applicable	<input type="checkbox"/>	Not Applicable
-------------------------------------	------------	--------------------------	----------------

The method development will cover the sample preparation procedures, HPLC conditions, calibration procedures, specificity, detection limit (if applicable), quantitation limit (if applicable), accuracy and repeatability. Should the effort to develop the method exceed 80 bench work hours, additional costs may be incurred and would be covered by a change of scope.

Forced Degradation Study

<input checked="" type="checkbox"/>	Applicable	<input type="checkbox"/>	Not Applicable
-------------------------------------	------------	--------------------------	----------------

In order to assess whether the API or product potency assay is suitable for use as stability-indicating assay, a series of experiments will be performed to study degradation. The API or product will be treated with acidic, basic, oxidative, light and thermal conditions, the stressed samples will be analyzed by the potency method using DAD and ensure that the active peak is pure from peak purity assessment. If the peak purity fails, the method needs to be redeveloped for stability-indicating, and a change of scope will be issued.

Product Dissolution Assay by HPLC (Method Development)

<input type="checkbox"/>	Applicable	<input checked="" type="checkbox"/>	Not Applicable
--------------------------	------------	-------------------------------------	----------------

Patheon will develop the assay required for testing dissolution of the product. The development will challenge the following parameters. Should the effort to develop the method exceed 60 bench work hours, additional costs may be incurred and would be covered by a change of scope.

- Sink condition
- Selection of medium, apparatus speed
- Optimization of medium conc. & pH
- System suitability
- Specificity
- Accuracy
- Repeatability

Interlab Qualification

<input type="checkbox"/>	Applicable	<input checked="" type="checkbox"/>	Not Applicable
--------------------------	------------	-------------------------------------	----------------

Inter-Laboratory Qualification involves the comparison of two different series of laboratory analyses for the same lot of material/product. This verifies that both laboratories (i.e., the originating and receiving laboratories) are following the same procedure accurately and producing results that are precise and equivalent. The Client needs to provide to Patheon the method validation report. The following parameters will be performed at both Patheon and the originating laboratory:

- System Suitability
- Stability of Standard and Sample Solution
- Repeatability
- Quantitation Limit (if applicable)
- Detection Limit (if applicable)

Method Transfer

<input type="checkbox"/>	Applicable	<input checked="" type="checkbox"/>	Not Applicable
--------------------------	------------	-------------------------------------	----------------

Method Transfer is an on site validation process in the receiving laboratory, which verifies that method performs in the receiving laboratory in an equivalent manner to the originating laboratory. The Client needs to provide to Patheon the method validation report. The following parameters will be performed at Patheon as the receiving laboratory:

- System Suitability
- Linearity
- Stability of Standard and Sample Solutions
- Repeatability
- Quantitation Limit (if applicable)
- Detection Limit (if applicable)

Method Evaluation

<input type="checkbox"/>	Applicable	<input checked="" type="checkbox"/>	Not Applicable
--------------------------	------------	-------------------------------------	----------------

Patheon will evaluate the test method(s) required to support the Project. Method evaluation will cover the sample preparation procedures, HPLC conditions, calibration procedures, specificity, accuracy, repeatability and detection/quantitation limits (if appropriate). If the method(s) is/are deemed unsuitable, new method(s) will be developed and billed as a change of scope.

Method Validation Phase Levels

Patheon will validate the test method required to support the Project. The validation will challenge the following parameters based on the Project Clinical Phase Level:

Phase I

<input type="checkbox"/>	Applicable	<input checked="" type="checkbox"/>	Not Applicable
--------------------------	------------	-------------------------------------	----------------

- System Suitability
- Linearity
- Specificity
- Range
- Accuracy
- Repeatability
- Solution Stability
- Quantitation Limit (if applicable)
- Detection Limit (if applicable)

Phase II

<input checked="" type="checkbox"/>	Applicable	<input type="checkbox"/>	Not Applicable
-------------------------------------	------------	--------------------------	----------------

- System Suitability
- Linearity
- Specificity
- Range
- Accuracy
- Intermediate Precision
- Repeatability
- Solution Stability
- Quantitation Limit (if applicable)
- Detection Limit (if applicable)

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Phase III

<input type="checkbox"/>	Applicable	<input checked="" type="checkbox"/>	Not Applicable
--------------------------	------------	-------------------------------------	----------------

- System Suitability
- Linearity
- Specificity
- Range
- Accuracy
- Intermediate Precision
- Repeatability
- Solution Stability
- Robustness
- Quantitation Limit (if applicable)
- Detection Limit (if applicable)

D) Microbiology

<input checked="" type="checkbox"/>	Applicable	<input type="checkbox"/>	Not Applicable
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The cost allocated to this Service in the Budget Summary of Part B is the per sample price and will vary depending on the number of samples required for method validation. If a worst case scenario approach were taken, the cost would be based upon testing MLT and PET (if applicable) at two dilutions and/or the usage of the largest volume of diluent(s) based on specification. Testing will be done in compliance with the applicable Pharmacopeia (i.e. USP/NF, EP, JP etc.). Client will be billed based on the actual number of samples required in order to successfully validate the Product.

E) Stability

<input checked="" type="checkbox"/>	Applicable	<input type="checkbox"/>	Not Applicable
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The analytical data used for the release of each lot manufactured at Patheon will be considered as initial (T=0) data if the stability study commences not more than 1 month after release testing.

Cost efficiencies for analytical testing have been built into the stability program based upon the number of samples pulled in a given month. The cost for this stability program assumes that all lots will be placed on stability at the same time. If these lots are not placed on stability at the same time, the cost will be adjusted accordingly through a change of scope agreement.

F) Formulation Development, Manufacturing, Protocols and Reports

<input checked="" type="checkbox"/>	Applicable	<input type="checkbox"/>	Not Applicable
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Formulation Development

The approach used in formulation development would be outlined in a detailed protocol prepared by Patheon and approved by the Client. The formulation development studies would be conducted using suitable laboratory scale equipment. If stated in the formulation development section, product will be hand packaged into suitable containers for the stability study.

Report

Upon completion of the manufacturing activities, a minimum of one formulation development report (formulation development report would include all formulation development activities up until and including prototype batch manufacture) will be provided to the Client for review and approval.

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G) Manufacturing Validation

Master Validation Plan

<input type="checkbox"/>	Applicable	<input checked="" type="checkbox"/>	Not Applicable
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This high level document outlines the planned validation activities. The price includes protocol generation and approval. For multiple strengths, a single master validation plan is typically generated.

Process Validation

<input type="checkbox"/>	Applicable	<input checked="" type="checkbox"/>	Not Applicable
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The process validation includes the generation and approval of the process validation protocol, execution of the validation batches, and the generation and approval of a final process validation report. The specific testing plan for a process validation is not known at the time of quotation, therefore the pricing is based on the following assumptions for testing and sampling of solid dose products on a per batch basis. Blender and drums: blend uniformity (up to a total of 24 samples), physical blend testing (bulk/tapped density, sieve analysis); Cores: Beginning, middle and end (30 cores for content uniformity), ID, appearance, dissolution, water content; Coated Tablets (one coating pan): release testing per pan, (ID, appearance, potency, content uniformity, related substances, dissolution, weight variation, water content, micro).

For liquids and semi-solids, it is assumed that the testing consists of the following: ID, appearance, blend homogeneity, potency and related substances, viscosity, foreign particulate testing, specific gravity and micro. These tests could be performed on the primary finished pack (e.g. uniformity within a filled tube).

Packaging Validation

<input type="checkbox"/>	Applicable	<input checked="" type="checkbox"/>	Not Applicable
--------------------------	------------	-------------------------------------	----------------

The packaging validation includes the generation and approval of the packaging validation protocol, execution time for the validation batches, and the generation and approval of a final packaging validation report. Packaging validation is a standard solid dose or semi-solid/liquid into a single SKU (stock keeping unit), and that three batches are to be packaged per SKU. For additional strengths or SKUs, it is assumed that there will be a separate protocol and report generated. It is assumed that for analytical tests, only identification will be required during the packaging activities. Packaging validation will analyze for fill count, fill volume, labelling, lot numbering and expiration date printing, cartoning, tube crimping, tube seal, bottle/cap seal etc.

Bulk Hold Time Study

<input type="checkbox"/>	Applicable	<input checked="" type="checkbox"/>	Not Applicable
--------------------------	------------	-------------------------------------	----------------

The bulk hold time study includes the generation and approval of a protocol, the execution of the protocol, and the generation and approval of a final report. It is assumed that the study will be conducted for one strength, for each of the blend (solid or liquid/semi solid), cores and coated tablets. Three time points is assumed for the study and that the testing will consist of the following: Blend: potency and related substances; Cores: Appearance, dissolution, water content, potency and related substances Coated Tablets: ID, appearance, potency and related substances, dissolution, weight variation, water content, micro.

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Cleaning Validation

<input type="checkbox"/>	Applicable	<input checked="" type="checkbox"/>	Not Applicable
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The cleaning validation includes the generation and approval of a protocol, execution and the generation and approval of a final cleaning validation report. It is assumed that 3 separate trials will be required for the study, and that each trial will cover up to 16 pieces of equipment (analyzed in 4 groups of 4 pieces of equipment).

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Part B: Budget Summary

Once a project has been awarded to Patheon, a similar budget will be presented to the Client that will include Unique Identity Numbers for invoicing purposes only.

THE FOLLOWING COSTS ARE ALL QUOTED IN: USD

All amounts quoted are valid for sixty (60) days from the date of this Proposal.

2. PROJECT INITIATION		USD
ACTIVITY	PRICE	
Project Initiation	\$5,000	
3. ENVIRONMENTAL HEALTH AND SAFETY		USD
ACTIVITY	PRICE	
EH&S Assessment	\$3,000	
4. ANALYTICAL DEVELOPMENT		USD
ACTIVITY	PRICE	PRICE
4.1 Cleaning Residuals Assay (Method Development and Validation)		
Protocol	\$1,696	
Benchmark	\$19,584	
Report	\$2,544	\$23,824
4.2 Product Potency and Related Substances Assay (Method Development)		
Benchmark	\$13,056	
Report	\$848	\$13,904
4.3 Product Potency and Related Substances Assay (Method Validation Phase II)		
Protocol	\$1,696	
Benchmark	\$14,369	
Report	\$2,544	\$18,609
4.4 Product Forced Degradation		
Protocol	\$1,696	
Benchmark	\$6,528	
Report	\$2,544	\$10,768
4.5 Product Dissolution Assay by HPLC (Method Development)		
Benchmark	\$13,056	
Data Summary	\$848	\$13,904
4.6 Product Dissolution Assay by HPLC (Method Validation Phase II)	(2 strengths)	
Protocol	\$1,696	
Benchmark	\$17,633	
Report	\$2,544	\$21,873
TOTAL (Analytical Development)		\$102,882

5. MICROBIOLOGY DEVELOPMENT AND VALIDATION

ACTIVITY	PRICE	PRICE
Preparation	\$848	
No. of Trials	No. of Materials	No. of Pharmacopoeia
One	1	2
Two	1	2
Three	1	2
Four	1	2
TOTAL	Number of Trials Assumed =	2 Trials
		\$11,060
pH check	\$133	
Bioburden	\$865	
PET - USP	\$1,037	
PET - EP/BP	\$1,303	
Additional Organism	\$266	

6. PREFORMULATION

ACTIVITY	PRICE	PRICE
6.1 Excipient Compatibility via HPLC		
Protocol	\$1,752	
Sample Preparation	\$7,980	
Analytical Support	\$17,068	
Project Support	\$2,860	
Report Writing and Data Review	\$8,368	
TOTAL (Preformulation)		\$38,828

7. FORMULATION DEVELOPMENT

ACTIVITY	PRICE	PRICE
7.1 Prototype Batches		
Protocol Preparation	\$1,752	
Manufacturing	\$37,428	
Analytical Support	\$29,514	
Project Support	\$3,432	
TOTAL (Formulation Development - 5 batches)		\$72,126

8. STABILITY - PROTOTYPE BATCHES

ACTIVITY	PRICE
Number of Lots 2	
Total Samples 12	
Protocol Generation	Subtotal \$742
TOTAL (Stability - Prototype Batches)	\$35,890
Cost per Sample	
Analytical Support (1 sample per pulpoint)	\$3,838
Analytical Support (2 samples per pulpoint)	\$3,535
Analytical Support (3-4 samples per pulpoint)	\$2,020
Analytical Support (5+ samples per pulpoint)	\$2,020

9. FEASIBILITY MANUFACTURING		USD	
	ACTIVITY	PRICE	PRICE
Per Batch:	Manufacturing + Bulk Packaging	\$48,524	
	Analytical Support	\$8,828	
	Project Support	\$1,432	
	First Batch	\$58,784	
	One time excipient release fee per manufacturing campaign		\$3,542
	TOTAL (Feasibility Manufacturing)		\$62,326

10. CTM PLACEBO MANUFACTURING		USD	
	ACTIVITY	PRICE	PRICE
Per Batch:	Manufacturing	\$22,483	
	Packaging	\$5,450	
	Analytical Support	\$2,872	
	Project Support	\$4,862	
	First Batch	\$35,676	
	One time excipient release fee per manufacturing campaign		\$3,542
	TOTAL (CTM Placebo Manufacturing)		\$39,218

11. STABILITY - CTM PLACEBO		USD							
	ACTIVITY	PRICE							
Number of Lots:	1								
Total Samples:	6								
Protocol Generation		Subtotal \$742							
Pulpoint Month	T = 1	T = 2	T = 3	T = 6	T = 9	T = 12	T = 18	T = 24	T = 36
25°C / 60% RH			X	X	X	X	X	X	
Samples per pulpoin			1	1	1	1	1	1	1
(Microbiology)								X	
Cost per pulpoin	\$0	\$0	\$505	\$505	\$505	\$1,111	\$505	\$1,111	\$0
Cost per Sample									
Microbiology		\$600							
Analytical Support (1 sample per pulpoin)		\$505							
Analytical Support (2 samples per pulpoin)		\$505							
Analytical Support (3 samples per pulpoin)		\$303							
Analytical Support (4 samples per pulpoin)		\$303							
Analytical Support (5 samples per pulpoin)		\$202							
Analytical Support (6 samples per pulpoin)		\$202							
Analytical Support (7+ samples per pulpoin)		\$202							
TOTAL (Stability - CTM Placebo)									\$4,984

12. CTM MANUFACTURING

12. CTM MANUFACTURING		USD
	ACTIVITY	PRICE
Per Batch:	Manufacturing	\$50,273
	Packaging	\$5,459
	Analytical Support	\$9,008
	Project Support	\$5,720
	First Batch	\$71,450
1	Additional Batches Manufactured Back-to-Back from First Batch	
	Cost Savings Per Additional Batch:	\$15,000
	Cost Per Additional Batch:	\$55,570
	Additional Batches	<u>\$55,570</u>
	One time explicit release fee per manufacturing campaign	\$3,542
	Manufacturing Report	<u>\$9,408</u>
	TOTAL (CTM Manufacturing - 2 batches)	\$139,970

13. STABILITY - CTM

Estimated Total (High Potency, Cat. 3) **USD \$648,344**

*The manufacturing cost given in this proposal is based upon the assumption that the drug substance is classified as a Category 1 & 2 material in accordance with Patheon's Categorization System. If it is determined through Patheon's Environmental Health and Safety Review that the drug substance is not categorised as a Category 1 & 2, the

****The deposit amount will require further assessment once additional information on the Client's financial arrangement is provided. This proposal will only be approved once**

Paltheon's Finance Department has determined that the Client has the necessary financial resources to support the project outlined in this document.

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PART C
STANDARD TERMS AND CONDITIONS
FOR PHARMACEUTICAL DEVELOPMENT SERVICES

1. Services:

- (a) Patheon agrees to perform the pharmaceutical development services described in the Project Scope ("Services").
- (b) Parties must agree on changes, deletions or additions to the Services ("Changes").
- (c) Minor Changes shall be confirmed by electronic mail, facsimile or other written document. Significant Changes (such as a request by the Client to change the Project Scope) shall be confirmed by a Change of Scope Agreement.

2. Payment and Deposit:

A. Payment

- (a) Client shall pay Patheon for the Services as outlined in this Contract and for any Changes which shall be invoiced separately at Patheon's then prevailing hourly rates.
- (b) If Client causes any delay to Patheon's provision of Services for reason within its control (such as a delay in responding to a Patheon inquiry or a delay in the delivery of the active pharmaceutical ingredient ("API")), then Patheon shall be entitled to charge the Client for any additional costs incurred in the provision of the Services as a result of the delay.
- (c) Patheon invoices may be issued upon completion of each milestone set out in the Budget Summary and shall be due and payable within 30 days of the date of such invoice. If Client anticipates not being able to meet the net 30 day terms, then Client may request that Patheon forward each invoice to the facsimile number and/or email address stipulated by the Client from time to time to ensure that it has the full 30 days to process payment. Interest on past due accounts will accrue at a rate of 2% per month.

B. Deposit (If Applicable as per the Budget Summary)

- (a) Prior to the commencement of the Services, Client shall deliver to Patheon the deposit ("Deposit") set out in the Budget Summary.
- (b) Deposit shall be held by Patheon until the Services are fully completed or until this Contract is terminated in accordance with Section 4.
- (c) Deposit shall be credited towards the final invoice for the Services and any remaining balance shall be returned to the Client.
- (d) Patheon may apply all or a portion of the Deposit against any accounts overdue in excess of 60 days from the date of the invoice.
- (e) Patheon may, at its option, suspend all Services until such time as any outstanding invoices have been paid in full and the original amount of the Deposit has been replenished.

3. Supply of API and Materials:

- (a) Client shall, at its expense, supply Patheon with sufficient quantities of the API for Patheon's use in performing the Services.
- (b) The costs of all third party suppliers' fees and the purchase of project specific items (such as raw materials, excipients, packaging, special equipment, tooling, change parts, laboratory columns and reagents, reference standards including those under the applicable United States Pharmacopoeia, the National Formulary, the British Pharmacopoeia, the European Pharmacopoeia or the Japanese Pharmacopoeia) necessary for Patheon to perform the Services shall be purchased by Patheon and charged to Client at Patheon's cost plus an additional 15% as a handling charge.
- (c) If applicable, Patheon and the Client will cooperate and provide such assistance to each other as may be reasonably necessary to permit the import of the API and other materials into the country where the Services will be performed.

4. Termination:

- (a) Either party may terminate this Contract if the other party is in material breach of any provisions of this Contract and the other party fails to remedy such breach within 30 days of the date of notice of such breach by the non-breaching party.
- (b) Client may terminate this Contract immediately for any business reason.
- (c) Any re-scheduling of any part of the Services beyond 120 days requested by Client shall, at Patheon's option, be deemed to be a termination of the Contract.
- (d) Upon completion of the Contract or if the Client terminates the Contract for any business reason or if Patheon terminates the Contract because of: (i) Client's failure to cure any default within the 30 day notice period; or (ii) Client rescheduling any part of the Services beyond the 120 days, then Client shall pay to Patheon:
 - any fees and expenses due to Patheon for the Services rendered up to the date of completion or termination;
 - all actual costs incurred by Patheon to complete activities associated with the completion, expiry or termination and close of the Services rendered up to the date of completion, or termination including, without limitation disposal fees that may be payable in respect of any materials and supplies owned by the Client to be disposed of by Patheon; and
 - Any additional costs incurred by Patheon in connection with the Services that are required to fulfill applicable regulatory and contractual requirements.
- (e) Client shall arrange for the pickup from the Patheon site of all materials and supplies owned by Client within 30 days after the earlier of the

completion, termination or expiration of this Contract, Patheon shall charge a \$30.00 per square foot per month storage fee for all materials and supplies stored at the Patheon site after the thirtieth day following the completion, termination or expiration of the Contract.

5. Intellectual Property:

- (a) The term "Intellectual Property" includes, without limitation, rights in patents, patent applications, formulae, trade-marks, trade-mark applications, trade-names, trade secrets, inventions, copyright, industrial designs and know-how.
- (b) For the term of this Contract, Client hereby grants to Patheon, a non-exclusive, paid-up, royalty-free, non-transferable license of Client's Intellectual Property which Patheon must use solely in order to perform the Services.
- (c) All Intellectual Property generated or derived by Patheon in the course of performing the Services, to the extent it is specific to the development, manufacture, use and sale of the Client's Product that is the subject of the Services, shall be the exclusive property of Client.
- (d) All Intellectual Property generated or derived by Patheon in the course of performing the Services which are not specific to, or dependent upon, Client's Product and which have application to manufacturing processes or formulation development of products or drug delivery systems shall be the exclusive property of Patheon. Patheon hereby grants to Client, a non-exclusive, paid-up, royalty-free, transferable license of such Intellectual Property which Client may use for the manufacture of Client's Product.

6. Indemnity:

A. Indemnification by Client

Subject to Sections 6B and 6C(c), Client shall defend, indemnify and hold Patheon, its affiliates and their respective directors, officers, employees and agents (collectively, "Patheon Indemnitees") harmless from and against any and all third-party actions, causes of action, costs (including reasonable legal fees), claims, damages, liabilities and expenses (collectively, "Losses") relating to or arising from:

- the manufacture (except as may be contemplated by the Services) or distribution of the Client's Product or the use of the Client's Product by patients either as part of or outside of the scope of any clinical trials;
- the performance of the Services in accordance with the terms of this Contract;
- any misrepresentation, negligence or willful misconduct by Client or any of its affiliates and their respective directors, officers, employees and agents (collectively, "Client Indemnitees");
- any breach by the Client of the Client's obligations or warranties under this Contract; or
- any claim of infringement or alleged infringement of any third party's intellectual property rights in respect of the Client's Product.

This indemnity shall not apply to the extent that such Losses are:

- determined to have resulted from the negligent act or omission or willful misconduct of Patheon; or
- for which Patheon is obligated to indemnify the Client Indemnitees pursuant to Section 6B.

B. Indemnification by Patheon

Subject to Sections 6A and 6C(c), Patheon shall defend, indemnify and hold the Client Indemnitees harmless from and against any and all Losses resulting from, relating to or arising from the breach by Patheon of any of its obligations or warranties under this Contract except to the extent that such Losses are:

- determined to have resulted from the negligence or willful misconduct of Client; or
- for which Client is obligated to indemnify the Patheon Indemnitees pursuant to Section 6A.

C. Limitation of Liability

- (a) If Patheon fails to materially perform any part of the Services in accordance with the terms of this Contract, then Client's sole remedy, subject to subparagraph (b), shall be to request Patheon to:
 - repeat that part of the Service at Patheon's costs provided that Client provides the API; or
 - reimburse Client for the price for that part of the Service, excluding the cost of the API.
- (b) Under no circumstances whatsoever shall Patheon reimburse Client for the cost of the API.
- (c) Under no circumstances whatsoever shall either party be liable to the other in contract, tort, negligence, breach of statutory duty or otherwise for (i) any (direct or indirect) loss of profits, of production, of anticipated savings, of business or goodwill or (ii) any other liability, damage, cost or expense of any kind incurred by the other party of an indirect or consequential nature, regardless of any notice of the possibility of such damages.

D. No Warranty

PATHEON MAKES NO WARRANTY OF ANY KIND, EITHER EXPRESSED OR IMPLIED, BY FACT OR LAW, OTHER THAN THOSE EXPRESSLY SET FORTH IN THIS CONTRACT. PATHEON MAKES NO WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE OR WARRANTY OF MERCHANTABILITY IN RESPECT OF THE CLIENT'S PRODUCT.

7. Regulatory Filings:

- (a) Client shall have the sole responsibility for filing of all documents with the applicable regulatory authority (such as the United States Food and Drug Administration ("FDA"), the Health Products and Food Branch of Health Canada or the European Medicine Evaluation Agency) (the "Regulatory Authority") and to take any other actions that may be required for the receipt of approval from the Regulatory Authority for the commercial manufacture of the Client's Product.
- (b) At least 21 days prior to filing any documents with the Regulatory Authority that incorporate data generated by Patheon, Client shall provide Patheon with a copy of the documents incorporating such data so as to give Patheon the opportunity to verify the accuracy and regulatory validity of such documents as it relates to the Patheon-generated data.
- (c) If Patheon is selected as the commercial site of manufacture of the Product which is the subject of the Services under this Contract, then at least 21 days prior to filing with the Regulatory Authority any documentation which is or is equivalent to the FDA's Chemistry and Manufacturing Controls ("CMC") portion of the New Drug Application or of the Abbreviated New Drug Application, as the case may be, Client shall provide Patheon with a copy of the CMC portion as well as all supporting documents which have been relied upon to

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prepare the CMC portion. Such disclosure shall permit Patheon to verify that the CMC portion accurately describes the Services that Patheon has performed and the manufacturing processes that Patheon will perform pursuant to this Contract.

8. Shipping (if applicable):

Shipments (if applicable) of Client's Product shall be made EXW (as defined in INCOTERMS 2000) Patheon's shipping point unless otherwise mutually agreed. Risk of loss or of damage to such Product shall transfer to the Client when the Product is loaded onto the carrier's vehicle by Patheon for shipment at the EXW point. The Product shall be transported in accordance with the Client's instructions.

9. Miscellaneous:

A. Assignment

Neither this Contract, nor any of either party's rights hereunder, may be assigned or otherwise transferred by either party without the prior written consent of the other party, which consent shall not be unreasonably withheld.

B. Force Majeure

Except for payment obligations, neither party will be responsible for delay or failure in performance resulting from acts beyond the reasonable control and without the fault or negligence of such party, including, but not limited to, strikes or other labour disturbances, lockouts, quarantines, communicable disease outbreaks, riots, wars, acts of terrorism, fires, floods, storms, interruption of or delay in transportation, defective equipment, lack of or inability to obtain fuel, power or components or compliance with any order or regulation of any government entity.

C. Survival

Any termination or expiration of this Contract shall not affect any outstanding obligations or payments due hereunder prior to such termination or expiration, nor shall it prejudice any other remedies that the parties may have under this Contract. The Confidentiality Agreement and sections 4, 5, 6 and 7 of the Contract shall survive the expiration or termination of this Contract.

D. Independent Contractors

The parties are independent contractors and this Contract shall not be construed to create between Patheon and the Client any other relationship such as, by way of example only, that of employer-employee, principal, agent, joint-venturer, co-partners or any similar relationship.

E. Confidentiality

The Confidentiality Agreement entered into between the parties shall apply to all confidential information about the parties and the Services to be conducted under this Contract and such Confidentiality Agreement is deemed to be

incorporated herein by reference. If the Confidentiality Agreement expires or terminates prior to the expiration or termination of this Contract, then the terms of the Confidentiality Agreement shall nonetheless continue to govern the parties' obligations of confidentiality for the term of this Contract and for 5 years thereafter.

F. Patheon Partner™

In order to participate in the PatheonPartner™ program, Client must submit a completed PatheonPartner™ External User Account/Access Form to its Patheon project manager. If applicable, the PatheonPartner™ External User Account/Access Form signed by the Client shall apply to the Client's use of the PatheonPartner™ website in respect of the Services.

G. Other Terms

No terms, provisions or conditions of any purchase order or other business form or written authorization used by Client or Patheon will have any effect on the rights, duties or obligations of the parties, or otherwise modify, this Contract, regardless of any failure of Client or Patheon to object to such terms, provisions, or conditions unless such document specifically refers to this Contract and is signed by both parties.

H. Insurance

Each party shall maintain during the term of this Contract general liability and product liability insurance. Either party may request evidence of such insurance.

I. Entire Agreement

This Contract constitutes the complete agreement between the parties with respect to this subject matter and supersedes all other prior agreements and understandings, whether written or oral. Any modifications, amendment or supplement to this Contract must be in writing and signed by authorized representatives of both parties.

J. Facsimile

This Contract may be signed in counterparts and by facsimile.

K. Choice of Law

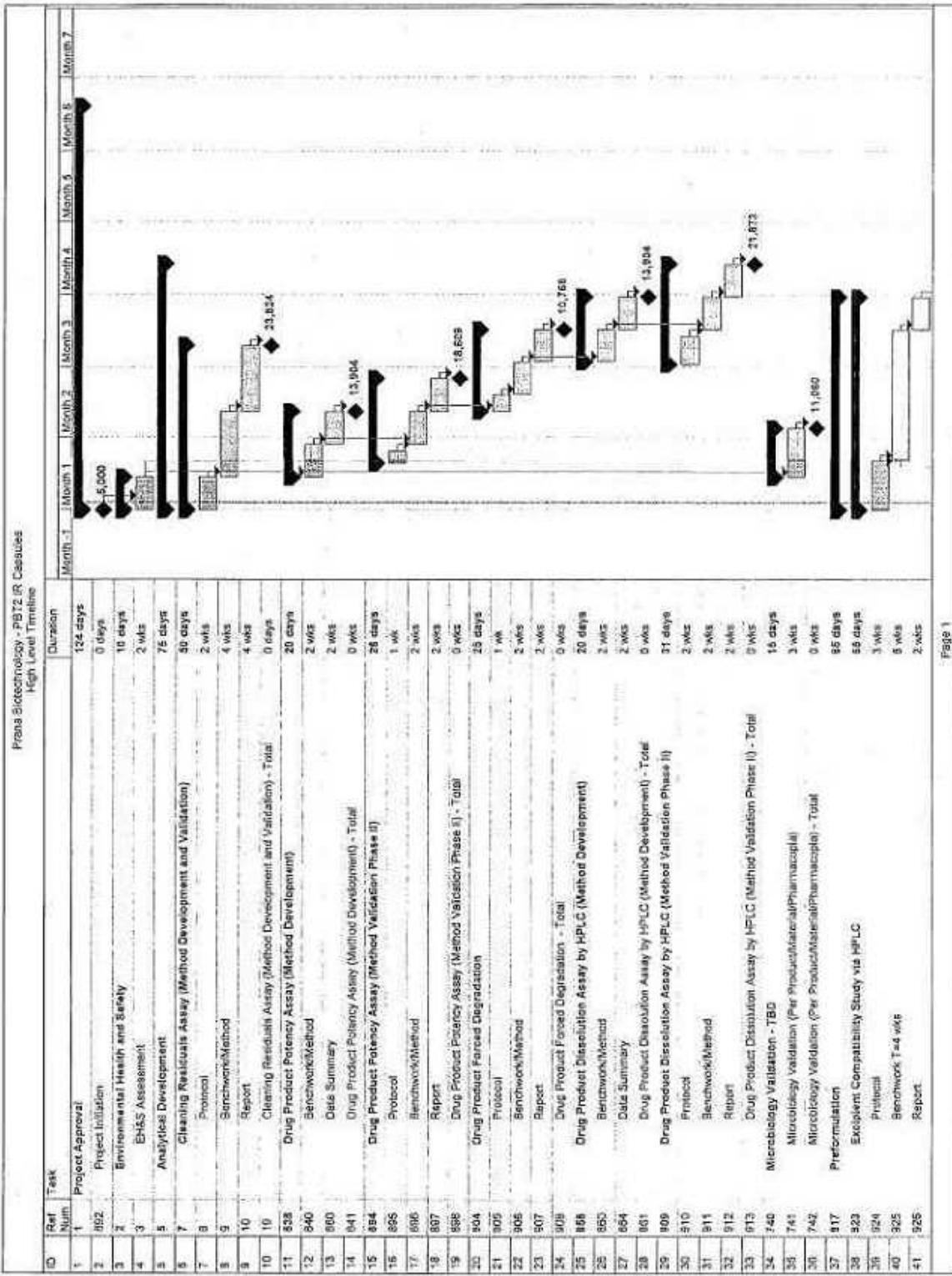
This Contract is governed by the laws of England, without regard to any conflicts-of-law principle that directs the application to another jurisdiction's law.

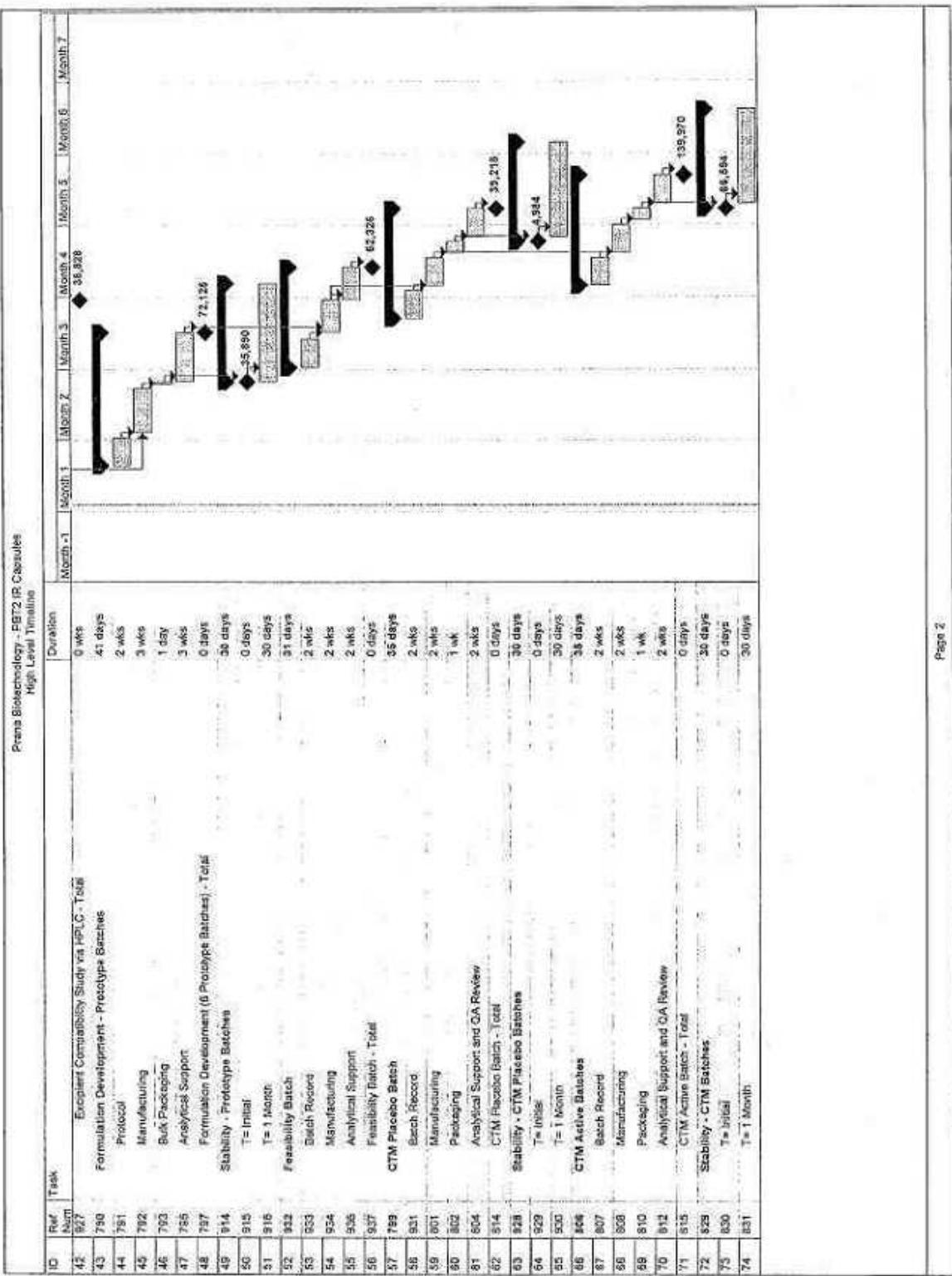
L. Dispute Resolution

The parties shall use all commercially reasonable efforts to settle amicably any dispute which may arise between them in relation to the construction and performance of this Agreement but if no amicable settlement is reached within thirty (30) days from the date of either party's written notice of dispute delivered to the other, either party may refer the dispute to the courts of competent jurisdiction in England pursuant to paragraph 9K.

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LIST OF SUBSIDIARIES

We have the following wholly-owned subsidiaries:

- Prana Biotechnology Inc., incorporated in the United States
 - Prana Biotechnology UK plc, incorporated in the United Kingdom.
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**CERTIFICATION PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002**

I, Geoffrey P. Kempler, certify that:

1. I have reviewed this annual report on Form 20-F of Prana Biotechnology Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986]
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 27, 2007

/s/Geoffrey P. Kempler*

Geoffrey P. Kempler
Chief Executive Officer

* The originally executed copy of this Certification will be maintained at the Registrant's offices and will be made available for inspection upon request.

**CERTIFICATION PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard Revelins, certify that:

1. I have reviewed this annual report on Form 20-F of Prana Biotechnology Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986]
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 27, 2007

/s/Richard Revelins*

Richard Revelins
Chief Financial Officer

* The originally executed copy of this Certification will be maintained at the Registrant's offices and will be made available for inspection upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Prana Biotechnology Limited (the "Company") on Form 20-F for the period ending June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Geoffrey P. Kempler, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/Geoffrey P. Kempler*

Geoffrey P. Kempler
Chief Executive Officer

September 27, 2007

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

**18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Prana Biotechnology Limited (the "Company") on Form 20-F for the period ending June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Revelins, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Richard Revelins*

Richard Revelins
Chief Financial Officer

September 27, 2007

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement on Form F-3 (Registration No. 333-116232) of Prana Biotechnology Limited (the Company) of our report dated September 27, 2007 with respect to the Company's consolidated financial statements as of June 30, 2007 and for the year then ended, appearing in this Annual Report on Form 20-F of the Company for the fiscal year ended June 30, 2007.

/s/ PricewaterhouseCoopers
PricewaterhouseCoopers
Melbourne, Australia
27 September 2007

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement on Form F-3 (Registration No. 333-116232) of Prana Biotechnology Limited (the “Company”) of our report dated September 29, 2006 (June 18, 2007 as to the effects of the restatement discussed in Note 29) (which report expresses an unqualified opinion and includes explanatory paragraphs relating to the reconciliation to accounting principles generally accepted in the United States of America presented in Note 27, going concern discussed in Note 1 and the restatement discussed in Note 29) relating to the Company’s consolidated financial statements as of June 30, 2006 and for each of the two years in the period ended June 30, 2006, appearing in this Annual Report on Form 20-F of the Company for the fiscal year ended June 30, 2007.

/s/ Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Melbourne, Victoria, Australia
September 27, 2007

