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, 2009

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)

Geoffrey Kempler, Chief Executive Officer
Level 2, 369 Royal Parade, Parkville, Victoria 3052, Australia
+61 3 9349 4906 (phone) ; +61 3 9348 0377 (fax)
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing ten Ordinary Shares	**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, 2009.....202,710,473

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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 basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐	International Financial Reporting Standards as issued by the International Accounting Standards Board ☒	Other ☐

If “Other” has been checked in response to the previous question, 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 S-8 (File No. 333-153669).

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 Huntington's disease, Parkinson's disease, certain cancers, age-related macular degeneration, Motor Neuron disease, Creutzfeldt-Jakob disease (the human variant of Mad Cow disease) and age-related cataracts. 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 Depositary 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 International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB, which became effective for our company as of our fiscal year ended June 30, 2006. Our consolidated financial statements appearing in this annual report comply with both the IFRS and Australian equivalents to International Financial Reporting Standards, or A-IFRS.

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 ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED CONSOLIDATED FINANCIAL DATA

We prepare our consolidated financial statements in accordance with IFRS, as issued by IASB, which became effective for our company as of our fiscal year ended June 30, 2006. Under IFRS 1, "First-time Adoption of International Financial Reporting Standards," or IFRS 1, a company adopting IFRS for the first time is required to adopt accounting policies that comply with IFRS and related interpretations that are in effect at the reporting date of its first annual financial statements prepared in accordance with IFRS, in our case June 30, 2006. Our consolidated financial statements appearing in this annual report comply with both the IFRS as issued by IASB and Australian equivalents to International Financial Reporting Standards, or A-IFRS.

The following table presents our selected consolidated financial data as of the dates and for each of the periods indicated. The following selected consolidated financial data as of June 30, 2009 and 2008 and for the years ended June 30, 2009, 2008 and 2007 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, 2007, 2006 and 2005 and for the years ended June 30, 2006 and 2005 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 entirely 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,				
	2009	2008	2007	2006	2005
	(in A$, except number of shares)				
Revenue from continuing operations.	428,193	490,943	507,150	762,023	892,135
Other income	-	170	287	288,263	1,760,978
Research and development expenses	(2,215,358)	(5,757,168)	(4,492,193)	(7,613,045)	(7,109,839)
Research and development expenses - related party	-	-	-	-	(577,757)
Personnel expenses	(3,832,804)	(5,350,189)	(4,554,731)	(3,418,008)	(5,750,929)
Intellectual property expenses	(1,107,534)	(469,428)	(600,232)	(466,426)	(729,583)
Auditor and accounting expenses	(129,998)	(331,950)	(260,117)	(205,815)	(202,032)
Travel expenses	(195,251)	(146,651)	(309,997)	(212,184)	(432,316)
Public relations and marketing expenses	(222,679)	(141,337)	(215,455)	(134,750)	(442,920)
Depreciation expenses	(34,190)	(25,349)	(58,582)	(118,196)	(65,223)
Amortization expenses	-	-	-	-	(83,200)
Other expenses	(978,875)	(975,404)	(1,008,563)	(824,625)	(1,204,930)
Foreign exchange gain (loss)	(6,723)	(402,886)	(757,578)	223,454	(1,362,572)
Impairment of intangible assets	-	-	-	-	(786,240)
Gain (loss) on fair value of financial liabilities	772,430	(451,429)	607,691	128,715	5,801,397
Net loss	(7,522,789)	(13,560,678)	(11,142,320)	(11,590,594)	(10,293,031)
Loss per share - basic and diluted	(0.04)	(0.08)	(0.08)	(0.09)	(0.08)
Weighted average number of ordinary shares outstanding - basic and diluted	202,357,885	174,714,146	140,754,495	128,053,601	122,754,061

Balance Sheet Data:

	As at June 30,				
	2009	2008	2007	2006	2005
			(in A$)		
Cash and cash equivalents	4,304,977	11,219,035	7,409,256	10,013,778	21,453,304
Working capital*	3,643,502	9,762,015	5,564,304	7,698,283	18,370,555
Total assets	4,597,250	11,698,313	7,722,185	10,421,146	22,289,159
Net assets	3,749,816	9,866,327	5,612,195	7,800,658	18,536,769
Issued capital	70,188,989	69,842,303	53,988,412	46,274,127	45,838,897
Share based payment reserves	7,127,332	6,067,740	4,106,821	2,867,249	2,447,996
Accumulated deficit during development stage	(73,566,505)	(66,043,716)	(52,483,038)	(41,340,718)	(29,750,124)
Total equity	3,749,816	9,866,327	5,612,195	7,800,658	18,536,769

* Working capital is the difference between current assets and liabilities.

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
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
2008	0.9615	0.8965	0.9654	0.7672
2009	0.8048	0.7480	0.9849	0.6005

Month	High	Low
April 2009	0.7327	0.6846
May 2009	0.8012	0.7232
June 2009	0.8262	0.7789
July 2009	0.8271	0.7793
August 2009	0.8477	0.8155
September 2009 (until September 21)	0.8774	0.8239

The noon buying rate on September 22, 2009 was US$0.8638 = 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 Depositary Shares involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our American Depositary 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 will 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 within the next 12 months 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, 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 licensing of our assets or 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 license our assets or establish new strategic alliances or other arrangements with corporate partners on acceptable terms, or at all. The current global economic climate could adversely impact our ability to obtain such funding, license our assets or enter into alliances or other arrangements with corporate partners. 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.

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 from such activities will be, subject to regulation by numerous governmental authorities in Australia, principally the Therapeutics Goods Administration, or TGA; 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. Governmental agencies may not grant regulatory approval due to matters arising form pre-clinical animal toxicology, safety pharmacology, drug formulation and purity, clinical side effect or patient risk profile, medical contraindications. Failure or delay 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 product candidates.

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 which 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 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 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$7,522,789, A$13,560,678 and A$11,142,320 during the fiscal years ended June 30, 2009, 2008 and 2007, respectively. As of June 30, 2009, our accumulated deficit was A$73,566,505. We may never be able to achieve or maintain profitability.

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.

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.

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, pre-clinical 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, has been manufactured to date by the Institute of Drug Technology Australia Limited. During late 2008, we transferred our PBT2 drug substance manufacturing process technology to Dr. Reddy's Laboratories Limited based in Hyderabad, India to enable future and efficient large scale manufacture of PBT2 for any future prospective large scale clinical trial. We also rely on a sole manufacturer, Patheon Inc., to encapsulate PBT2. We intend to continue this approach, subject to ongoing appraisal of our manufacturing needs and financial position. We may not be able to promptly find a replacement manufacturer, if required, without incurring material additional costs and substantial delays.

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 and elsewhere. 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 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.

We may fail to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our ordinary shares and ADRs.

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, governing internal control and procedures for financial reporting, which started in connection with our Annual Report on Form 20-F for the year ended June 30, 2008, have resulted in increased general and administrative expenses and a diversion of management time and attention, and we expect these efforts to require the continued commitment of significant resources. We may identify material weaknesses or significant deficiencies in our assessments of our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigations or sanctions by regulatory authorities and could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our ordinary shares and ADRs.

Risks Relating to Our Securities

Our stock price may be volatile and the U.S. trading market for our American Depositary 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$0.12 to a high of A$0.69 and the market price of our American Depositary Shares on the NASDAQ Capital Market has ranged from as low as US$1 to a high of US$6.73. 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. Market fluctuations, as well as general political and economic conditions, such as a recession, interest rate or currency rate fluctuations, could adversely affect the market price of our securities.

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 that 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 years ended June 30, 2006, 2007, 2008 and 2009, under a literal application of the asset test described above, which looks solely to market value. We believe that we will once again qualify as a PFIC during the taxable year ended June 30, 2010. 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 10.E. 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 our officers and directors or to assert U.S. securities laws claims in Australia or serve process on 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 The NASDAQ Marketplace Rules. As an Australian company listed on the NASDAQ Capital Market, we may follow home country practice with regard to, among other things, the composition of the board of directors, director nomination process, 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. A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements, must submit to NASDAQ in advance 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. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ's corporate governance rules.

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.

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 Huntington's disease, Parkinson's disease, certain cancers, age-related macular degeneration, Motor Neuron disease, Creutzfeldt-Jakob disease (the human variant of Mad Cow disease) and age-related cataracts. 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. On April 11, 2005, we announced that we would not proceed with the Phase II/III study as we had 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.

On June 16, 2005, we announced that we had completed a review of our strategic development programs and we reaffirmed our commitment to PBT2, our current lead candidate for the potential treatment of Alzheimer's disease. 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. Phase I trials for PBT2 were completed by February 2006 in healthy young and aged volunteers and demonstrated that the drug was well tolerated and suitable for Phase II clinical development. During 2007, a Phase IIa clinical study was undertaken in elderly patients with Alzheimer's disease over three months. The top line results were announced in February 2008, including the primary endpoints of safety and tolerability being met together with several secondary endpoints in biomarker and cognition endpoints also being met. In July 2008, the results of the Phase IIa trial were published in *The Lancet Neurology* journal. The key findings included that PBT2 was well tolerated, with the safety profile of PBT2 being similar to that of the placebo, that the level of Abeta in the cerebrospinal fluid was significantly lowered and that two measures of executive cognitive function were improved in patients on the higher dose of PBT2. Also in July 2008, the results of extensive pre-clinical research findings for PBT2 were published in the journal *Neuron.* The key findings included the demonstration that PBT2 could rapidly improve cognition in transgenic mice, prevent the formation of toxic soluble Abeta oligomers, lower the Abeta levels in the brain of transgenic mice and protect neurons from the toxic effect of Abeta at the synapses between neurons enabling improved neurotransmission. For details regarding clinical trials for PBT2, our lead compound, see Item 4.B. "Information on the Company – Business Overview – Clinical Trials for Our Lead Compound."

In March 2009, we published further data on the impact of PBT2 on synapses in transgenic animal models. The findings demonstrated that PBT2 could prevent the loss of synapses in these Alzheimer disease animal models, indicating that PBT2 has a potent neuroprotective effect on neurons, consistent with the observation that PBT2 can improve cognitive performance in impaired transgenic animals.

In late July 2008, we received the findings from a report commissioned by us from U.S.-based clinical researchers on the suitability of PBT2 for Huntington's disease. The report detailed the relevance of animal modeling experiments done with PBT2, its demonstrated mode of action in the brains of Huntington's disease model mice and its promising safety and efficacy findings in the recently completed Alzheimer's disease Phase IIa study with PBT2. The report concluded that PBT2 was recommended to proceed to clinical trials in Huntington's disease research participants.

In August 2009, a key patent protecting our clinical drug asset PBT2 was granted in Europe by the European Patent Office. The patent entitled '8-Hydroxyquinoline derivatives' covers the composition of matter of selected families of 8-Hydroxyquinoline compounds, including PBT2, and the uses of such compounds for the treatment of neurological diseases, including Alzheimer's disease and Huntington's disease. The European patent has a 20 year term expiring on July 16, 2023, with a possible extension of the term of up to five additional years under supplementary protection provisions. Also in August 2009, we received a notice of allowance from the United States Patent and Trade Mark Office for our key patent protecting our clinical drug asset PBT2. The patent is due to be granted by the end of the 2009 calendar year. The U.S. patent, which is also entitled '8-Hydroxyquinoline derivatives,' covers the composition of matter of selected families of 8-Hydroxyquinoline compounds, including PBT2. This patent has been granted in New Zealand, Singapore, South Africa and Russia and patent applications are pending in Australia, Brazil, Canada, China, India, Israel, Japan, South Korea and Mexico. Registration of the patent in Hong Kong has also been processed.

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, 2009, our capital expenditures have totaled A$141,577. Since July 1, 2009, we have incurred A$3,241 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 in Melbourne; 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 pre-clinical improvement over PBT1, and a library of approximately 500 MPAC molecules in total (approximately 200 of which are of the same chemical class as PBT1 with the remaining MPACs 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 Huntington's disease, Parkinson'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: Huntington's disease; Parkinson's disease; certain cancers; age-related macular degeneration; Motor Neuron disease; Creutzfeldt-Jakob disease; age-related cataracts; 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 Amyloid Precusor Protein and beta-amyloid. PBT2, our lead compound from our MPAC library for Alzheimer's disease, has been extensively tested in both *in vitro* and *in vivo* animal models for its ability to reduce both the amount of Abeta and its toxic effects in the brain. Results of the research, which were published in the journal *Neuron* in July 2008, demonstrate that PBT2 can rapidly improve cognition in transgenic mice, prevent the formation of toxic soluble Abeta oligomers, lower the Abeta levels in the brain of transgenic mice and protect neurons from the toxic effect of Abeta at the synapses (the space) between neurons, enabling improved neurotransmission. Experimental work during 2008 and 2009 has shown that PBT2 can also prevent the loss of neuronal synapses, a feature of the brain degeneration associated with Alzheimer's disease. For a description of the history and development of our lead MPAC, PBT2, as a therapeutic for the treatment of Alzheimer's disease, see Item 4.B. "Information on the Company – Business Overview – Clinical Trials for Our Lead Compound."

Our research into the interaction of metals with Abeta protein has resulted in the identification of agents which can block the metal binding site on Abeta thereby preventing the downstream toxicity of Abeta protein on neurons. This therapeutic approach to Alzheimer's disease is an alternative and complimentary drug strategy to our MPACs, which directly compete with Abeta protein by binding metals such as copper and zinc. Results from several proof-of-concept compounds were published in the Proceedings of the *National Academy of Sciences Journal* in May 2008. In addition to their use as Alzheimer disease therapeutics, these amyloid binding compounds may also have potential as novel imaging agents, binding Abeta in the brain. Our discovery program is generating novel forms of this alternative anti-amyloid class of compounds for testing in animal models as either therapeutic or diagnostic agents.

Metals, in particular copper, may cause Abeta protein to form specific toxic oligomers that inhibit normal neurotransmission in the brain. Accordingly, these toxic oligomers present a novel immunological target for vaccine research. Since 2004, we have undertaken a program to create a monoclonal antibody that only recognizes specific forms of the toxic Abeta oligomers and not other forms of Abeta protein. A candidate monoclonal antibody has been identified and will be tested for its efficacy and safety in a prospective mouse passive vaccine trial. However, initiation of the trial has been indefinitely delayed due to difficulties in the scale up and purification of the monoclonal antibody. We will be utilizing the resources of the Mental Health Research Institute to conduct a prospective mouse passive vaccine trial.

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.

In late July 2008, we received the findings from a report commissioned by us from U.S.-based clinical researchers on the suitability of PBT2 for Huntington's disease. The report detailed the relevance of animal modeling experiments done with PBT2, its demonstrated mode of action in the brains of Huntington's disease model mice and its promising safety and efficacy findings in the recently completed Alzheimer's disease Phase IIa study with PBT2. The report concluded that PBT2 was recommended to proceed to clinical trials in Huntington's disease research participants.

Parkinson's Disease. Parkinson's disease, another crippling disease of the aging population, causes a progressive slowing of movement, tremor and the loss of fine motor control due to the death of *substantia nigra* cells in the brain. The *substantia nigra* cells produce the neurotransmitter, dopamine in the brain which is required for normal motor coordination. Increasingly, dementia is also being recognized as a significant component of Parkinson's disease. Existing therapies, such as dopaminergic agents, 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.

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. These two mouse models mimic the disease by using these toxins to destroy over time the cells of the substantia nigra, the area of the brain affected in Parkinson's disease, leading to motor function loss. Based on these positive results with clioquinol in such two mouse models, we began investigating the efficacy of other selected MPACs in these two models to screen for possible MPAC candidates as treatment candidates for Parkinson's disease. Currently, we have identified six potential compound leads that demonstrate the ability to rescue the *substantia nigra* neuronal cells in both models of Parkinson's disease, that otherwise perish over time as the disease progresses. Final characterization and selection of a clinical development lead compound is underway.

Brain Cancer. We have initiated a program of research into the potential use of selected MPACs from our library for use in the treatment of brain cancer, in particular the most prevalent and deadly form of the disease, Glioblastoma multiforme, or GBM. Patients with GBM have a very poor prognosis upon diagnosis with an estimated median survival of approximately 12 months. The most commonly prescribed treatments are chemotoxic agents together with radiation therapy, which confer a median survival increase of several months. There is an increasing body of published evidence that there are elevated levels of copper in tumors leading to increased cellular oxidative stress. Several of our MPACs that demonstrate potent toxicity against human gliomablastoma cell lines and yet remain untoxic to normal brain cells are being tested in mouse models of GBM. We believe that MPACs with a strong ability to deliver copper into tumor cells will promote their death, and we are currently investigating this *in vivo*.

Clinical Trials for Our Lead Compound

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 pre-clinical 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 pre-clinical 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 pre-clinical 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) had been randomized to participate in the Phase IIa clinical trial, of which 30 patients had 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 had reviewed the data of over 50 patients and concluded there have been no treatment-related serious adverse events or withdrawals and that the trial was safe to continue in accordance with the original protocol. On September 24, 2007, we announced that the enrollment for the Phase IIa trial had been completed and that we expected to report results during the first calendar quarter of 2008. On November 29, 2007, we announced that the DSMB had completed its cycle of safety review meetings and reported to us that of the 59 patients included in the review at that time, there had been no treatment-related serious adverse events or withdrawals. The DSMB confirmed that the trial was safe to continue. Patient dosing was completed on December 18, 2007, and we announced the formal completion of the study on January 2, 2008. On February 26, 2008, we publicly released the top line trial results and announced that the trial primary endpoints of safety and tolerability were met. We also announced that with respect to the secondary endpoints, namely biomarker, cognition and behavioral changes, several significant and promising changes were observed. Specifically, that in the cerebrospinal fluid (CSF), PBT2 treatment at a 250mg dose resulted in a significant decrease in the target Abeta 42 protein. In addition, at the 250mg dose, while no significant effect was observed with the ADAS-cog, two of the four neuropsychological test battery (NTB) tests for improvement in executive function were significantly improved. In July 2008, the results of the Phase IIa trial were published in *The Lancet Neurology* journal. The key findings included the demonstration that PBT2 could rapidly improve cognition in transgenic mice, prevent the formation of toxic soluble Abeta oligomers, lower the Abeta levels in the brain of transgenic mice and protect neurons from the toxic effect of Abeta at the synapses between neurons enabling improved neurotransmission. Also in July 2008, the results of extensive pre-clinical research findings for PBT2 were published in the journal *Neuron.* The key findings included the demonstration that PBT2 could rapidly improve cognition in transgenic mice, prevent the formation of toxic soluble Abeta oligomers, lower the Abeta levels in the brain of transgenic mice and protect neurons from the toxic effect of Abeta at the synapses between neurons enabling improved neurotransmission. Currently, we are considering possible larger scale Phase IIb trial designs that could be initiated during the first half of 2010.

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 pre-clinical 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, á-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 Alzheimer's disease 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. For details regarding our PBT2 clinical trials see above in this Item 4.B. "Information on the Company – Business Overview – Clinical Trials for Our Lead Compound."

MPACs from different chemical classes to that of PBT1 and PBT2, with different structural characteristics have shown differential behavior in screens for neurological disorders other than Alzheimer's disease. For example, over the last few years we have generated a series of MPACs differentiated for their ability to be efficacious in animal models of Parkinson's disease. Currently we have identified six potential compound leads that demonstrate the ability to rescue the *substantia nigra* neuronal cells in both models of Parkinson's disease, which otherwise perish over time as the disease progresses. Final characterization and selection of a clinical development lead compound is underway. In addition, another series of chemically differentiated MPACs have shown promise *in vitro* assays of the brain cancer Glioblatoma multiforme and animal modeling is underway.

Patents and Licenses

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.

Patent Portfolio

The following table presents our portfolio of patent and patents applications, including their status and a brief description of the respective inventions.

Patent	Status	Invention
"A method for assaying and treating Alzheimer's Disease" Filed: November 12, 1992 Applicant: The University of Melbourne Assigned to Prana Biotechnology Limited	Patents have been granted in Australia, Europe, Japan, Canada and the United States.	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.
"Beta amyloid peptide inhibitors" Filed: July 21, 2000 Applicant: Biomolecular Research Institute and University of Melbourne Assigned to Prana Biotechnology Limited	A patent has been granted in Australia. Patents in Europe, Canada and the United States are undergoing examination. Examination has been requested in Japan.	The invention encompasses claims to specific classes of 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.
"Neurotoxic Oligomers" Filed: June 28, 2000 Applicants: Prana Biotechnology Limited and The General Hospital Corporation	A patent has been granted in Australia and New Zealand. A Notice of Allowance has been issued in the United States. An application is under examination in the United States and Europe. Examination has been requested in Canada, China and Japan.	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 of screening for inhibitors of Alzheimer's Disease" Filed: December 12, 2000 Applicant: The General Hospital Corporation Licensed to Prana Biotechnology Limited	An application is under examination in the United States.	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	An application in Europe is pending examination. An application in Hong Kong has been recorded. An application in Australia is under examination. Applications in China and the United States have lapsed.	The invention encompasses the utility of the 8-hydroxyquinoline MPAC class in the treatment of neurodegenerative cognitive changes, particularly Huntington's disease.

Patent	Status	Invention
"8-Hydroxyquinoline derivatives" Filed: July 16, 2003 Applicant: Prana Biotechnology Limited	Patents have been granted in Europe, New Zealand, Russia, Singapore and South Africa. A Notice of Allowance has been issued in the United States. A patent has been accepted in Australia. A patent in Hong Kong has been registered. Applications in India, Israel and China are under examination. Examination has been requested in Brazil, Japan, South Korea and Canada. Examination is pending in Mexico.	The invention is directed to chemical structures of the 8-hydroxyquinoline MPAC class and their utility in the treatment of neurological conditions.
"Neurologically-Active Compounds" Filed: October 3, 2003 Applicant: Prana Biotechnology Limited	Applications in the United States, China, Russia, Canada, Europe, Australia and Israel are under examination. Examination has been requested in Brazil, Japan, Mexico and South Korea. Applications have been accepted in New Zealand, India, South Africa and Singapore. A patent in Hong Kong has been processed.	The invention is directed to alternative MPAC chemical structures and their utility in the treatment of neurological conditions.
"Neurologically- Active Compounds" Filed: April 1, 2005 Applicant: Prana Biotechnology Limited	Applications have been filed in Australia, Canada, China, Europe, Israel, Mexico, the United States and South Korea. Examination has been requested in Japan, India, Brazil, New Zealand and Russia. A patent has been granted in Singapore and South Africa. A patent in Hong Kong has been processed.	The invention is directed to `F4' MPAC chemical structures and their utility in the treatment of neurological conditions.
"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. A Notice of Allowance has been issued in the United States for a second Patent. An application in Japan is under examination.	This invention is directed to the use of Phanquinone for the treatment of Alzheimer's disease.
"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 Phanquinone for the treatment of age related memory impairment.

Patent	Status	Invention
"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.	This invention is directed to the use of clioquinol for the treatment of Alzheimer's disease.
"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 has been granted in the United States. 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	Applications have been filed in Australia, Canada, China, Europe, Israel, New Zealand, the United States, South Korea, South Africa, Japan, India, Brazil and Singapore.	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	Applications have been filed in Australia, Canada, China, Europe, the United States and Japan.	This invention is directed to MPAC compounds for treating certain cancers.
"Compounds for therapy and diagnosis" Filed: December 5, 2008 Applicant: Prana Biotechnology Limited	A complete international (PCT) application has been filed.	This invention is directed to anti-amyloid (metallo-complexes) compounds for the treatment of Alzheimer's disease.

Prior Patents

In December 2006, we elected to terminate the license for the following patent which was granted to us under the January 1, 2001 license agreement that we entered into with The General Hospital Corporation of Massachusetts, or GHC, and as result, the patent case was returned to GHC:

- “Use of Clioquinol for the therapy of Alzheimer’s Disease” filed January 4, 1999.

In March 2009, we elected to terminate the licenses for the following patents which were granted to us under the January 1, 2001 license agreement that we entered into with GHC, and as result, the applicable patent cases were returned to GHC:

- “An *in vitro* system for determining the formation of Ab Amyloid” filed October 19, 1994.

- "A diagnostic assay for Alzheimer's Disease" filed October 19, 1994.
- "Identification of agents for use in the treatment of Alzheimer's Disease" filed March 11, 1998.
- "Agents for use in the treatment of Alzheimer's Disease" filed March 11, 1999.
- "Method for Screening drugs useful for treating Alzheimer's Disease" filed April 29, 1999.
- "Methods for the Identification of Agents that Inhibit or Promote Cataracts and Uses thereof" filed August 18, 2000.

Patents and License Agreements

On May 7, 1999, we entered into a patent assignment and license agreement with The University of Melbourne. The agreement provided for the assignment to us of various patents and patent rights to us comprised of an international patent application (PCT application) entitled, 'A method of assaying and treating Alzheimer Disease.' The patent application matured into national phase prosecution in Australia, Canada, Europe, Japan and the United States and selected claims from this application have been granted in Australia, Canada, Europe, Japan and the United States. The invention is directed to a method for assaying for Alzheimer's disease and to a method for treating the disease by modulating divalent or trivalent cation and/or heparin interaction in a patient with Amyloid Precusor Protein, or APP. The technologies or products that may arise from the invention include therapeutic agents such as zinc binding agents that modulate processing of APP, as well as a screening assay for Alzheimer's disease to determine the amount of various forms of APP in the circulatory system of a human compared to a control sample to determine presence of the disease. 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 appointed to utilize the patents.

On February 8, 2000, we entered into a patent assignment and intellectual property licensing agreement with The Biomolecular Research Institute, or BRI, under which two patent applications were assigned to us. One is an international patent application (PCT application) entitled 'Beta-Amyloid Peptide Inhibitors' which has matured into national phase prosecution in Canada, Europe, Japan and the United States and a patent has been granted in Australia. The invention is directed to compounds which block the metal binding site on Beta-Amyloid. The technologies or products that may arise from this invention include metallo-based compounds as therapeutics or preventative treatments for Alzheimer's disease. The other patent is an Australian provisional application, which has matured into a patent application in the United States entitled 'Method of Screening for inhibitors of Alzheimer's Disease.' The invention is directed to the use of copper agonist compounds to treat or prevent Alzheimer's disease. The technologies or products that may arise from this invention include using copper agonists to reduce the processing of APP into beta-amyloid and methods of detecting compounds which can act as copper agonists for use in therapy. 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. To date, we paid a total of $350,000 under the agreement, all of which amount was paid in 2000. On September 10, 2007, we, BRI and the Commonwealth Scientific and Industrial Research Organization, or CSIRO, 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 January 1, 2001, we entered into a license agreement with GHC, under which we licensed from GHC the patents described below. The agreement was subsequently amended on August 8, 2001 and March 15, 2004. Under the agreement, as amended, the license for a particular patent expires at the end of the term of the patent rights under the respective patent. In general, the anticipated patent expiration date is 20 years from the filing date of the respective patent application. Under the agreement, we agreed to pay GHC a total of U.S.$166,590 in monthly installments over a 30 month period beginning January 1, 2001 and U.S.$182,000 in monthly installments over a 30 month period beginning August 1, 2001 for the right to use the results of research under the license. Such obligations have been satisfied by us in full, and we retain the rights under this license.

- ‘Use of clioquinol for the therapy of Alzheimer’s Disease.’ This patent application was filed on January 4, 1999 in the United States. The patent is expected to expire on January 4, 2019. The invention is directed to the use of Clioquinol as treatment for Azheimer’s disease and the technology is limited to the specific use of Clioquinol as a therapeutic agent. The license provides for potential payments to GHC of an aggregate U.S$1.5 million, in accordance with the following milestones: (i) U.S.$500,000 upon the submission of a registration dossier in the United States or Europe; and (ii) U.S.$1.0 million upon the first approval of a product arising from the invention. The milestones have not been met to date. We terminated the license for this patent and the patent case was returned to GHC in December 2006 after the patent entitled “Use of Clioquinol for the treatment of Alzheimer’s Disease” was assigned to us from P.N. Gerolymatos S.A. pursuant to the terms of the settlement agreement that we entered into on July 28, 2004. For a description of the foregoing settlement agreement see Item 10.C. “Additional Information – Material Contracts.”

- ‘Agents for Use in the treatment of Alzheimer’s Disease.’ This international patent application (PCT application) was filed on March 11, 1999 and matured into national phase prosecution in Australia, Canada, Europe, Hong Kong and the United States. The patent is expected to expire on March 11, 2019. The invention is directed to compositions containing Clioquinol and known metal binding agents and their combined use in the treatment of amyloid related diseases, including Alzheimer’s disease. The technology is limited to the specific use of Clioquinol combined with a metal chelator chosen from one of bathocuproine, bathophenanthroline, DTPA, EDTA, EGTA, penicillamine, TETA or TPEN and pharmaceutical compositions containing such agents. The license provides for potential payments to GHC of an aggregate U.S$1.5 million, in accordance with the following milestones: (i) U.S.$500,000 upon the submission of a registration dossier in the United States or Europe; and (ii) U.S.$1.0 million upon the first approval of a product arising from the invention. The milestones have not been met to date. We terminated the license for this patent and the patent case was returned to GHC as of March 2009.

- ‘An *in vitro* system for determining formation of Aâ Amyloid.’ This international patent application (PCT application) was filed on October 19, 1994 and matured into national phase prosecution in Canada, Japan and the United States. The patent is expected to expire on October 19, 2014. The invention is directed to an assay for the formation of beta-amyloid in a biological sample and inhibitors of that formation. The technology encompasses various assays for detection of amyloid screening candidate agents for their ability to prevent or reverse the formation of amyloid *in vitro*, as well as kits which are used in those methods. One specific product relates to a rapid analytical method for detection amyloid formation in a biological fluid, which involves a series of steps, resulting in a diagnostic. A second product relates to a method for determining whether a compound inhibits the formation amyloid, also by a series of similar steps, i.e. a method for identifying a drug candidate. The license provides for potential payments to GHC of an aggregate U.S$200,000, subject to and upon the first approval of a product arising from the invention. The milestone has not been met to date. We terminated the license for this patent and the patent case was returned to GHC as of March 2009.

- ‘A diagnostic assay for Alzheimer’s Disease.’ This international patent application (PCT application) was filed on October 19, 1994 and matured into national phase prosecution in Canada and the United States. The patent is expected to expire on October 19, 2014. The invention is directed to an antibody based diagnostic assay for the detection and quantification of beta-amyloid species. The technology encompasses various assays and kits for detecting and/or quantifying Abeta in a candidate solution. This assay is based on Abeta strongly binding zinc and copper in a pH dependent manner on a zinc- or copper-treated microwell plate. The assay could be utilized as a diagnostic for Alzheimer’s disease. The license provides for potential payments to GHC of an aggregate U.S.$200,000, subject to and upon the first approval of a product arising from the invention. The milestone has not been met to date. We terminated the license for this patent and the patent case was returned to GHC as of March 2009.

- ‘Identification of agents for use in the treatment of Alzheimer’s Disease.’This international patent application (PCT application) was filed on March 11, 1998 and matured into national phase prosecution in the Australia, Canada, Europe, Japan and the United States. The patent is expected to expire on March 11, 2018. 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. Products arising from the invention include various assays for the identification and administration of agents useful in the treatment of Alzheimer’s disease, as measured by their ability to reduce H2O2 and other free radicals. The technology also includes a method of treating amyloidosis by administering a metal chelator such as bathocuproine, bathophenanthroline, penacillamine, TETA or TPEN. The license provides for potential payments to GHC of an aggregate U.S.$200,000, subject to and upon the first approval of a product arising from the invention. The milestone has not been met to date. We terminated the license for this patent and the patent case was returned to GHC as of March 2009.

- ‘Method of screening for drugs useful in treating Alzheimer’s Disease.’This international patent application (PCT application) was filed on April 29, 1999 and matured into national phase prosecution in Australia, Canada, Europe, Japan and the United States. The patent is expected to expire on April 29, 2019. The invention is primarily directed to specified assays that identify agents capable of modifying the neurotoxic properties of beta-amyloid. The patent and products arising from the invention are substantially related to the patent described immediately above entitled ‘Identification of agents for use in the treatment of Alzheimer’s Disease’and the majority of claims in this case were abandoned in favor of the patent described immediately above. We terminated the license for this patent and the patent case was returned to GHC as of March 2009.

- ‘Neurotoxic Oligomers.’ This international patent application (PCT application) was filed on June 28, 2000 and matured into national phase prosecution in Canada, China, Europe, Japan and the United States. Patents have been granted in Australia and New Zealand. The patent is expected to expire on June 28, 2020. The invention is directed to a novel target for an Alzheimer’s disease vaccine. The technologies or products that may arise from this invention include toxic dimerized full length or fragments of beta-amyloid as active vaccines for Alzheimer’s disease or antibodies to these beta-amyloid fragments as passive vaccines for Alzheimer’s disease. The license provides for potential payments to GHC of an aggregate U.S.$1.5 million, in accordance with the following milestones: (i) U.S.$500,000 upon the submission of a registration dossier in the United States or Europe; and (ii) U.S.$1.0 million upon the first approval of a product arising from the invention. The milestones have not been met to date.

- ‘Methods for the identification of Agents that Inhibit or Promote Cataracts and Uses thereof.’ This international patent application (PCT application) was filed on August 18, 2000 and matured into national phase prosecution in Australia, Canada, Europe, Japan and the United States. The patent is expected to expire on August 18, 2020. 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. The technologies arising from this invention include various methods for the identification of agents to be used in the treatment of cataracts. In addition, the use of known chelators such as bathocuproine, bathophenanthroline, triethylenetetramine, diethylenetriaminepentaacetic acid, penicillamine, clioquinol and DFO, also derivatives, homologues and analogues. The license provides for potential payments to GHC of an aggregate U.S.$1.5 million, in accordance with the following milestones: (i) U.S.$500,000 upon the submission of a registration dossier in the United States or Europe; and (ii) U.S.$1.0 million upon the first approval of a product arising from the invention. The milestones have not been met to date. We terminated the license for this patent, and the patent case was returned to GHC as of March 2009.

The license agreement with GHC 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. Gerolymatos S.A. and GHC.

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 from those activities will be, subject to regulation by numerous governmental authorities in Australia, principally the TGA (Therapeutic Goods Administration), the FDA (Federal Drug Authority) in the United States, the MHRA (Medicines Control Agency) in the United Kingdom and the EMEA (European Medicines Evaluation Authority). 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.

For details regarding clinical trials for our lead compound PBT2, see Item 4.B. “Information on the Company – Business Overview – Clinical Trials for Our Lead Compound.” 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.

Historical Collaborative Efforts

In August 2003, utilizing the grant we received from the Commonwealth Government of Australia under the Biotechnology Innovation Fund, or 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. Under the terms of the agreement, we are required to pay Prima royalties equal to 5% of any income that we may receive upon commercialization of the monoclonal antibodies. In May 2006, we terminated our collaboration with Prima due to a delay in reaching certain milestones, subject to our surviving obligation to pay royalties. 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.

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, pre-clinical and clinical PBT2 trials, and we expect that we will use third party manufacturers for any future product candidates. 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 cannot 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 cannot guarantee that it will be possible to scale up new synthetic processes to provide sufficient API for clinical drug trials, which could indefinitely delay the initiation of clinical trials utilizing API.

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

Our executive offices are located at 369 Royal Parade, Parkville, Victoria 3052, Australia, where we occupy approximately 3,800 square feet. The lease for the office space, which expires on October 31, 2010, has an annual rental of A$108,693 for the period through October 31, 2009 and A$114,901 for the period through October 31, 2010.

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.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

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 3.D. 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, both of which are currently inactive.

Our consolidated financial statements appearing in this annual report are prepared in Australian dollars and in accordance with IFRS as issued by IASB, which became effective for our company as of our fiscal year ended June 30, 2006. Our consolidated financial statements appearing in this annual report comply with both IFRS as issued by IASB and A-IFRS. 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, which we ceased in April 2005 due to an unacceptably high level of an impurity found in the compound. In early August 2003, our PBT2 compound was announced as a new lead metal protein attenuating compound, or MPAC, molecule for Alzheimer's disease. We have completed two Phase I studies of PBT2 and a Phase IIa clinical trial for PBT2 in patients with Alzheimer's disease. For details regarding clinical trials for our lead compound PBT2, see Item 4.B. "Information on the Company – Business Overview – Clinical Trials for Our Lead Compound."

Critical Accounting Policies

We prepare our financial statements in accordance with IFRS as issued by IASB. 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 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 equity 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. Reimbursements of expenses are recognized as income when the reimbursement is received and the related expenses have been incurred.

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.

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, pre-clinical and clinical developmental 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, salaries and benefits paid to employees and officers, and equity-based payments awarded to directors, officers and employees.

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 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, employees and consultants.

Public relations and marketing expenses. Our public relations and marketing expenses consist of fees paid to outside consultants for services related 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%

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

Foreign exchange gain (loss). Foreign exchange gain (loss) includes the net unrealized gain or loss on cash balances held in foreign currencies (primarily U.S. dollars, British Pounds and Euros) as well as net realized gains and losses on foreign currency transactions.

Gain (loss) on fair value of financial liabilities. Each reporting period, we are required to revalue financial liabilities. We recorded financial liabilities attributable to warrants that were issued to the investors in our private placement in the United States in June 2004. The warrants, which expired on June 4, 2009, permitted the investors to purchase an aggregate 3,000,000 ADRs at an exercise price of US$8.00 per ADR. Because the warrants were exercisable in a currency that is not the functional currency of our company, they are required to be classified as a financial liability. When the fair value of the outstanding warrants increased or decreased, the difference was recorded as a gain or loss, as applicable, on the fair value of financial liabilities. The warrants expired without being exercised.

Results of Operations

Year ended June 30, 2009 compared to year ended June 30, 2008

Revenue from continuing operations

Revenue from continuing operations decreased to A$428,154 for the year ended June 30, 2009 from A$490,943 for the year ended June 30, 2008, a decrease of A$62,789, or 13%. Revenue from continuing operations consisted of A$428,154 and A$490,943 in interest income for the years ended June 30, 2009 and 2008, respectively. The decrease in revenue from continuing operations in the 2009 fiscal year is primarily attributable to lower interest income as a result of a reduction in cash and cash equivalents.

Other Income

We did not have other income for the year ended June 30, 2009. We had other income of A$170 for the year ended June 30, 2008.

Research and development expenses

Research and development expenses (including research and development expenses paid to related parties) decreased to A$2,215,358 for the year ended June 30, 2009 from A$5,757,168 for the year ended June 30, 2008, a decrease of A$3,541,810, or 62%. The decrease in research and development expenses in the 2009 fiscal year is primarily attributable to most costs associated with the Phase IIa clinical trial being expended in the 2008 fiscal year. The trial commenced in December 2006 and was completed in February 2008. We anticipate that in fiscal year 2010, our research and development expenditure will be primarily directed at possible Phase II studies of PBT2 for the treatment of Alzheimer's disease and Huntington's disease. In addition, we also intend to investigate lead MPAC candidate compounds for Parkinson's disease and brain cancer models, the effect of our monoclonal antibody in models of Alzheimer's disease, and the behavior of our metal-based amyloid binding compounds as amyloid imaging agents.

Personnel expenses

Personnel expenses decreased to A$3,832,804 for the year ended June 30, 2009 from A$5,350,189 for the year ended June 30, 2008, a decrease of A$1,517,385, or 28%. The decrease in personnel expenses in the 2009 fiscal year is primarily attributable to decreased equity-based compensation in the form of options and shares issued to directors, employees and consultants. In the 2009 fiscal year, we expensed A$1,305,471 in respect of equity-based payments to directors, consultants and employees compared to A$2,237,421 in the 2008 fiscal year. Personnel expenses in the 2009 and 2008 fiscal years include a portion of the total fair value of options granted to our directors and employees in the previous fiscal years of A$516,432 and A$420,343, respectively. The decrease in personnel expense in the 2009 fiscal year is also due to a decrease in consulting and director fees for such period.

Intellectual property expenses

Intellectual property expenses increased to A$1,107,534 for the year ended June 30, 2009 from A$469,428 for the year ended June 30, 2008, an increase of A$638,106, or 136%. The increase in intellectual property expenses in the 2009 fiscal year was due to two international (PCT) patent applications maturing into numerous national phase patent office filings globally and continuing patent prosecution for our MPAC chemistry patent cases, including the 8-hydroxyquinoline patent case and immunotherapy patent case, which are in advanced patent prosecution stages. In addition, in 2009 we incurred increased legal expenses in connection with the potential licensing of our MPAC assets.

Auditor and accounting expenses

Auditor and accounting expenses decreased to A$129,998 for the year ended June 30, 2009 from A$331,950 for the year ended June 30, 2008, a decrease of A$201,952, or 61%. The decrease in auditor and accounting expenses in the 2009 fiscal year is primarily attributable to additional auditor fees incurred during the 2008 fiscal year in connection with a Securities and Exchange Commission, or SEC, review of our annual report on Form 20-F for the fiscal year ended June 30, 2006 and responding to the comments of the SEC staff. In addition, we renegotiated our independent auditor's fees for the 2009 fiscal year, resulting in a $A70,000 decrease in audit fees compared to the 2008 fiscal year audit.

Travel expenses

Travel expenses increased to A$195,251 for the year ended June 30, 2009 from A$146,651 for the year ended June 30, 2008, an increase of A$48,600, or 33%. The increase in travel expenses in the 2009 fiscal year is primarily attributable to increased overseas travel by executives for company business meetings and by executives and consultants in connection with their attendance at the International Conference on Alzheimer's Disease (ICAD) in July 2008.

Public relations and marketing expenses

Public relations and marketing expenses increased to A$222,679 for the year ended June 30, 2009 from A$141,337 for the year ended June 30, 2008, an increase of A$81,342, or 58%. Our public relations and marketing expenses consist primarily of costs relating to our U.S.-based investor relations consultants. The increase in public relations and marketing expenses in the 2009 fiscal year is primarily attributable to an increase in the fees paid to our U.S.-based investor relations consultants.

Depreciation expenses

Depreciation expenses increased to A$34,190 for the year ended June 30, 2009 from A$25,349 for the year ended June 30, 2008, an increase of A$8,841, or 35%. The increase in depreciation expenses in the 2009 fiscal year is primarily attributable to additional computer equipment in the aggregate amount of A$31,474 that we purchased during the 2009 fiscal year combined with the acceleration of depreciation for obsolete computer equipment.

Other expenses

Other expenses (including other expenses paid to related parties) increased to A$978,757 for the year ended June 30, 2009 from A$975,404 for the year ended June 30, 2008, an increase of A$3,353, or 0.3%. The increase in other expenses in the 2009 fiscal year is primarily attributable to an increase in corporate compliance costs as a result of increased legal fees.

Foreign exchange gain (loss)

We recorded a foreign exchange loss of A$6,723 for the year ended June 30, 2009 compared to a foreign exchange loss of A$402,886 for the year ended June 30, 2008. In the 2009 fiscal year, the Australian dollar appreciated against the U.S. dollar, while the Australian dollar depreciated against the U.S. dollar in the 2008 fiscal year. In fiscal 2009, we incurred a foreign exchange gain of A$5,536 attributable to the cash balances that we held in U.S. dollars, a foreign exchange gain of A$5,893 attributable to the cash balances that were held in British Pounds, a foreign exchange gain of A$4,072 attributable to cash balances that were held in Euros and a foreign exchange loss of A$21,654 attributable to foreign currency transactions. In fiscal 2008, we incurred a foreign exchange loss of A$425,794 attributable to the cash balances that we held in U.S. dollars, a foreign exchange loss of A$8,726 attributable to the cash balances that were held in British Pounds, a foreign exchange loss of A$508 attributable to cash balances that were held in Euros and a foreign exchange gain of A$31,466 attributable to foreign currency transactions.

Gain (loss) on fair value of financial liabilities

We recorded a gain on fair value of financial liabilities of A$772,430 for the year ended June 30, 2009 compared to a loss on fair value of financial liabilities of A$451,429 for the year ended June 30, 2008, attributable to the warrants that were issued in connection with our private placement of securities in the United States in June 2004 that expired on June 4, 2009. The gain and loss 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, 2008 compared to year ended June 30, 2007

Revenue from continuing operations

Revenue from continuing operations decreased to A$490,943 for the year ended June 30, 2008 from A$507,150 for the year ended June 30, 2007, a decease of A$16,207, or 3%. Revenue from continuing operations consisted of A$490,943 and A$507,150 in interest income in the years ended June 30, 2008 and 2007, respectively. The decrease in revenue from continuing operations in the 2008 fiscal year was primarily attributable to lower interest income as a result of fluctuations of cash and cash equivalents held during the year.

Other Income

Other income decreased to A$170 for the year ended June 30, 2008 from A$287 for the year ended June 30, 2007, a decrease of A$117, or 41%.

Research and development expenses

Research and development expenses (including research and development expenses paid to related parties) increased to A$5,757,168 for the year ended June 30, 2008 from A$4,492,193 for the year ended June 30, 2007, an increase of A$1,264,975, or 28%. The increase in research and development expenses in the year ended June 30, 2008 was primarily attributable to the increased costs associated with the Phase IIa clinical trial. The trial commenced in December 2006 and was completed in February 2008 and the majority of expenditure related to the trial was incurred in the latter part of the trial. Additional expenditure was also incurred in respect of drug discovery.

Personnel expenses

Personnel expenses increased to A$5,350,189 for the year ended June 30, 2008 from A$4,554,731 for the year ended June 30, 2007, an increase of A$795,458, or 18%. The increase in personnel expenses in the 2008 fiscal year was primarily attributable to increased equity-based compensation in the form of options and shares granted to directors and consultants. In the 2008 fiscal year we expensed A$2,237,421 in respect of equity-based payments to directors, consultants and employees compared to A$1,386,243 in the 2007 fiscal year. Personnel expenses in the 2008 and 2007 fiscal year include a portion of the total fair value of options granted to our directors and employees in the previous fiscal years of A$420,343 and A$192,890, respectively. In addition, in January 2008 employee salaries increased as part of staff reviews.

Intellectual property expenses

Intellectual property expenses decreased to A$469,428 for the year ended June 30, 2008 from A$600,232 for the year ended June 30, 2007, a decease of A$130,804, or 22%. The decrease in intellectual property expenses in the 2008 fiscal year was primarily due to increased patent attorney expenses that we incurred in fiscal year 2007 in respect of patents.

Auditor and accounting expenses

Auditor and accounting expenses increased to A$331,950 for the year ended June 30, 2008 from A$260,117 for the year ended June 30, 2007, an increase of A$71,833, or 28%. The increase in auditor and accounting expenses in the 2008 fiscal year was attributable to additional auditor fees incurred in connection with a Securities and Exchange Commission review of our annual report on Form 20-F for the fiscal year ended June 30, 2006 and an amendment to our annual report on Form 20-F for such period. Additional auditor fees were also incurred in fiscal year 2008 as a result of replacing our previous independent registered public accountants.

Travel expenses

Travel expenses decreased to A$146,651 for the year ended June 30, 2008 from A$309,997 for the year ended June 30, 2007, a decease of A$163,346, or 53%. The decrease in travel expenses in the 2008 fiscal year was primarily attributable to decreased overseas business travel for directors, executives and consultants, among other things, as a result of a reduced number of Research and Development Advisory Board meetings.

Public relations and marketing expenses

Public relations and marketing expenses decreased to A$141,337 for the year ended June 30, 2008 from A$215,455 for the year ended June 30, 2007, a decease of A$74,118, or 34%. The decrease in public relations and marketing expenses in the 2008 fiscal year was primarily attributable to a reduction in expenses paid to consultants due to reduced consulting services received in such period.

Depreciation expenses

Depreciation expenses decreased to A$25,349 for the year ended June 30, 2008 from A$58,582 for the year ended June 30, 2007, a decease of A$33,233, or 57%. The decrease in depreciation expenses in the 2008 fiscal year was primarily attributable to fixed assets being fully depreciated in fiscal year 2007.

Other expenses

Other expenses (including other expenses paid to related parties) decreased to A$975,404 for the year ended June 30, 2008 from A$1,008,563 for the year ended June 30, 2007, a decease of A$33,159, or 3%. The decrease in other expenses in the 2008 fiscal year was attributable to a reduction in corporate compliance costs as a result of reduced legal costs and costs associated with the printing and distribution of our Annual Reports which are now made available to shareholders electronically. Lease expenses increased following a new lease agreement being signed, however insurance expenditure reduced as a result of more competitive premiums.

Foreign exchange gain (loss)

We recorded a foreign exchange loss of A$402,886 for the year ended June 30, 2008 compared to a foreign exchange loss of A$757,578 for the year ended June 30, 2007. In fiscal 2008, we incurred a foreign exchange loss of $425,794 attributable to the cash balances that we held in U.S. dollars, a foreign exchange loss of A$8,726 attributable to the cash balances that were held in British Pounds, a foreign exchange loss of A$508 attributable to cash balances that were held in Euros and a foreign exchange loss of A$31,466 attributable to foreign currency transactions. 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 British Pounds, a foreign exchange loss of A$7,839 attributable to cash balances that were held in Euros and a foreign exchange gain of A$20,554 attributable to foreign currency transactions.

Gain (loss) on fair value of financial liabilities

We recorded a loss on fair value of financial liabilities of A$451,429 for the year ended June 30, 2008 compared to a gain of A$607,691 for the year ended June 30, 2007 attributable to the warrants that were issued in connection with our private placement of securities in the United States in June 2004. The gain and loss 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.

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.

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.

Recently Issued International Accounting Standards and Pronouncements

Certain new International accounting standards and interpretations have been published that are not mandatory for June 30, 2009 reporting periods. Based on our assessment, we believe that the following new standards and interpretations could in the future have an impact on our consolidated financial statements.

IAS 23 (Amendment), "Borrowing costs" (effective for annual periods beginning on or after January 1, 2009 and applicable to our company effective July 1, 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. IAS 23 (Amendment) is not expected to have an impact on our financial statements as we have no qualifying assets.

IAS 1 (Revised), "Presentation of financial statements" (effective for annual periods beginning on or after January 1, 2009 and applicable to our company effective July 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. These amendments are only expected to affect the presentation of our financial statements and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial statements. We anticipate that we will present a single Statement of Comprehensive Income rather than two separate statements due to the minimum number of items expected to be classified as Other Comprehensive Income.

IFRS 2 (Amendment), "Share-based payment" (effective for annual periods beginning on or after January 1, 2009 and applicable to our company effective July 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by us or by other parties, should receive the same accounting treatment. We have share-based payment arrangements with vesting conditions as defined under this standard; therefore these amendments are not expected to have any impact on our financial statements.

IAS 32 (Amendment), "Financial instruments: Presentation," and IAS 1 (Amendment), "Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation" (effective for annual periods beginning on or after January 1, 2009 and applicable to our company effective July 1, 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. These amendments are not expected to have any impact on our financial statements as we have not issued puttable financial instruments as defined by the amendments.

IAS 27 (Revised), "Consolidated and separate financial statements" (effective for annual periods beginning on or after January 1, 2009 and applicable to our company effective July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. We began to apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from July 1, 2009.

IFRS 3 (Revised), "Business combinations" (effective for annual periods beginning on or after January 1, 2009 and applicable to our company effective July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. We began to apply IFRS 3 (Revised) prospectively to all business combinations from July 1, 2009. These amendments are only expected to affect the presentation of our financial statements and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial statements. These amendments are not expected to have any impact on our financial statements as we do not have any business combinations.

IAS 23 (Amendment), "Borrowing costs" (effective for annual periods beginning on or after January 1, 2009 and applicable to our company effective July 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 "*Financial instruments: Recognition and* measurement." This eliminates the inconsistency of terms between IAS 39 and IAS 23.

IAS 28 (Amendment), "Investments in associates" (and consequential amendments to IAS 32, "Financial Instruments: Presentation," and IFRS 7, "Financial instruments: Disclosures") (effective for annual periods beginning on or after January 1, 2009 and applicable to our company effective July 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. An investment in an associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. We have two inactive subsidiaries and do not have any jointly controlled entities or associates and therefore our financial statements are not expected to be impacted by this standard change.

IAS 19 (Amendment), "Employee benefits" (effective for annual periods beginning on or after January 1, 2009 and applicable to our company effective July 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered. IAS 37, "*Provisions, contingent liabilities and contingent assets,*" requires contingent liabilities to be disclosed, not recognized. IAS 19 has been amended to be consistent.

IAS 1 (Amendment), "Presentation of financial statements" effective for annual periods beginning on or after January 1, 2009 and applicable to our company effective July 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, "*Financial instruments: Recognition and measurement*" are examples of current assets and liabilities respectively. IAS 39 (Amendment) is not expected to have an impact on our financial statements.

There are a number of minor amendments to IFRS 7, "*Financial instruments: Disclosures,*" IAS 8, "*Accounting policies, changes in accounting estimates and errors,*" IAS 10, "*Events after the reporting period,*" IAS 18, "Revenue" and IAS 34, "*Interim financial reporting,*" which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on our financial statements and have therefore have not been described in further detail.

IFRIC 16, "Hedges of a net investment in a foreign operation" (effective for annual periods beginning on or after January 1, 2009 and applicable to our company effective July 1, 2009). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, "*The effects of changes in foreign exchange rates,*" apply to the hedged item. IFRIC 16 is not expected to have a material impact on our financial statements.

B. LIQUIDITY AND CAPITAL RESOURCES

We are a development stage company and have had no sales income to date, and as of June 30, 2009 our accumulated deficit totaled A$73,566,505. 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. During the period of 2001 to 2006, we were awarded government grants in the aggregate amount of A$3.3 million; we have not received any government grants since 2006.

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 (A$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, all of which expired without being exercised on June 4, 2009. 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 in Australia. 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 options have been exercised.

In October 2007, we raised A$8.5 million (before costs) in a private placement of 29.8 million of our ordinary shares (equivalent to 3.0 million ADRs) to professional and institutional investors in Australia and the United States at a price of A$0.285 per ordinary share (approximately US$2.97 per ADR) and three-year options to purchase an additional 4.94 million ordinary shares (equivalent to 494,000 ADRs) at an exercise price of A$0.37 per ordinary share (approximately US$3.85 per ADR) and an additional 4.94 million ordinary shares (equivalent to 494,000 ADRs) at an exercise price of A$0.43 per ordinary share (approximately US$4.48 per ADR). To date, no options have been exercised.

In May 2008, we raised A$7.3 million (before costs) in a private placement of 18.13 million (equivalent to 1.8 million ADRs) of our ordinary shares to professional investors in Australia and the United States at a price of A$0.40 per ordinary share (approximately US$4.16 per ADR).

In December 2008, we raised A$114,000 (before costs) from the exercise of options previously granted to a consultant. The options were exercised at $A0.285 per ordinary share (approximately US$4.43 per ADR).

On September 8, 2009, we entered into a private placement agreement with one of our institutional shareholders in the United States, under which we will raise an aggregate A$6.0 million before costs (approximately A$5.7 million net of costs) in a private placement of our ordinary shares to such investor. Of such amount, A$3.0 million was paid at the closing of the private placement on September 11, 2009 and an additional A$3.0 million will be paid on or before September 30, 2009. The private placement was for 30 million ordinary shares (equivalent to three million ADRs) at a price of A$0.20 per share (A$2.0 per ADR). We also agreed to grant the investor, subject to shareholder approval, options to purchase 10 million ordinary shares (equivalent to one million ADRs) at an exercise price of A$0.30 per share (A$3.0 per ADR) that will expire four years after the date of the issuance of the shares in the private placement. If shareholder approval is not obtained for the option grant, the options will be granted at such time that shareholder approval is no longer required for the issuance under the rules of the ASX. For additional information regarding the terms of the private placement, see Item 10.C. “Additional Information – Material Contracts.”

From inception to June 30, 2009, our capital expenditures have totaled A$491,096 (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, 2009 of A$71,150. 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.

We had A$4,304,977 of cash and cash equivalents at June 30, 2009, compared to A$11,219,035 at June 30, 2008. We believe our existing cash and cash equivalents, the proceeds from our A$6.0 million (before costs) private placement in September 2009, as well as anticipated 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 licensing of our assets or 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 license our assets or establish new strategic alliances or other arrangements with corporate partners on acceptable terms, or at all. The current global economic climate could adversely impact our ability to obtain such funding and license our assets or enter into alliances or other arrangements with corporate partners. 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.

Cash Flows

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

	Year ended June 30,		
	2009	2008	2007
		(A$)	
Net cash used in operating activities	(6,994,174)	(9,391,390)	(9,199,750)
Net cash used in investing activities	(36,192)	(81,770)	(4,259)
Net cash provided by financing activities	100,807	13,717,248	7,374,725
Net increase (decrease) in cash and cash equivalents	(6,929,559)	4,244,088	(1,829,284)
Cash and cash equivalents at beginning of period	11,219,035	7,409,256	10,013,778
Exchange rate adjustments on cash held in foreign currencies	15,501	(434,309)	(775,238)
Cash and cash equivalents at end of period	4,304,977	11,219,035	7,409,256

Net cash used in operating activities was A$6,994,174, A$9,391,390 and A$9,199,750 during the years ended June 30, 2009, 2008 and 2007, respectively. Our payments to suppliers and employees during the years ended June 30, 2009, 2008 and 2007 were A$7,511,372, A$9,766,851 and A$9,726,197, respectively. The decrease from the year ended June 30, 2008 to the year ended June 30, 2009 was primarily due to decrease in research and development expenditure. The increase in payments from the year ended June 30, 2007 to the year ended June 30, 2008 was primarily due to an increase in research and development expenditure. During the years ended June 30, 2009, 2008 and 2007, our payments to suppliers and employees was offset by interest income of A$517,198, A$375,461 and A$526,447, respectively.

Net cash used in investing activities was A$36,192, A$81,770 and A$4,259 during the years ended June 30, 2009, 2008 and 2007, respectively. Cash flows used for investing activities was primarily attributable to payments for the purchase of property and equipment for the years ended June 30, 2009, 2008 and 2007.

Net cash provided by financing activities was A$100,807, A$13,717,248 and A$7,374,725 for the years ended June 30, 2009, 2008 and 2007. Cash flows provided by financing activities during the year ended June 30, 2009 are attributable to a consultant exercising options to purchase 400,000 ordinary shares at an exercise price of A$0.285 per share (after costs). Cash flows provided by financing activities during the year ended June 30, 2008 are attributable to private placements of our ordinary shares in Australia and the United States in October 2007 and May 2008. 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).

We realized a foreign exchange gain of A$15,501 for the year ended June 30, 2009. We realized foreign exchange losses of A$434,309 and A$775,238 for the years ended June 30, 2008 and 2007, respectively. In 2008 and 2007, the Australian dollar depreciated against the U.S. dollar by 11% and 12%, respectively, while the Australian dollar appreciated against the U.S. dollar by 16% in 2009.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Early in our company's history, our activities were primarily focused on the acquisition and development of patents to enable the research and development of our core technology. In January 2001, we entered into an exclusive license agreement with the General Hospital Corporation to access patented technologies that could be of assistance in the discovery and characterization of lead compounds (see Item 4.B. "Information on the Company – Business Overview – Patents and License Agreements"). This license also provided us access to PBT1 (clioquinol) for drug development in Alzheimer's disease. To build a cost effective research and development company, in December 2000 we entered into an agreement with the University of Melbourne to conduct on our behalf certain research programs in Alzheimer's disease and other neurological disorders, to undertake basic mechanistic research on our compounds and conduct screens to assess therapeutic utility of our compounds (see Item 10 "Additional Information – Material Contracts"). In recent years, we increased our practice of building valuable research collaborations with institutes based in Australia, the United States, the United Kingdom and other countries to enable us to investigate a variety of therapeutic indications including Huntington's disease, cancers, Parkinson's disease and age-related macular degeneration. These collaborative arrangements ensure that we work with well-respected laboratories with specific expertise in screening and animal modeling of relevance to the particular indication, without incurring ongoing administrative and personnel costs. We maintain in-house patent counsel and research and development project expertise to coordinate these research collaborations.

When a lead compound is identified as suitable for clinical development, we establish a project team to coordinate all pre-clinical and clinical development and manufacturing activities. Typically, we engage a clinical research organization to manage patient recruitment, data management and trial conduct and reporting, as was the case with the development of our lead compound PBT2 through Phase I and Phase II development. All clinical, pre-clinical, clinical development and manufacturing of our compounds is performed in compliance with the appropriate governing authorities and standards (for example, the International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use).

Research and development expenses amounted to A$2,215,358, A$5,757,168 and A$4,492,193 during the years ended June 30, 2009, 2008 and 2007, respectively. Costs associated with patent applications and defense of patent applications are classified as intellectual property expenses and amounted to A$1,107,534, A$469,428 and A$600,232 during the years ended June 30, 2009, 2008 and 2007, 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 3 to the consolidated financial statements. 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.

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, 2009.

Contractual Obligations	Payments due by period				
	Total	less than 1 year	1-3 years	3-5 Years	more than 5 years
Operating lease obligations	$ 150,932	$ 110,411	$ 40,521	-	-
Purchase obligations*	$ 528,889	$ 485,861	$ 43,028	-	-
Total	$ 679,821	$ 596,272	$ 83,549	-	-

* Purchase obligations relate solely to our patents and license agreements described under Item 4.B. “Information on the Company – Business Overview – Patents and License Agreements.” and our research and development agreement described under Item 10 “Additional Information – Material Contracts.” Purchase obligations exclude obligations under our employment agreements with Mr. Geoffrey Kempler, our Chief Executive Officer, and Ms. Dianne Angus, our Chief Operating Officer (see Item 6.C. “Operating and Financial Review and Prospects – Compensation”) and our consulting agreement with Professor Ashley Bush (see Item 10. “Additional Information – Material Contracts”). See Note 20 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	54	Chairman of the Board of Directors and Chief Executive Officer
Richard Revelins	47	Chief Financial Officer and Secretary
Dianne Angus	49	Chief Operating Officer
Peter Marks(1)	53	Director
Brian D. Meltzer(1)(2)	55	Director
George W. Mihaly(1)(2)	56	Director

(1) Member of the Audit Committee
(2) Member of the Remuneration Committee, Share Plan Committee and Nominations Committee

Geoffrey Paul Kempler has served as the 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. Mr. Kempler, who has extensive experience in investment and business development, 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 Mining Project Group Limited, which is listed on the ASX 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 Office since May 2007. Ms. Angus joined our company in August 2002, initially serving as our Vice President of Intellectual Property and Licensing, she was promoted to Senior Vice President of Business Development, Intellectual Property and Research in July 2004 and served in that position until being promoted to her current position in May 2007. From 1992 to 2000, Ms Angus managed the intellectual property, licensing and biotechnology product development assets of two Australian companies, AMRAD Corporation Limited and Florigene Limited. At Florigene Ms. Angus was the joint venture alliance manger with Suntory for 3 years. From June 2000 to August 2002, Ms Angus was Director of Dianne Angus and Associates Pty. Ltd. providing strategic business development, technology evaluation and intellectual property consulting services to biotechnology companies. Ms. Angus has worked in the commercial biotechnology sector for over 17 years directing product valuation, acquisition and product licensing. During her career, Ms. Angus has managed large and diverse intellectual property portfolios, contract rights and enforcement. Ms Angus has negotiated and executed many commercial licenses and research and product development agreements with entities ranging from Novartis, Monsanto, Suntory and Du Pont to numerous global research institutes. Ms. Angus has also undertaken due diligence assessments on several Australian biotechnology companies for investment brokers. Ms. Angus holds a Bachelor of Science (Education) and Bachelor of Science (Honours) degree from the University of Melbourne, a Masters degree in Biotechnology from Monash University, a Graduate Diploma in Intellectual Property Law from Monash University, a Diploma in Intellectual Property Practice from the Institute of Patent and Trademark 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 also 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 and medicine space. Mr. Marks is currently also a director of Peregrine Corporate Limited, an Australian-based investment bank, and Watermark Global Plc, an AIM listed company, which commercializes the treatment and recycling of acid mine drainage water from South African mines. 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 up 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 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 has over 30 years experience in economics, finance and investment banking. 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 board of directors of a number of private companies. Mr. Meltzer is also a director on the board of directors of the Australian-Israel Chamber of Commerce and the Paraplegic and Quadriplegic Association of Victoria (Paraquad). Mr. Meltzer is Chairman of our Audit Committee, Remuneration Committee and Nomination Committee. Mr. Meltzer holds a Bachelor of Commerce degree from the University of Auckland and a Master of Economics degree from Monash University.

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 and successful 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 to the pharmaceutical industry. Synermedica merged with the global consultant research organization Kendle International Inc. in April 2000 and Dr Mihaly continued as Managing Director of the merged entity in Australia (now called Kendle 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. degree 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, 2009 with respect to each of our executive officers and directors during the 2009 fiscal year.

	Salaries, fees, commissions and bonuses (1)	Pension, retirement and other similar benefits
Geoffrey P. Kempler (2)	A $ 329,896	-
Richard Revelins	A $ 66,667	-
Dianne Angus	A $ 318,559	-
Peter Marks	A $ 45,833	-
Brian D. Meltzer	A $ 75,000	-
George W. Mihaly	A $ 62,500	-

(1) Does not include A$497,321 of expenses attributable to equity-based compensation recorded in fiscal year 2009.
(2) Mr. Kempler has elected to reduce his compensation from the beginning of May 2009, and has also elected to not accept a A$100,000 incentive bonus to which he is entitled until further notice.

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, 2009, our directors and executive officers as a group, then consisting of six persons, held options to purchase an aggregate 8,194,837 of our ordinary shares. Of such options, (i) options to purchase 1,900,000 ordinary shares are currently exercisable for nil consideration on or before June 30, 2010. Such 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; (ii) options to purchase 2,200,000 ordinary shares are exercisable for nil consideration on or before July 31, 2009. Such 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; (iii) options to purchase 1,444,837 ordinary shares are exercisable for nil consideration on or before August 7, 2014. Such 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; (iv) options to purchase 2,400,000 ordinary shares are exercisable for $0.30 consideration on or before October 31, 2010. Such options were held in escrow until December 20, 2008; and (v) options to purchase 250,000 ordinary shares are exercisable for nil consideration on or before October 31, 2010. 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."

Agreement with Chief Executive Officer. On September 21, 2007, we entered into an agreement with Mr. Geoffrey Kempler, a director, in connection with his employment as our Chief Executive Officer. Under the 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). On June 5, 2008 at the discretion of our Board of Directors, Mr. Kempler received a salary adjustment for CPI of 4.4% effective July 1, 2008, increasing his base salary to A$403,402. Under the agreement we agreed to pay Mr. Kempler a bonus of $50,000 upon a capital raising of at least A$7.0 million (before costs) prior to September 30, 2007, which milestone was timely met and therefore we paid such bonus to Mr. Kempler in the 2008 fiscal year. In addition, Mr. Kempler is entitled to a bonus of $6,000 for holding regular meetings (minimum twice a year) of the full Research and Development Advisory Board. We also agreed to pay Mr. Kempler additional bonuses subject to certain milestones that were not timely met and therefore he is no longer entitled to such bonuses. Mr. Kempler is 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 also 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), he 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 and 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 of such options.

- By our company with cause (as defined in the agreement) or by Mr. Kempler without good reason (as defined in the agreement), he will be entitled to business expenses that have not been reimbursed and accrued and unused vacation days. Mr. Kempler 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.

Agreement with Chief Operating Officer. Effective as of October 2, 2006, we entered into an employment agreement with Ms. Dianne Angus, in connection with her appointment as our Senior Vice President, Business Development, Intellectual Property and Research. Under the agreement 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 are 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 are 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 terminate the employment agreement without cause or if Ms. Angus terminates 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**.** Effective January 1, 2008, Ms. Angus received a salary increase of 9% bringing her annual base salary to A$292,256. In May 2009, in recognition of her performance in 2008 and continued commitment to our company, we awarded Ms. Angus with a grant of options to purchase 194,837 ordinary shares. Such options are exercisable for nil consideration on or before 2014.

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. Dr. Mihaly must retire and may stand for re-election at our 2009 annual general meeting of shareholders. Messrs. Marks and Meltzer must retire and may stand for re-election at either our 2010 or 2011 annual general meeting of shareholders.

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.

Under NASDAQ Marketplace Rules, in general 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.

Our Board of Directors has determined that each of Messrs. Marks, Meltzer and Dr. 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. The audit committee meets at least four times per year.

Remuneration Committee. Our Board of Directors has 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 through a sub-committee that it established for this purpose (see Share Plan Committee below). 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.

***Share Plan Committee*.** Our Remuneration Committee has established a sub-committee, the Share Plan Committee, which administers our share and ADR option plans. Messrs. Mihaly and Meltzer are the current members of the Share Plan Committee, each of whom qualifies as an "independent director" within the meaning of NASDAQ Marketplace Rules.

Nominations Committee. Our Board of Directors has 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 Research and Development 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 DevelopmentAdvisory 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. Professor Orgogozo has extensive experience in neuroepidemiology and clinical trials. Professor Orgogozo's 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. Dr. Ritchie's 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 Colin Masters is the Executive Director of the Mental Health Research Institute of Victoria (Australia) and an ex-founding director of our company. For more than 30 years, Professor Masters has dedicated his research to the study of the nature of Alzheimer's disease and other neurodegenerative disorders. Professor Masters and his team are internationally renowned for their work on the disease and he is considered the most eminent neuroscientist in Australia. In addition, Professor Masters is regarded as one of the leading worldwide researchers in the study of Alzheimer's disease. In the last year, Professor Masters was awarded the Lifetime Achievement Award in Alzheimer's Disease Research at the 10th International Conference on Alzheimer's Disease (ICAD), the Lennox K. Black International Prize for Excellence in Biomedical Research and the Grand Hamdan International Award for a research breakthrough in the subject of Molecular and Cellular Pathology of Neurological Disorders.

Professor Rudolph Emile Tanzi is a 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. Professor Tanzi's 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.

Dr. Steven D. Targum is our Chief Medical Advisor. Dr. Targum is an Executive-in-Residence at Oxford Bioscience Partners, where he advises portfolio companies in central nervous system, or CNS, drug development. In addition, Dr. Targum consults widely to the pharmaceutical industry regarding the design and implementation of clinical trials for new psychotropic drugs and the progression of drug development from concept to approval to launch. Dr. Targum founded PharmaStar, a global rater training and medical education company focused on CNS drug development and international clinical trials. Previously, Dr. Targum was Professor of Psychiatry and Vice-Chairman of the Department of Mental Health Sciences at Hahnemann University School of Medicine (Philadelphia) from 1989-1995.

Directors' Service Contracts

Our Chief Executive Officer. On September 21, 2007, we entered into an agreement with Mr. Geoffrey Kempler, the Chairman of our Board of Directors, in connection with his employment as our Chief Executive Officer. For details regarding the agreement with Mr. Kempler, including benefits upon termination of his employment, see Item 6.B. "Operating and Financial Review and Prospects – Compensation."

Other. Except as described above, 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 tortuous 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, 2009, we had 12 employees. Of such employees, seven persons were employed in research and development, three persons in management and administration and two persons in operations. All such employees were located in Australia.

At June 30, 2008, we had 13 employees. Of such employees, eight persons were employed in research and development, three persons in management and administration and two persons in operations. All such employees were located in Australia.

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.

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 21, 2009 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)	8.11%
Richard Revelins	370,308(5)(6)	*
Dianne Angus	1,944,837(7)(8)	*
Peter Marks	693,111(9)(10)	*
Brian D. Meltzer	976,666(11)(12)	*
George W. Mihaly	876,666(13)(14)	*
All directors and executive officers as a group (six persons)	23,916,588(15)	10.1%

* 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 232,945,639 ordinary shares issued and outstanding as of September 21, 2009.

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 (i) 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; and (ii) options to purchase 1,000,000 ordinary shares are exercisable on or before October 31, 2010 at a price of A$0.30 per share.

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 350,000 ordinary shares, all of which were granted under the 2004 ASX Plan (as defined below). The options are exercisable on or before October 31, 2010 at a price of A$0.30 per share and are held by Mr. Revelins' spouse.

7. Of such shares, 250,000 ordinary shares are held directly by Ms. Angus.

8. Includes options to purchase 1,694,837 ordinary shares, all of which were granted under the 2004 ASX Plan (as defined below). Of such options, options to purchase 1,444,837 ordinary shares are exercisable for nil consideration on or before August 7, 2014. 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. The remaining options to purchase 250,000 ordinary shares are exercisable for nil consideration on or before October 31, 2010.

9. Of such shares, 43,111 ordinary shares are held by Lampam Pty Ltd, an Australian corporation owned by Mr. Marks.

10. Includes options to purchase 650,000 ordinary shares, all of which were granted under the 2004 ASX Plan (as defined below). Of such options, (i) options to purchase 300,000 ordinary shares are exercisable for nil consideration 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; and (ii) options to purchase 350,000 ordinary shares are exercisable on or before October 31, 2010 at a price of A$0.30 per share.

11. Of such shares, 326,666 ordinary shares are held by RBC Dexia Pty Ltd., a superannuation fund of Mr. Meltzer.

12. Includes options to purchase 650,000 ordinary shares, all of which were granted under the 2004 ASX Plan (as defined below). Of such options, (i) options to purchase 300,000 ordinary shares are exercisable for nil consideration 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; and (ii) options to purchase 350,000 ordinary shares are exercisable on or before October 31, 2010 at a price of A$0.30 per share. The options are held in escrow for one year from the date of grant.

13. 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.

14. Includes options to purchase 650,000 ordinary shares, all of which were granted under the 2004 ASX Plan (as defined below). Of such options, (i) options to purchase 300,000 ordinary shares are exercisable for nil consideration 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; and (ii) options to purchase 350,000 ordinary shares are exercisable on or before October 31, 2010 at a price of A$0.30 per share.

15. See Footnotes (3) – (14).

Stock 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 and under the 2004 ADS Plan we may issue ADSs. 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), following which we could issue under the 2004 Plans up to an aggregate 22,000,000 ordinary shares or ADSs representing 22,000,000 ordinary shares. In December 2007, our shareholders approved an amendment to the 2004 Plans to provide for the issuance thereunder of an additional 8,000,000 ordinary shares (or ADSs representing 8,000,000 ordinary shares) following which we may issue under the 2004 Plans up to an aggregate 30,000,000 ordinary shares or ADSs representing 30,000,000 ordinary shares. In November 2008, our shareholders approved an amendment to the 2004 Plans to provide for the issuance thereunder of an additional 15,000,000 ordinary shares (or ADSs representing 15,000,000 ordinary shares) following which we may issue under the 2004 Plans up to an aggregate 45,000,000 ordinary shares or ADSs representing 45,000,000 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 45,000,000 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 Share Plan Committee, a sub-committee of the Remuneration Committee. For the purpose of the disclosure below, the term "Remuneration Committee" shall refer to the Remuneration Committee or Share Plan Committee, as applicable. 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 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 45,000,000 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 to options that expire unexercised or which are otherwise surrendered by an optionee without receiving any payment or other benefit with respect to such option may again become available for new option grants under the 2004 ADS Plan.

The 2004 ADS Plan is administered by our Share Plan 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, 2009, 2008 and 2007, and changes during the years ended on those dates, is presented below:

	As of June 30,					
	2009		2008		2007	
	Amount	Weighted average exercise price	Amount	Weighted average exercise price	Amount	Weighted average exercise price
Options outstanding at the beginning of the year	13,987,848	$ 0.20	13,728,262	$ 0.20	8,727,500	$ 0.36
Granted	3,099,818	$ 0.32	4,753,149	$ 0.18	5,908,762	-
Exercised	(816,483)	$ 0.14	(1,393,563)		(758,000)	-
Expired	-	-	(1,100,000)	$ 0.50		
Forfeited	-	-	(2,000,000)		(150,000)	-
Options outstanding at the end of the year	16,271,183	$ 0.25	13,987,848	$ 0.20	13,728,262	$ 0.20
Options exercisable at the end of the year	11,198,846	$ 0.36	9,974,332	$ 0.31	5,940,000	$ 0.47
Options that may be granted as of the end of the year	23,652,332		14,152,150		6,484,049	

In addition, as of June 30, 2009, 2,108,439 ordinary shares have been issued under the ASX Plan that were not issued upon the exercise of options.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth certain information, as of September 21, 2009, 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)
BAM Opportunity Fund, L.P.	30,000,000(3)	12.88%
Geoffrey P. Kempler	19,055,000(4)(5)	8.11%
Jagen Nominees Pty Ltd.	15,689,172(6)	6.73%
Balyasny Asset Management LP.	12,836,682(7)	5.51%

(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 232,945,639 ordinary shares issued and outstanding as of September 21, 2009.

(3) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G filed by BAM Opportunity Fund, L.P., or BAM Partnership, with the Securities and Exchange Commission on September 15, 2009. The Schedule 13G indicates that BAM Capital, LLC, or BAM Capital, which serves as the general partner of BAM Partnership, and BAM Management, LLC, or BAM Management, which serves as the investment manager to BAM Partnership, have discretionary trading authority over the shares held by BAM Partnership. The managing members of BAM Capital and BAM Management are Ross Berman and Hal Mintz, who share investment management duties. Each of BAM Partnership, BAM Capital, BAM Management, Mr. Mintz and Mr. Berman disclaims beneficial ownership of the ordinary shares, except to the extent of such person's pecuniary interest therein.

(4) 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.

(5) Includes option to purchase 2,000,000 ordinary shares, all of which were granted under the 2004 ASX Plan (as defined below). Of such options, (i) options to purchase 1,000,000 ordinary shares are exercisable for nil consideration 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; and (ii) options to purchase 1,000,000 ordinary shares are exercisable on or before October 31, 2010 at a price of A$0.30 per share. The options are held in escrow for one year from the date of grant.

(6) Based upon a Notice of Change of Interest of Substantial Holder filed by Jagen Nominees Pty Ltd with the ASX on September 16, 2009 and other information available to the company. Includes 280,112 ordinary shares issuable upon the exercise of options exercisable for A$0.446 on or before November 30, 2009 held by Jagen Nominees Pty Ltd. 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.

(7) Based solely upon, and qualified in its entirety with reference to a Notice of Change of Interest of Substantial Holder filed by Balyasny Asset Management LP with the ASX on May 23, 2008. Balyasny Asset Management LP serves as investment manager to Atlas Master Fund Ltd. Atlas Master Fund Ltd. holds the voting and investment powers for the ordinary shares held by Balyasny Asset Management LP.

Significant Changes in the Ownership of Major Shareholders

Mr. Geoffrey Kempler. As of June 30, 2006, Geoffrey Kempler, the Chairman of our Board of Directors and our Chief Executive Officer, beneficially owned 18,055,000 of our ordinary shares, representing approximately 13.98% of our then outstanding shares. During fiscal 2007, we granted to Mr. Kempler options to purchase 1,000,000 ordinary shares 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. As a result, as of June 30, 2007, Mr. Kempler's beneficial ownership increased to 19,055,000 ordinary shares, representing approximately 12.57% of our then outstanding shares. During fiscal year 2008, we granted to Mr. Kempler options to purchase 1,000,000 ordinary shares that are exercisable on or before October 31, 2010 at a price of A$0.30 per share. The options were held in escrow for one year from the date of grant. As a result, as of June 30, 2008 and 2009, Mr. Kempler's beneficially owned 20,055,000 ordinary shares, representing approximately 9.94% and 9.89%, respectively, of our then outstanding shares.

AMP Ltd. On December 15, 2006, AMP Ltd., or AMP, filed with the ASX a Notice of Initial Substantial Holder, reflecting beneficial ownership of 11,204,482, or 7.78%, of our then outstanding ordinary shares. On August 31, 2007, AMP filed with the ASX a Notice of Change of Interest of Substantial Holder, reflecting ownership of 9,641,383, or 6.36%, of our then outstanding ordinary shares. On November 8, 2007, AMP filed with the ASX a Notice of Ceasing to be a Substantial Holder.

Jagen Nominees Pty Ltd. As of September 27, 2007, Jagen Nominees Pty Ltd., or Jagen, beneficially owned 15,409,060, or 10.17% of our then outstanding ordinary shares. On October 19, 2007, Jagen filed with the ASX a Notice of Change of Interest of Substantial Holder, reflecting ownership of 15,409,060, or 8.89%, of our then outstanding shares. On May 28, 2008, Jagen filed with the ASX a Notice of Change of Interest of Substantial Holder, reflecting ownership of 15,409,060, or 7.15%, of our then outstanding shares. On September 16, 2009, Jagen filed with the ASX a Notice of Change of Interest of Substantial Holder, reflecting ownership of 15,409,060, or 6.61%, of our then outstanding shares.

Balyasny Asset Management L.P.. On March 13, 2008, Balyasny Asset Management L.P., or BAM, filed with the ASX a Notice of Initial Substantial Holder, reflecting beneficial ownership of 9,263,507, or 5.06%, of our then outstanding ordinary shares. On May 23, 2008, BAM filed with the ASX a Notice of Change of Interest of Substantial Holder, reflecting ownership of 12,836,682, or 7.00%, of our then outstanding ordinary shares.

BAM Capital LLC. On September 15, 2009, BAM Capital LLC filed with the ASX a Notice of Initial Substantial Holder, reflecting beneficial ownership of 30,000,000, or 12.88% of our then outstanding ordinary shares.

Major Shareholders Voting Rights

Our major shareholders do not have different voting rights.

Record Holders

As of September21, 2009, there were 2,388 holders of record of our ordinary shares, of which 18 record holders, holding approximately 3.45% 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 30.28% of our ordinary shares as of such date.

B. RELATED PARTY TRANSACTIONS

None.

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

Our former Chief Executive Officer, who also served as a director, has threatened to initiate a claim against our company arising from his alleged inability to freely transfer shares underlying certain unexercised ADR options previously granted to him pursuant to our 2004 ADS Plan. We believe, based on the explicit terms of the 2004 ADS Plan and applicable law and regulations, his allegations to be without merit and we intend to vigorously defend any such claim if formally asserted.

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

On September 8, 2009, we entered into a private placement agreement with one of our institutional shareholders in the United States, under which we will raise an aggregate A$6.0 million before costs (approximately A$5.7 million net of costs) in a private placement of our ordinary shares to such investor. Of such amount, A$3.0 million was paid at the closing of the private placement on September 11, 2009 and an additional A$3.0 million will be paid on or before September 30, 2009. The private placement was for 30 million ordinary shares (equivalent to three million ADRs) at a price of A$0.20 per share (A$2.0 per ADR). We also agreed to grant the investor, subject to shareholder approval, options to purchase 10 million ordinary shares (equivalent to one million ADRs) at an exercise price of A$0.30 per share (A$3.0 per ADR) that will expire four years after the date of the issuance of the shares in the private placement. If shareholder approval is not obtained for the option grant, the options will be granted at such time that shareholder approval is no longer required for the issuance under the rules of the ASX. For additional information regarding the terms of the private placement, see Item 10.C. “Additional Information – Material Contracts.” The proceeds from the private placement will be used to support our research and development programs and to fund our working capital requirements.

Other than as described above, there have been no significant changes in the operation or financial condition of our company since June 30, 2009.

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,		
2005	0.70	0.13
2006	0.30	0.15
2007	0.80	0.18
2008	0.70	0.23
2009	0.69	0.12
Fiscal Year Ended June 30, 2008:		
First Quarter	0.35	0.26
Second Quarter	0.51	0.23
Third Quarter	0.70	0.36
Fourth Quarter	0.48	0.38
Fiscal Year Ended June 30, 2009:		
First Quarter	0.53	0.38
Second Quarter	0.50	0.28
Third Quarter	0.38	0.15
Fourth Quarter	0.22	0.12
Month Ended:		
March 2009	0.22	0.15
April 2009	0.20	0.17
May 2009	0.22	0.17
June 2009	0.20	0.12
July 2009	0.19	0.14
August 2009	0.25	0.17

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,		
2005	5.19	0.98
2006	2.40	1.20
2007	4.35	1.21
2008	6.73	2.06
2009	5.70	1.00

Fiscal Year Ended June 30, 2008:		
First Quarter	3.10	2.20
Second Quarter	4.05	2.06
Third Quarter	6.73	3.25
Fourth Quarter	4.45	3.56
Fiscal Year Ended June 30, 2009:		
First Quarter	5.70	3.20
Second Quarter	3.50	1.30
Third Quarter	3.11	1.00
Fourth Quarter	1.75	1.14
Month Ended:		
March 2009	1.65	1.00
April 2009	1.75	1.33
May 2009	1.60	1.14
June 2009	1.48	1.20
July 2009	1.80	1.05
August 2009	2.17	1.45

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

We were registered on November 11, 1997 as Prana Pty Ltd and on November 26, 1999 we converted to a public company and changed our name to Prana Corporation Ltd. On January 1, 2000, we changed our name to Prana Biotechnology Ltd. Our registration number is ACN 080699065.

Prana's Purposes and Objects

As a public company we have all the rights, powers and privileges of a natural person. Our Constitution does not specify any purposes or objects.

The Powers of the Directors

Under the provisions of our Constitution our directors may exercise all of the powers of our company, other than those that are required by our Constitution or the Corporations Law of Australia to be exercised at a general meeting of shareholders. A director may participate in a meeting and vote on a proposal, arrangement or contract in which he or she is materially interested, so long as the director's interest is declared in accordance with the Corporations Law. The authority of our directors to enter into borrowing arrangements on our behalf is not limited, except in the same manner as any other transaction by us.

Rights Attached to Our Ordinary Shares

The concept of authorized share capital no longer exists in Australia and as a result, our authorized share capital is unlimited. All our outstanding ordinary shares are validly issued, fully paid and non-assessable. The rights attached to our ordinary shares are as follows:

Dividend rights. If our board of directors recommends a dividend, registered holders of our ordinary shares may declare a dividend by ordinary resolution in a general meeting. The dividend, however, cannot exceed the amount recommended by our board of directors. Our board of directors may declare an interim dividend. No dividend may be paid except out of our profits.

Voting rights. Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

The quorum required for an ordinary meeting of shareholders consists of at least two shareholders represented in person or by proxy who hold or represent, in the aggregate, at least one third of the voting rights of the issued share capital. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the directors designate in a notice to the shareholders. At the reconvened meeting, the required quorum consists of any two members present in person or by proxy.

An ordinary resolution, such as a resolution for the declaration of dividends, requires approval by the holders of a majority of the voting rights represented at the meeting, in person, by proxy or by written ballot and voting thereon. Under our Constitution, a special resolution, such as amending our Constitution, approving any change in capitalization, winding-up, authorization of a class of shares with special rights, or other changes as specified in our Constitution, requires approval of a special majority, representing the holders of no less than 75% of the voting rights represented at the meeting in person, by proxy or by written ballot, and voting thereon.

Pursuant to our Constitution, our directors are elected at our annual general meeting of shareholders by a vote of the holders of a majority of the voting power represented and voting at such meeting.

Rights in our profits. Our shareholders have the right to share in our profits distributed as a dividend and any other permitted distribution.

Rights in the event of liquidation. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to the nominal value of their holdings. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Changing Rights Attached to Shares

According to our Constitution, in order to change the rights attached to any class of shares, unless otherwise provided by the terms of the class, such change must be adopted by a general meeting of the shareholders and by a separate general meeting of the holders of the affected class with a majority of 75% of the voting power participating in such meeting.

Annual and Extraordinary Meetings

Our Board of Directors must convene an annual meeting of shareholders at least once every calendar year, within five months of our last fiscal year-end balance sheet data. Notice of at least twenty-eight (28) days prior to the date of the meeting is required. An extraordinary meeting may be convened by the board of directors, it decides or upon a demand of any directors, or of one or more shareholders holding in the aggregate at least five percent (5%) of our issued capital. An extraordinary meeting must be called not more than twenty-one (21) days after the request is made. The meeting must be held not later than two months after the request is given.

Limitations on the Rights to Own Securities in Our Company

Neither our Constitution nor the laws of the Commonwealth of Australia restrict in any way the ownership or voting of shares.

Changes in Our Capital

Pursuant to the Listing Rules of the Australian Stock Exchange, our directors may in their discretion allow securities equal to not more than 15% of our issued capital within a 12-month period. Other allotments of securities requiring approval by an ordinary resolution of shareholders.

C. MATERIAL CONTRACTS

See the patents and license agreements described under Item 4.B. “Information on the Company – Business Overview – Patents and License Agreements.”

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. Such projects include structure-based drug design involving the design of various metal-based compounds as potential diagnostics and therapeutics, drug screening and development involving the characterization of our compounds *in vitro* and *in vivo* models of neurodegenerative disorders, and cell-based drug discovery involving the screening and assessment of our compounds in cell-based systems to measure toxicity and cellular dysfunction and to develop new screens for our company. In consideration of such services, we agreed to pay the University of Melbourne 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. Under the terms of the second and third research funding and intellectual property assignment agreements an annual budget is set for each of the three years of each respective agreement. We provided to the University of Melbourne funding in an amount equal to A$690,500 (exclusive of goods and service tax) for the year running December 2006 to November 2007 and A$704,000 for the year running December 2007 to November 2008. We estimate that we will provide to the University of Melbourne funding in an amount equal to A$564,000 (exclusive of goods and services tax) for the year running December 2008 to November 2009.

On January 8, 2004, we entered into a ten year consultancy services agreement with Professor Ashley Bush, effective as of February 1, 2003. The consulting services provided by Professor Ashley Bush include the discussion of current and future developments in the field of therapies based on metal mediated, oxidative stress or toxic gain of function of proteins involved in selected neurodegenerative diseases. His services also include possible participation in research projects, the assignment of intellectual property rights arising from such projects and assisting is with our patent prosecutions. The services are provided for a maximum of 40 days per year of service under the agreement. Under the agreement, 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, which effective June 1 ,2009 was reduced to AU$60,000 per year, increasing on the anniversary of the agreement by the Australian consumer price index. We also agreed, as a bonus package, to issue to Professor Bush 1,650,000 ordinary shares and to grant to him options to purchase 825,000 ordinary shares at an exercise price of A$0.50 per share. 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 250,000 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 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 though his services pursuant to the agreement. Initially, the agreement provided that it could be terminated for any reason by either party upon 90 days prior notice, which period was reduced to 30 days as of November 14, 2007.

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.

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. We paid Quintiles Limited US$140,003, US$2,287,306 million and US$874,135 million for fiscal years 2009, 2008 and 2007, respectively.

On May 22, 2007, we entered into an agreement with Patheon Inc., or Patheon, 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 2008 fiscal year, Patheon undertook the development of a capsule formulation suitable for large scale manufacture, as well as the development and validation of analytical methods to release the capsules. During the 2009 fiscal year, Patheon manufactured a feasibility batch of capsules using the newly developed process. We paid Patheon US$238,737 and US$259,372 for fiscals years 2009 and 2008, respectively, for services provided under the agreement.

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. We paid IDT A$11,442 and A$1,147,272 for fiscals year 2009 and 2008, respectively, for services provided under the two agreements.

In December 2008, we entered into a process development and manufacturing agreement with Dr. Reddy's Laboratories Limited, or Dr. Reddy's, to enable the transfer of existing manufacturing methods for PBT2 to Dr. Reddy's to work on improving the route of manufacture, optimization and scale up manufacture of PBT2. The agreement is comprised of a series of independent sub-projects, each of which is subject to our prior authorization to be initiated and funded, at our sole discretion. At this time, our committed expenditure for authorized sub-projects is US$175,500. If all sub-projects are initiated and completed, the total funding under the agreement will be approximately US$1.4 million. The term of the agreement is for 90 days post the receipt by us of a written report and/or manufacturing deliverables under the last approved sub-project under the agreement. Early termination is available to either party under specified conditions, including material breach and voluntary termination by either party upon 30 days written notice.

On September 8, 2009, we entered into a private placement agreement with one of our institutional shareholders in the United States, under which we will raise an aggregate A$6.0 million before costs (approximately A$5.7 million net of costs) in a private placement of our ordinary shares to such investor. Of such amount, A$3.0 million was paid at the closing of the private placement on September 11, 2009 and an additional A$3.0 million will be paid on or before September 30, 2009. The private placement was for 30 million ordinary shares (equivalent to three million ADRs) at a price of A$0.20 per share (A$2.0 per ADR). We also agreed to grant the investor, subject to shareholder approval, options to purchase 10 million ordinary shares (equivalent to one million ADRs) at an exercise price of A$0.30 per share (A$3.0 per ADR) that will expire four years after the date of the issuance of the shares in the private placement. If shareholder approval is not obtained for the option grant, the options will be granted at such time that shareholder approval is no longer required for the issuance under the rules of the ASX. If within 45 days of the private placement, we issue ordinary shares to a third party at a price that is less than $A0.20, the investor is entitled, for no additional consideration, to additional ordinary shares so as to reduce the average price of the ordinary shares and options issued in the private placement and the additional ordinary shares being issued to the investor to the price per share paid by the third party. We also agreed to promptly take steps to register the ADRs with respect to the ordinary shares issued for distribution from time to time by the investor, and after January 1, 2010, upon the investor's demand, to file a registration statement covering the shares underlying the options. The investor is also entitled to up to an additional 3,000,000 ordinary shares, or 300,000 ADRs, if the daily closing price of our ordinary shares on the ASX on any day from the date of the private placement until five days after the date on which the registration statement for the ordinary shares issued in the private placement is declared effective, declines below A$0.19, based on a formula set forth in the agreement.

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

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 our shares at the time of disposal are wholly or principally attributable to Australian real property assets.

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% for non-Australian resident individuals. 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

A transfer of shares of a company listed on the Australian Stock Exchange is not subject to Australian stamp duty except in some circumstances where one person, or associated persons, acquires 90% or more of the shares.

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 under 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 Australian dollars, 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, which 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 generally qualify for the 15 percent rate provided that either: (i) the issuer is entitled to benefits under the Tax Treaty or (ii) the shares 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. Furthermore, the reduction does not apply to dividends received from PFICs in any future year, if we are not treated as a PFIC in any future year. 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 years ended June 30, 2006 and 2007 and 2008, 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, 2009.

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 not 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 and Exchange Act of 1934, as amended, or the Exchange Act, as applicable to "foreign private issuers" as defined in Rule 3b-4 under the Exchange Act. 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. In addition, 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 file with the Securities and Exchange Commission an annual report on Form 20-F containing financial statements that have been examined and reported on, with an opinion expressed by, an independent registered public accounting firm, and we submit reports to the Securities and Exchange Commission on Form 6-K containing (among other things) press releases and unaudited financial information for the first six months of each fiscal year. We post our annual report on Form 20-F on our website (www.pranabio.com) promptly following the filing of our annual report with the Securities and Exchange Commission. The information on our website is not incorporated by reference into this annual report.

This annual report and the exhibits thereto and any other document we 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. 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. The Exchange Act file number for our Securities and Exchange Commission filings is 000-49843.

The Securities and Exchange Commission maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the Securities and Exchange Commission using its EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system.

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 DISCLOSURES ABOUT MARKET RISK

We invest our excess cash and cash equivalents in interest-bearing accounts and term 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 had approximately A$211,000 and A$300,000 in cash held in U.S. dollars as of June 30, 2009 and 2008, respectively. A hypothetical 4% adverse movement in end-of-period exchange rates would reduce the cash balance by approximately A$8,450 and A$12,070, respectively.

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. An adverse movement in end-of-period exchange rates would not have a material impact on our operating results. In 2008 and 2007, the Australian dollar depreciated against the U.S. dollar by 11% and 12%, respectively, while the Australian dollar appreciated against the U.S. dollar by 16% in 2009. As of June 30, 2009, payables in U.S. dollars and other currencies were immaterial. A hypothetical 4% adverse movement in the U.S. dollar and 11% adverse movement in the Great British Pound exchange rates would increase the cost of these payables by approximately A$2,000.

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

Disclosure 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 June 30, 2009, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use of disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of June 30, 2009. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment, our management concluded that as of June 30, 2009, our internal control over financial reporting is effective.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

During the year ended June 30, 2009, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 PricewaterhouseCoopers, which has served as our principal independent registered public accounting firm since November 30, 2006.

	Year Ended June 30,	
Services Rendered	**2009**	**2008**
Audit	A$ 120,951	A$ 219,920
Audit-Related	-	-
Tax	-	-
Other	-	-
Total	A$ 120,951	A$ 219,920

Deloitte Touche Tohmatsu served as our principal independent registered public accounting firm until November 30, 2006. The fees billed by Deloitte Touche Tohmatsu, as well as the other member firms of Deloitte Touche Tohmatsu and their respective affiliates, for the 2009 and 2008 fiscal years were A$9,267 and A$71,773, respectively, for audit-related services provided in connection with a Securities and Exchange Commission review of our annual report on Form 20-F for the fiscal year ended June 30, 2006 and an amendment to our annual report on Form 20-F for such period.

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, 2009.

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Under NASDAQ Marketplace Rule 4350, or Rule 4350, foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of Rule 4350. A foreign private issuer that elects to follow a home country practice instead of any of such provisions of Rule 4350, must submit to NASDAQ, in advance, 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.

On March 30, 2005, we provided NASDAQ with a notice of non-compliance with Rule 4350 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 the NASDAQ Marketplace Rules. 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. 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.

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

ITEM 19. EXHIBITS

Index to Exhibits

Exhibit	Description
1.1	Constitution of Registrant
2.1	Deposit Agreement dated March 23, 2001, as amended and restated as of December 21, 2007, among the Registrant, the Bank of New York, as Depositary, and owners and holders from time to time of ADRs issued thereunder, including the Form of American Depositary Receipts (1)
4.1	Agreement for the Assignment of Patents and Intellectual Property Licensing dated February 8, 2000, between Registrant and the Biomolecular Research Institute (2)
4.2	License Agreement dated January 1, 2001, between the Registrant and The General Hospital Corporation (2)
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 (2)
4.4	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) (2)

4.5	Second Amendment to Exclusive License Agreement dated January 1, 2001, between the Registrant and The General Hospital Corporation, dated March 15, 2004, between the between the Registrant and The General Hospital Corporation (3)
4.6	Third Research Funding and Intellectual Property Assignment Agreement dated December 2, 2006 (4)
4.7	General Services Agreement dated November 13, 2006, between the Registrant and Quintiles Limited (5)
4.8	GMP 30kg Manufacture Agreement dated June 6, 2007, between the Registrant and Institute of Drug Technology Australia Limited (6)
4.9	GMP 4kg Manufacture Agreement dated June 6, 2007, between the Registrant and Institute of Drug Technology Australia Limited (7)
4.10	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 (8)
4.11	Prana Biotechnology Limited, 2004 American Depository Share (ADS) Option Plan (9)
4.12	Prana Biotechnology Limited, 2004 Employees', Directors' and Consultants' Share and Option Plan (10)
4.13	Employment Agreement dated September 21, 2007, among the Registrant and Mr. Kempler (11)
4.14	Letter Agreements effective as of June 12, 2007 between the Registrant and Ms. Dianne Angus (12)
4.15	Assignment and Novation Deed between Commonwealth Scientific Industrial and Research Organization and the Biomolecular Research Institute and the Registrant dated September 10, 2007 (13)
4.16	Agreement dated May 22, 2007 by and between the Registrant and Patheon Inc. regarding the formulation, development and manufacture of capsules of PBT2 (14)
4.17	Placement Confirmation Letter dated September 8, 2009, between the Registrant and BAM Capital LLC (15)
4.18	Consultancy Services Agreement dated January 8, 2004 between the Registrant and Professor Ashley Bush (16)
4.19	Letter agreement dated November 14, 2007 between the Registrant and Professor Ashley Bush (17)
4.20	Letter agreement dated May 22, 2009 between the Registrant and Professor Ashley Bush
4.21	Process Development and Manufacturing Agreement dated December 26, 2008, between the Registrant and Dr. Reddy's Laboratories Limited, as amended by Amendment No. 1 effective February 3, 2009, Amendment No. 2 effective March 13, 2009 and Amendment No. 3 effective July 6, 2009 by and between the parties
8.1	List of Subsidiaries of the Registrant
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act, as amended
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under 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
15.1	Consent of PricewaterhouseCoopers, Registered Public Accounting Firm

(1) Incorporated by reference to the Post-Effective Amendment No. 1 to Form F-6 Registration Statement filed with the Securities and Exchange Commission on December 12, 2007 (File 333-136944).

(2) 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).

(3) 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.

(4) Filed as Exhibit 4.7 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference

(5) Filed as Exhibit 4.8 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference.

(6) Filed as Exhibit 4.9 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference.

(7) Filed as Exhibit 4.10 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference.

(8) 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.

(9) Incorporated by reference to Annexure A to Item 1 of our Report on Form 6-K for the month of November 2004.

(10) Incorporated by reference to Annexure B to Item 1 of our Report on Form 6-K for the month of November 2004.

(11) Filed as Exhibit 4.19 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference.

(12) Filed as Exhibit 4.21 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference.

(13) Filed as Exhibit 4.22 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference.

(14) Filed as Exhibit 4.25 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference.

(15) Incorporated by reference to our Report on Form 6-K for the month of September 2009.

(16) Incorporated by reference to Item 1 of our Report on Form 6-K for the month of June 2009.

(17) Incorporated by reference to Item 2 of our Report on Form 6-K for the month of June 2009.

PRANA BIOTECHNOLOGY LIMITED

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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 sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Prana Biotechnology Limited and its subsidiaries at 30 June 2009 and 30 June 2008, and the results of their operations and their cash flows for each of the three years in the period ended 30 June 2009 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. 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 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 audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers
PricewaterhouseCoopers
Melbourne, Australia
23 September 2009

PRANA BIOTECHNOLOGY LIMITED

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

	Notes	June 30, 2009	June 30, 2008
Current Assets			
Cash and cash equivalents		4,304,977	11,219,035
Trade and other receivables	5	526	120,641
Other current assets	6	185,433	254,325
Total Current Assets		4,490,936	11,594,001
Non Current Assets			
Property and equipment, net of accumulated depreciation of A$525,767 and A$576,826 respectively	7	71,150	69,148
Other non current assets	6	35,164	35,164
Total Non Current Assets		106,314	104,312
Total Assets		4,597,250	11,698,313
Current Liabilities			
Trade and other payables	8	604,142	849,113
Provisions	9	194,903	121,082
Financial liabilities	10	-	772,430
Total Current Liabilities		799,045	1,742,625
Non-Current Liabilities			
Provisions	9	48,389	89,361
Total Non-Current Liabilities		48,389	89,361
Total Liabilities		847,434	1,831,986
Commitments and contingencies	11	-	-
Net Assets		3,749,816	9,866,327
Equity			
Issued and unissued capital			
2009: 202,710,473 fully paid ordinary shares 14,279,133 options over fully paid ordinary shares 2008: 201,800,240 fully paid ordinary shares 14,279,133 options over fully paid ordinary shares	12	70,188,989	69,842,303
Reserves	13	7,127,332	6,067,740
Accumulated deficit during the development stage	14	(73,566,505)	(66,043,716)
Total Equity		3,749,816	9,866,327

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

PRANA BIOTECHNOLOGY LIMITED

CONSOLIDATED INCOME STATEMENTS
(in Australian dollars, except number of shares)

	Notes	Years ended June 30, 2009	2008	2007
Revenues from continuing operations	2	428,193	490,943	507,150
Other income	2	-	170	287
Research and development expenses	3	(2,215,358)	(5,757,168)	(4,492,193)
Personnel expenses	3	(3,832,804)	(5,350,189)	(4,554,731)
Intellectual property expenses	3	(1,107,534)	(469,428)	(600,232)
Auditor and accounting expenses	3	(129,998)	(331,950)	(260,117)
Travel expenses	3	(195,251)	(146,651)	(309,997)
Public relations and marketing expenses	3	(222,679)	(141,337)	(215,455)
Depreciation expenses	3	(34,190)	(25,349)	(58,582)
Other expenses	3	(978,875)	(975,404)	(1,008,563)
Foreign exchange gain (loss)	3	(6,723)	(402,886)	(757,578)
Gain (loss) on fair value of financial liabilities	3	772,430	(451,429)	607,691
Loss before income tax expense		(7,522,789)	(13,560,678)	(11,142,320)
Income tax expense	4	-	-	-
Net loss	14	(7,522,789)	(13,560,678)	(11,142,320)
Loss per share (basic and diluted)	19	(0.04)	(0.08)	(0.08)
Weighted average number of ordinary shares used in computing basic and diluted net loss per share		202,357,885	174,714,146	140,754,495

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

PRANA BIOTECHNOLOGY LIMITED

CONSOLIDATED CASH FLOW STATEMENTS
(in Australian dollars)

	Notes	Years Ended June 30 2009	2008	2007
Cash Flows from Operating Activities				
Payments to suppliers and employees		(7,511,372)	(9,766,851)	(9,726,197)
Interest received		517,198	375,461	526,447
Net cash flows used in operating activities	15(a)	(6,994,174)	(9,391,390)	(9,199,750)
Cash Flows from Investing Activities				
Proceeds from sale of equipment		-	-	300
Payment for rental deposits		-	(35,164)	-
Payments for purchase of equipment		(36,192)	(46,606)	(4,559)
Net cash flows used in investing activities		(36,192)	(81,770)	(4,259)
Cash Flows from Financing Activities				
Proceeds from exercise of options and issue of securities		114,000	14,297,620	7,783,486
Payment of share issue costs		(13,193)	(580,372)	(408,761)
Net cash flows provided by (used in) financing activities		100,807	13,717,248	7,374,725
Net increase (decrease) in cash and cash equivalents		(6,929,559)	4,244,088	(1,829,284)
Opening cash and cash equivalents brought forward		11,219,035	7,409,256	10,013,778
Exchange rate adjustments on cash and cash equivalents held in foreign currencies		15,501	(434,309)	(775,238)
Closing cash and cash equivalents carried forward	15(b)	4,304,977	11,219,035	7,409,256

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

PRANA BIOTECHNOLOGY LIMITED

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, 2006		128,144,260	46,274,127	2,867,249	(41,340,718)	7,800,658
Net loss	14	-	-	-	(11,142,320)	(11,142,320)
Issuance of shares in connection with private placement, net of costs	12(b)	22,014,468	6,108,868	-	-	6,108,868
Issuance of options in connection with private placement	12(c)	-	1,262,339	-	-	1,262,339
Non-cash issuance of shares to consultants	12(b)	481,250	194,579	-	-	194,579
Non-cash issuance of shares to employees	12(b)	120,000	45,600	-	-	45,600
Non-cash issuance of options to consultants	13(b)	-	-	163,701	-	163,701
Non-cash issuance of options to directors and employees	13(b)	-	-	989,721	-	989,721
Issuance of shares in connection with exercise of options, net of costs	12(b)& 13(b)	758,000	102,899	(106,739)	-	(3,840)
Amortization of option expenses	13(b)	-	-	195,839	-	195,839
Options forfeited	13(b)	-	-	(2,950)	-	(2,950)
Balance, June 30, 2007		151,517,978	53,988,412	4,106,821	(52,483,038)	5,612,195
Net loss	14	-	-	-	(13,560,678)	(13,560,678)
Issuance of shares in connection with private placement, net of costs	12(b)	47,903,699	13,717,248	-	-	13,717,248
Issuance of options in connection with private placement	12(c)	-	1,439,305	-	-	1,439,305
Non-cash issuance of shares to consultants	12(b)	985,000	288,402	-	-	288,402
Non-cash issuance of options to consultants	13(b)	-	-	482,150	-	482,150
Non-cash issuance of options to directors and employees	13(b)	-	-	1,467,359	-	1,467,359
Issuance of shares in connection with exercise of options, net of costs	12(b)& 13(b)	1,393,563	408,936	(408,936)	-	-
Amortization of option expenses	13(b)	-	-	563,479	-	563,479
Options forfeited	13(b)	-	-	(143,133)	-	(143,133)
Balance, June 30, 2008		201,800,240	69,842,303	6,067,740	(66,043,716)	9,866,327
Net loss	14	-	-	-	(7,522,789)	(7,522,789)
Issuance of shares in connection with private placement, net of costs	12(b)	-	-	-	-	-
Issuance of options in connection with private placement	12(c)	-	-	-	-	-
Non-cash issuance of shares to consultants	12(b)	93,750	128,932	-	-	128,932
Non-cash issuance of options to consultants	13(b)	-	-	622,700	-	622,700
Non-cash issuance of options to directors and employees	13(b)	-	-	138,213	-	138,213
Issuance of shares in connection with exercise of options, net of costs	12(b)& 13(b)	816,483	217,754	(217,754)	-	-
Amortization of option expenses	13(b)	-	-	516,433	-	516,433
Option forfeited	13(b)	-	-	-	-	-
Balance, June 30, 2009		202,710,473	70,188,989	7,127,332	(73,566,505)	3,749,816

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

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 U.S. subsidiaries were incorporated in August 2004.

Financial Reporting Framework

The financial report of Prana Biotechnology Limited for the year ended June 30, 2009 was authorized for issue in accordance with a resolution of the Directors on September 23, 2009.

The financial report is a general purpose financial report, which has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), the *Corporations Act 2001*, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of applicable law. This financial report complies with both IFRS as issued by IASB and Australian equivalents to IFRS.

The financial report has been prepared on the basis of historical cost. Cost is based on the fair value 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 accounting policies set out below have been applied in preparing the financial statements for the year ended June 30, 2009 and the comparative information presented in these financial statements for the years ended June 30, 2008 and 2007.

Critical accounting estimates, judgments 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.

(a) Valuation of options with market vesting conditions

The consolidated entity has granted options that are exercisable into ordinary shares 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

2) Based on the best estimate of the consolidated entity, made during the 2006 fiscal year, the share price will reach the defined level:

   > A$0.80 at June 30, 2009

   > A$1.00 at June 30, 2010

3) Based on the best estimate of the consolidated entity, made during the 2009 fiscal year, the share price will reach the defined level:

   > A$0.25 at June 30, 2009

   > A$0.45 at June 30, 2010

The initial estimate made at the date of grant as regards to the likelihood of achieving the market condition is never adjusted for changes in the probability of the condition being achieved. At each reporting period, the Company assesses the estimated period over which the defined market condition will be achieved.

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

(b) Critical judgments in applying the entity's accounting policies – use of volatility period in valuing warrant liabilities

Warrants and options exercisable into American Depository Receipts ("ADRs") recorded as financial liabilities under IAS 32 *Financial Instruments: Presentation* (see Note 10) are measured at fair value using a Black-Scholes valuation model. At each reporting date any options and warrants for ADRs are recorded at fair value with the corresponding difference being recorded in the income statement as a gain or loss.

Warrants that were exercisable for ADRs expired without being exercised on June 4, 2009. Options for ADRs remain outstanding.

In using the Black-Scholes model to fair value these options and warrants for financial year 2008, the consolidated entity 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 utilizing cash until its research and development activities have become marketable. As at 30 June 2009, the consolidated entity had an operating loss of A$7,522,789 (2008 loss: A$13,560,678). As at year end, the consolidated entity's net assets amounted to A$3,749,816 (2008: A$9,866,327). The consolidated entity's cash position has decreased to A$4,304,977 at 30 June 2009 from A$11,219,035 at 30 June 2008.

The Directors believe that the going concern basis of preparation is appropriate. Subsequent to year end the consolidated entity raised $6 million of additional funding (refer to details in Note 18). This funding will enable the consolidated entity to continue to pursue its current business objectives. Notwithstanding, the Company has the ability to scale down its operations and continue certain programs including research and discovery programs in Parkinson's disease and vaccine program in Alzheimer's disease, should the need arise.

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 reduction or 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.

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

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 IAS 27: *Consolidated and Separate Financial Statements.* Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

Subsidiaries are all those entities (including special purpose entities) over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholder of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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. Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company.

(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.

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.

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

(c) Property and Equipment

Property and equipment is measured at historical cost 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.

Historical cost includes expenditure that is directly attributable to the acquisition of the item.

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

Depreciation
Depreciation is provided on property and equipment. Depreciation is calculated on a straight-line method to allocate their cost, net of their residual values, over their estimated useful lives.

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

Class of Fixed Asset	Depreciation Rate
Furniture and fittings	5-33%
Computer equipment	33%
Plant and equipment	10-33%
Leasehold improvements	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) Leases

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
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet. Trade receivables, loans, and other receivables are recorded at amortized cost less impairment.

Warrants and Options
Under IAS 32, 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 IAS 32 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 Income Statement.

(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.

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

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) Intangible Assets – 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
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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, 2009 and 2008, 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.

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.

Group companies
The results and financial position of all the Company's entities that have a functional currency difference from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet, and
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognized as a separate component of equity.

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.

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

(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.

Consideration is given to expected future wage and salary levels and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(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 on a time proportion basis using the effective interest method.

(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 collectability 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.

(n) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised 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 Cash Flow Statement 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.

(o) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

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

(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 issuance 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 issuance of share-based payments to employees may be subject to shareholder approval per ASX Listing Rule 7.1 which prohibits the issuance 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 issuance 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 issuance of share-based payments to consultants may be subject to shareholder approval per ASX Listing Rule 7.1 which prohibits the issuance 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.

Equity-based compensation benefits are provided to directors, employees and consultants under the 2004 ASX Plan (the "2004 ASX Plan") and the 2004 American Depository Share (ADS) Option Plan (the "2004 ADS Plan"). Information relating to this plan is set out in Note 17.

The fair value of options granted under the 2004 ASX Plan is recognized as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognized over the period during which the recipients become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes (for options without market condition) and Barrier Pricing (for options with market conditions) model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. 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 determined at the grant 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 shares that will eventually vest.

(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) 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.

(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 IFRS, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

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

(u) New Accounting Standards And Interpretations

Certain new International accounting standards and interpretations have been published that are not mandatory for June 30, 2009 reporting periods. Based on the Company's assessment, it believes that the following new standards and interpretations could in the future have an impact on its consolidated financial statements.

IAS 23 (Amendment), "Borrowing costs" (effective for annual periods beginning on or after January 1, 2009 and applicable to the Company effective July 1, 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. IAS 23 (Amendment) is not expected to have an impact on the Company's financial statements as it has no qualifying assets.

IAS 1 (Revised), "Presentation of financial statements" (effective for annual periods beginning on or after January 1, 2009 and applicable to the Company effective July 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. These amendments are only expected to affect the presentation of the Company's financial statements and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial statements. The Company anticipates that it will present a single Statement of Comprehensive Income rather than two separate statements due to the minimum number of items expected to be classified as Other Comprehensive Income.

IFRS 2 (Amendment), "Share-based payment" (effective for annual periods beginning on or after January 1, 2009 and applicable to the Company effective July 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the Company or by other parties, should receive the same accounting treatment. The Company has share-based payment arrangements with vesting conditions as defined under this standard; therefore these amendments are not expected to have any impact on its financial statements.

IAS 32 (Amendment), "Financial instruments: Presentation," and IAS 1 (Amendment), "Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation" (effective for annual periods beginning on or after January 1, 2009 and applicable to the Company effective July 1, 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. These amendments are not expected to have any impact on the Company's financial statements as it has not issued puttable financial instruments as defined by the amendments.

IAS 27 (Revised), "Consolidated and separate financial statements" (effective for annual periods beginning on or after January 1, 2009 and applicable to the Company effective July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The Company began to apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from July 1, 2009.

IFRS 3 (Revised), "Business combinations" (effective for annual periods beginning on or after January 1, 2009 and applicable to the Company effective July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company began to apply IFRS 3 (Revised) prospectively to all business combinations from July 1, 2009. These amendments are only expected to affect the presentation of the Company's financial statements and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial statements. These amendments are not expected to have any impact on the Company's financial statements as it does not have any business combinations.

IAS 23 (Amendment), "Borrowing costs" (effective for annual periods beginning on or after January 1, 2009 and applicable to the Company effective July 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 "*Financial instruments: Recognition and* measurement." This eliminates the inconsistency of terms between IAS 39 and IAS 23.

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

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

IAS 28 (Amendment), "Investments in associates" (and consequential amendments to IAS 32, "Financial Instruments: Presentation," and IFRS 7, "Financial instruments: Disclosures") effective for annual periods beginning on or after January 1, 2009 and applicable to the Company effective July 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. An investment in an associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Company has two inactive subsidiaries and does not have any jointly controlled entities or associates and therefore its financial statements are not expected to be impacted by this standard change.

IAS 19 (Amendment), "Employee benefits" (effective for annual periods beginning on or after January 1, 2009 and applicable to the Company effective July 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered. IAS 37, "*Provisions, contingent liabilities and contingent assets*," requires contingent liabilities to be disclosed, not recognized. IAS 19 has been amended to be consistent. *IAS 1 (Amendment), "Presentation of financial statements" (application date of standard January1, 2009; application date for Comopany July 1, 2009).* The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, "*Financial instruments: Recognition and measurement*" are examples of current assets and liabilities respectively. IAS 39 (Amendment) is not expected to have an impact on the Company's financial statements.

There are a number of minor amendments to IFRS 7, "*Financial instruments: Disclosures*," IAS 8, "*Accounting policies, changes in accounting estimates and errors*," IAS 10, "*Events after the reporting period*," IAS 18, "*Revenue*" and IAS 34, "*Interim financial reporting*," which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the Company's financial statements and have therefore have not been described in further detail.

IFRIC 16, "Hedges of a net investment in a foreign operation" (effective for annual periods beginning on or after January 1, 2009 and applicable to the Company effective July 1, 2009). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, "*The effects of changes in foreign exchange rates*," apply to the hedged item. IFRIC 16 is not expected to have a material impact on the Company's financial statements.

	Years Ended June 30,		
	2009	**2008**	**2007**
2. REVENUE AND OTHER INCOME FROM CONTINUING OPERATIONS			
Other revenue			
Interest	428,193	490,943	507,150
Total other revenue	428,193	490,943	507,150
Other income			
Other income	-	170	287
Total other income	-	170	287

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

	Years Ended June 30,		
	2009	2008	2007
3. EXPENSES FROM ORDINARY ACTIVITIES			
Research and development	2,215,358	5,757,168	4,492,193
Personnel expenses			
Employees	1,359,887	1,317,782	1,308,920
Equity based payments - employees	169,043	329,588	753,484
Consultants and directors	1,022,227	1,398,849	1,506,378
Equity-based payments - consultants and directors	1,136,428	2,152,234	825,649
Defined contribution superannuation expenses	145,219	151,736	160,300
Total personnel expense	3,832,804	5,350,189	4,554,731
Intellectual property expenses			
Overseas	497,947	140,705	229,256
Local	609,587	328,723	370,976
Total intellectual property expense	1,107,534	469,428	600,232
Depreciation of non-current assets			
Laboratory equipment	1,748	4,362	11,581
Computer equipment	26,488	16,152	22,757
Furniture and fittings	2,688	3,383	3,068
Leasehold improvements	1,420	1,452	21,176
Write-off non-current assets	1,846	-	-
Total depreciation expense	34,190	25,349	58,582
Other expenses			
Corporate compliance	299,250	218,435	231,883
Office expenses	444,579	455,010	494,782
Computer expenses	23,178	34,794	22,328
Insurance	77,166	130,175	147,909
Office rental under operating lease	134,702	136,990	111,661
Total other expenses	978,875	975,404	1,008,563
Auditor and accounting expenses	129,998	331,950	260,117
Travel expenses	195,251	146,651	309,997
Public relations and marketing expenses	222,679	141,337	215,455
Foreign exchange gain	6,723	402,886	757,578
Gain (loss) on fair valuation of financial liabilities	(772,430)	451,429	(607,691)
Total expenses	7,950,982	14,051,791	11,649,757

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

	Years Ended June 30,		
	2009	2008	2007
4. 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% (2008 & 2007: 30%)	(2,256,837)	(4,068,203)	(3,342,696)
Effect of lower tax rates of tax on overseas income	48	(286)	442
Add tax effect of:			
(Over) provision of income tax in previous year relating to a correction of estimates [1]	13,806	(288)	(2,697,461)
Equity issued for nil consideration	391,641	744,547	473,740
Research and development tax concession	(258,131)	(552,400)	(434,117)
Gain on fair value of financial liabilities	(231,729)	135,429	(182,307)
Other	1,701	116	2,452
Deferred tax asset not recognized	2,339,501	3,740,797	6,179,947
Income tax expense attributable to loss before income tax	-	-	-
(b) Potential deferred tax asset at June 30, 2009, 2008 and 2007 in respect of tax losses not brought to account is:	28,809,746	26,396,277	22,693,134
Temporary Differences	246,714	1,242,278	392,720

[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 for the year ended June 30, 2008, and the tax return lodged with the Australian Tax Office after the filing of the Form 20-F for such period.

	Years Ended June 30,	
	2009	2008
5. TRADE AND OTHER RECEIVABLES		
Accrued income	526	89,569
Goods and services tax receivable	-	31,072
	526	120,641

	Years Ended June 30,	
	2009	2008
6. OTHER ASSETS		
Current		
Prepayments	185,433	243,261
Term Deposit	-	11,064
Total	185,433	254,325
Non-current		
Term Deposit	35,164	35,164
Total	35,164	35,164

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

	Notes	Years Ended June 30, 2009	2008
7. PROPERTY AND EQUIPMENT			
Gross carrying amount			
Balance at beginning of year		646,399	599,793
Additions		36,191	46,606
Disposals		(86,162)	-
Balance at end of year		596,428	646,399
Accumulated depreciation			
Balance at beginning of year		(577,250)	(551,902)
Disposals		84,316	-
Depreciation expense	4	(32,344)	(25,349)
Balance at end of year		(525,278)	(577,251)
Net book value at end of year		71,150	69,148

Aggregate depreciation allocated during the year is recognized as an expense and disclosed in Note 3.

	Years Ended June 30, 2009	2008
Laboratory equipment, at cost	369,959	369,730
Less accumulated depreciation	(366,894)	(367,082)
Total laboratory equipment	3,065	2,648
Computer equipment, at cost	108,704	157,259
Less accumulated depreciation	(63,655)	(117,902)
Total computer equipment	45,049	39,357
Furniture and fittings, at cost	42,595	43,751
Less accumulated depreciation	(21,053)	(19,521)
Total furniture and fittings	21,542	24,230
Leasehold improvements, at cost	75,659	75,659
Less accumulated depreciation	(74,165)	(72,746)
Total leasehold improvements	1,494	2,913
Total	71,150	69,148

	Years Ended June 30, 2009	2008
8. TRADE AND OTHER PAYABLES		
Trade creditors	109,871	172,204
Accrued research and development expenses	248,304	419,244
Accrued intellectual property expenses	111,217	19,313
Accrued personnel expenses	246	657
Accrued audit fees	124,069	122,993
Accrued marketing expenses	-	54,939
Other accrued expenses	10,435	59,763

Total	604,142	849,113

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

	Notes	Years Ended June 30, 2009	2008
9. PROVISIONS			
Current			
Annual leave	17	126,427	121,082
Long service leave[1]		68,476	-
Total		194,903	121,082
Non-Current			
Long service leave	17	48,389	89,361

A provision has been recognized for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 to this report.

[1] Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances.

The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	Years Ended June 30, 2009	2008
Long service leave obligation expected to be settled after 12 months	68,476	-

	Years Ended June 30, 2009	2008
10. FINANCIAL LIABILITIES		
Current		
Warrants over ADRs	-	772,430

Following a meeting of shareholders on June 1, 2004, the Company issued 4 million ADRs (1 ADR = 10 ordinary shares) and warrants to purchase 3 million ADRs to U.S. investors. The U.S. investors acquired the ADRs at a price of USD 5.00 per ADR and also received a warrant to purchase 3 ADRs for each 4 ADRs purchased. The private placement raised USD 20 million (AUD 28.9 million) before costs. The warrants were exercisable for ADRs on or before June 4, 2009 at an exercise price of USD 8.00 per ADR. The warrants expired without being exercised on June 4, 2009.

Under IAS 32 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. At 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 Income Statement.

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

11. COMMITMENTS AND CONTINGENCIES

There has been no change in contingent liabilities since the last annual reporting date.

The Company's former Chief Executive Officer, who also served as a director, has threatened to initiate a claim against the Company arising from his alleged inability to freely transfer shares underlying certain unexercised ADR options previously granted to him pursuant to the Company's 2004 ADS Plan. The Company believes, based on the explicit terms of the 2004 ADS Plan and applicable law and regulations, his allegations to be without merit and it intends to vigorously defend any such claim if formally asserted. No actions or other legal proceedings in respect of this case have been filed.

Otherwise, the consolidated entity is not involved in any legal or arbitration proceedings nor, so far as Directors are aware, are such proceedings pending or threatened against the consolidated entity.

In respect of expenditure commitments, refer to Note 16.

12. ISSUED CAPITAL

	Notes	Years Ended June 30, 2009	2008	2007
(a) Issued Capital				
Fully paid ordinary shares	12(b)	67,487,345	67,140,659	52,726,073
Options for fully paid ordinary shares	12(c)	2,701,644	2,701,644	1,262,339
		70,188,989	69,842,303	53,988,412

(b) Movements in Issued Shares

	June 30,					
	2009		2008		2007	
	No.	$	No.	$	No.	$
Beginning of the year	201,800,240	67,140,659	151,517,978	52,726,073	128,144,260	46,274,127
Movement during the year	910,233	359,879	50,282,262	14,414,586	23,373,718	6,451,946
End of the year	202,710,473	67,487,345	201,800,240	67,140,659	151,517,978	52,726,073

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

12. ISSUED CAPITAL (continued)

Details of share issuances are as follows:

Date	Details	Notes	Number	Issue Price	$
October 30, 2007	Shares to investors as part of a private placement		29,778,699	0.24	7,047,624
December 24, 2007	Non cash share issue in consideration for services provided by consultants	(i)	31,250	0.27	8,437
December 24, 2007	Non cash share issue in consideration for services provided by consultants	(i)	250,000	0.30	75,000
December 24, 2007	Non cash share issue in consideration for services provided by consultants	(i)	22,135	0.25	5,534
February 26, 2008	Exercise of options – consultants		205,000	–	65,712
February 26, 2008	Exercise of options – employees		800,557	–	184,128
February 26, 2008	Non cash share issue in consideration for services provided by consultants	(i)	500,000	0.26	130,000
February 26, 2008	Non cash share issue in consideration for services provided by consultants	(i)	55,000	0.34625	19,044
February 26, 2008	Non cash share issue in consideration for services provided by consultants	(i)	9,115	0.25	2,279
March 20, 2008	Non cash share issue in consideration for services provided by consultants	(i)	31,250	0.50	15,625
March 20, 2008	Non cash share issue in consideration for services provided by consultants	(i)	55,000	0.34625	19,044
April 2, 2008	Exercise of options – employees		27,440	–	10,976
April 9, 2008	Exercise of options – employees		46,282	–	18,513
May 27, 2008	Shares to investors as part of a private placement		18,125,000	0.40	7,250,000
June 2, 2008	Non cash share issue in consideration for services provided by consultants	(i)	31,250	0.43	13,437
June 12, 2008	Exercise of options – consultants		275,000	–	113,895
June 25, 2008	Exercise of options – consultants		39,284	–	15,714
	Security issuance costs			–	(580,376)
Year ended June 30, 2008			50,282,262		14,414,586

Date	Details	Notes	Number	Issue Price	$
July 23, 2008	Exercise of options – consultants		80,000	–	38,400
July 31, 2008	Exercise of options – consultants		80,000	–	35,200
August 27, 2008	Exercise of options – employees		18,939	–	7,576
September 3, 2008	Non cash share issue in consideration for services provided by consultants	(i)	31,250	0.42	13,125
October 15, 2008	Exercise of options – employees		21,952	–	8,781
October 15, 2008	Exercise of options – employees		28,947	–	6,658
November 13, 2008	Exercise of options – consultants		49,803	–	11,455
December 3, 2008	Non cash share issue in consideration for services provided by consultants	(i)	31,250	0.30	9,375
December 4, 2008	Exercise of options – consultants		400,000	–	158,000
March 3, 2009	Non cash share issue in consideration for services provided by consultants	(i)	31,250	0.18	5,625
March 3, 2009	Exercise of options – consultants		136,842	–	65,684
	Security issuance costs				(13,193)
Year ended June 30, 2009			910,233		359,879

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

12. ISSUED CAPITAL (continued)

(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:

December 24, 2007, February 26, 2008, March 20, 2008 and June 2, 2008

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.

(c) Movements in Options

	June 30,					
	2009		2008		2007	
	Number of Options	$	Number of Options	$	Number of Options	$
Beginning of the year	14,279,133	2,701,644	4,352,893	1,262,339	–	–
Movement during the year	–	–	9,926,240	1,439,305	4,352,893	1,262,339
End of the year	14,279,133	2,701,644	14,279,133	2,701,644	4,352,893	1,262,339

Details of option grants are as follows:

Date	Details	Exercise Price	Number	Fair Value	$
October 30, 2007	Options to investors as part of a capital raising	$ 0.37	3,628,598	0.15	544,290
October 30, 2007	Options to investors as part of a capital raising	$ 0.43	3,628,598	0.14	508,004
October 30, 2007	Options to investors as part of a capital raising	$ 0.37	1,188,323	0.15	178,248
October 30, 2007	Options to investors as part of a capital raising	$ 0.43	1,188,323	0.14	166,365
October 30, 2007	Options to investors as part of a capital raising	$ 0.37	146,199	0.15	21,930
October 30, 2007	Options to investors as part of a capital raising	$ 0.43	146,199	0.14	20,468
Year ended June 30, 2008			9,926,240		1,439,305
Year ended June 30, 2009			–		–

(d) Terms and Conditions of Issued Capital

Ordinary shares
Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of 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 vote, either in person or by proxy, at a meeting of the Company's shareholders.

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

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

12. ISSUED CAPITAL (continued)

(e) Shares Issued after Reporting Date

After reporting date the following equity issues occurred:

Date	Details	Notes	Number	Issue Price	$
July 15, 2009	Exercise of options – consultants		80,000	–	15,200
July 15, 2009	Exercise of options – employees		100,666	–	22,167
			180,666		37,367

13. RESERVES

	Notes	Years Ended June 30, 2009	2008	2007
(a) Share Based Payments				
Options for fully paid ordinary shares	13(b)	5,158,335	4,098,743	2,137,824
Options for ADRs	13(c)	1,515,434	1,515,434	1,515,434
Warrants for ADRs	13(d)	453,563	453,563	453,563
		7,127,332	6,067,740	4,106,821

The share-based payment reserve is used to recognize the fair value of options and warrants issued to directors, executives, employees and consultants but not exercised. Amounts are transferred out of the reserve and into issued capital when the options or warrants are exercised.

(b) Movements in Options for Fully Paid Ordinary Shares

	Years Ended June 30, 2009		2008		2007	
	Number of Options	Comp. Expense ($)	Number of Options	Comp. Expense ($)	Number of Options	Comp. Expense ($)
Beginning of the year	11,051,832	4,098,743	9,928,262	2,137,824	5,752,500	898,252
Issued during the year	3,099,818	760,913	5,617,133	1,949,511	5,908,762	1,153,422
Expired during the year	–	–	(1,100,000)	–	(825,000)	–
Forfeited during the year	–	–	(2,000,000)	(143,133)	(150,000)	(2,950)
Amortization of option expenses	–	–	–	563,479	–	195,839
Exercised during the year (Note 13 (b))	(816,483)	(217,754)	(1,393,563)	(408,938)	(758,000)	(106,739)
End of the year	13,335,167	5,158,335	11,051,832	4,098,743	9,928,262	2,137,824

Details of option grants are summarized as follows.

2007

- On October 13, 2006, the Company granted options to purchase 133,000 ordinary shares to employees under the 2004 ASX Plan (see Note 17) 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. The fair value of the options is A$0.42.
- On December 1, 2006, the Company granted options to purchase 3,200,000 ordinary shares to directors and an employee under the 2004 ASX Plan (see Note 17) 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. The fair value of the options is A$0.38.
- On December 1, 2006, the Company granted options to purchase 312,500 ordinary shares to an employee under the 2004 ASX Plan (see Note 17) 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. The fair value of the options is A$0.08.
- On April 16, 2007, the Company granted options to purchase 206,478 ordinary shares to employees under the 2004 ASX Plan (see Note 17) 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. The fair value of the options is A$0.40.
- On April 16, 2007, the Company granted options to purchase 39,284 ordinary shares to an outside consultant under the 2004 ASX Plan (see Note 17) 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. The fair value of the options is A$0.40.

13. RESERVES (continued)

- On April 16, 2007, the Company granted options to purchase 1,000,000 ordinary shares to an employee under the 2004 ASX Plan (see Note 17) 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. The fair value of the options is A$0.48.
- On April 16, 2007, the Company granted options to purchase 40,000 ordinary shares to an outside consultant under the 2004 ASX Plan (see Note 17) 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. The fair value of the options is A$0.36.
- On May 31, 2007, the Company granted options to purchase 312,500 ordinary shares to an employee under the 2004 ASX Plan (see Note 17) 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. The fair value of the options is A$0.08.
- On June 12, 2007, the Company granted options to purchase 40,000 ordinary shares to an outside consultant under the 2004 ASX Plan (see Note 17) 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. The fair value of the options is $A0.38.
- On June 12, 2007, the Company granted options to purchase 375,000 ordinary shares to outside consultants under the 2004 ASX Plan (see Note 17) 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. The fair value of the options is $0.34.
- On June 19, 2007, the Company granted options to purchase 250,000 ordinary shares to an employee under the 2004 ASX Plan (see Note 17) 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. The fair value of the options is $0.34.

2008

- On October 23, 2007, the Company granted options to purchase 431,992 ordinary shares to a consultant in recognition of services rendered to the Company. The options are exercisable at A$0.37 consideration and expire on October 31, 2010. The fair value of the options is A$0.15.
- On October 23, 2007, the Company granted options to purchase 431,992 ordinary shares to a consultant in recognition of services rendered to the Company. The options are exercisable at A$0.43 consideration and expire on November 30, 2010. The fair value of the options is A$0.14.
- On November 28, 2007, the Company granted options to purchase 400,000 ordinary shares to a consultant under the 2004 ASX Plan (see Note 17) in recognition of services rendered to the Company. The options are exercisable at A$0.285 consideration and expire on December 17, 2008. The fair value of the options is A$0.11.
- On February 26, 2008, the Company granted options to purchase 1,131,307 ordinary shares to employees under the 2004 ASX Plan (see Note 17) in recognition of future contributions to the growth and success of the Company. The options are exercisable at A$nil consideration and expire on October 31, 2010. The fair value of the options is A$0.23.
- On February 26, 2008, the Company granted options to purchase 375,000 ordinary shares to consultants under the 2004 ASX Plan (see Note 17) in recognition of services rendered to the Company. The options are exercisable at A$nil consideration and expire on October 31, 2010. The fair value of the options is A$0.29.
- On March 14, 2008, the Company granted options to purchase 2,400,000 ordinary shares to directors and the Company's secretary under the 2004 ASX Plan (see Note 17) in recognition of future contributions to the growth and success of the Company. The options were held in escrow for one year from the date of grant. The options are exercisable at A$0.30 consideration and expire on October 31, 2010. The grant was approved by the Company's shareholders at the 2007 Annual General Meeting. The fair value of the options is $A0.50.
- On March 20, 2008, the Company granted options to purchase 286,842 ordinary shares to consultants under the 2004 ASX Plan (see Note 17) in recognition of services rendered to the Company. The options are exercisable at A$nil consideration and expire on October 31, 2010. The fair value of the options is A$0.48.
- On April 2, 2008, the Company granted options to purchase 80,000 ordinary shares to consultants under the 2004 ASX Plan (see Note 17) in recognition of services rendered to the Company. The options are exercisable at A$nil consideration and expire on October 31, 2010. The fair value of the options is A$0.48.
- On May 15, 2008, the Company granted options to purchase 80,000 ordinary shares to consultants under the 2004 ASX Plan (see Note 17) in recognition of services rendered to the Company. The options are exercisable at A$nil consideration and expire on October 31, 2010. The fair value of the options is A$0.44.

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

13. RESERVES (continued)

2009

- On October 17, 2008, the Company granted options to purchase 2,000,000 ordinary shares to consultants under the 2004 ASX Plan (see Note 17) in recognition of services rendered to the Company. The options are exercisable at A$nil consideration and expire on June 30, 2010. The fair value of the options is A$0.28.
- On June 16, 2009, the Company granted options to purchase 330,000 ordinary shares to consultants under the 2004 ASX Plan (see Note 17) in recognition of services rendered to the Company. The options are exercisable at A$nil consideration and expire on October 31, 2010. The fair value of the options is A$0.22.
- On June 16, 2009, the Company granted options to purchase 574,981 ordinary shares to employees under the 2004 ASX Plan (see Note 17) in recognition of future contributions to the growth and success of the Company. The options are exercisable at A$nil consideration and expire on October 31, 2010. The fair value of the options is A$0.19.
- On June 16, 2009, the Company granted options to purchase 194,837 ordinary shares to employees under the 2004 ASX Plan (see Note 17) in recognition of future contributions to the growth and success of the Company. The options are exercisable at A$nil consideration and expire on August 7, 2014. The fair value of the options is A$0.18.

(c) Movements in Options for ADRs

	Years Ended June 30,					
	2009		2008		2007	
	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	380,000	1,515,434
Issued during the year	–	–	–	–	–	–
End of the year	380,000	1,515,434	380,000	1,515,434	380,000	1,515,434

(d) Movement in Warrants for ADRs

	Years Ended June 30,					
	2009		2008		2007	
	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	320,000	453,563
Expired during the year	(320,000)	–	–	–	–	–
End of the year	–	453,563	320,000	453,563	320,000	453,563

(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's shareholders. Options and warrants may be exercised at any time from the date they vest to the date of their expiration. Share options are exercisable into ordinary shares on a one for one basis on the date they are exercised. Options granted under the 2004 ADS Plan are exercisable into ADRs, being one 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 granted after reporting date.

On September 8, 2009, the Company entered into a private placement agreement with one of its institutional shareholders in the United States, under which it agreed to grant the investor, subject to shareholder approval, options to purchase 10 million ordinary shares (equivalent to one million ADRs) at an exercise price of A$0.30 per share (A$3.0 per ADR) that will expire four years after the date of the issuance of the shares in the private placement. If shareholder approval is not obtained for the option grant, the options will be granted at such time that shareholder approval is no longer required for the grant under the rules of the ASX.

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

14. ACCUMULATED DEFICIT DURING DEVELOPMENT STAGE

	Years Ended June 30,	
	2009	2008
Balance at beginning of year	(66,043,716)	(52,483,038)
Net loss for the year	(7,522,789)	(13,560,678)
Balance at end of year	(73,566,505)	(66,043,716)

15. CASH FLOW INFORMATION

	Years Ended June 30,		
	2009	2008	2007
(a) Reconciliation of Net Loss to Net Cash Flows From Operations			
Net loss	(7,522,789)	(13,560,678)	(11,142,320)
Non-cash items			
Depreciation of property and equipment	34,190	25,349	58,582
Non-cash issue of equity in consideration of operating expenses	1,305,471	4,097,562	1,579,132
Foreign exchange (gain) loss	(15,501)	434,309	775,238
(Gain) loss on fair value of financial liabilities	(772,430)	451,429	(607,691)
Loss on sale of non-current asset	–	–	161
Changes in assets and liabilities			
Decrease (increase) in trade and other receivables	120,115	(24,142)	97,662
Decrease (increase) in other current assets	68,892	(85,786)	(57,707)
(Decrease) increase in trade and other payables	(244,971)	(812,496)	123,251
Decrease (increase) in provision for employee entitlements	32,849	83,063	(26,058)
Net cash flows used in operating activities	(6,994,174)	(9,391,390)	(9,199,750)
(b) Reconciliation of Cash and Cash Equivalents			
Cash and cash equivalents balance comprises:			
- cash and cash equivalents on hand	4,304,977	468,619	456,193
- term deposit/on call	–	10,750,416	6,953,063
- commercial bill	–	–	–
Closing cash and cash equivalents balance	4,304,977	11,219,035	7,409,256

(c) Non-Cash Financing and Investing Activities

During the years ended June 30, 2009, 2008 and 2007, the Company issued shares and granted options in connection with non-cash transactions. See Notes 12(b) and 13 (b).

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

16. EXPENDITURE COMMITMENTS

The Company has a non-cancelable operating lease contracted for but not capitalized in the financial statements. The Company has commitments under this contract within one year of $110,411 and between one year and five years of $40,521. The property lease is a non-cancellable lease with an 18 month term, with rent payable monthly in advance. The property lease commenced May 1, 2008 and is due to expire October 31, 2009. Commencing November 1, 2009, the lease has been renewed for a further term of 12 months. An option exists to renew the lease at the end of October 31, 2010 for a further 12 months. Within the lease agreement there is a contingent rental provision which allows the lease payments to be increased by 3.50% of the rental payments on an annual basis.

Details in relation to commitments under employee service agreements with Directors and Key Management Personnel are outlined in Note 20.

The Company has commitments under research and development contracts within one year of $449,677 and great than one year but less than three years of $43,028, last year commitments under research and development contracts within one year were $894,566. There are no researches and development contract commitments after one year for the years ended June 30, 2008 and 2007.

17. SHARE BASED PAYMENTS

(a) 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 U.S. presence, a U.S. plan (the 2004 ADS Plan) and an Australian plan (the 2004 ASX Plan) were developed. At June 30, 2009, equity had been issued to one previous Director under the 2004 ADS Plan and five Directors, three key management personnel, 16 employees and 16 consultants under the 2004 ASX Plan. At June 30, 2008, equity had been issued to one former and four current Directors, three key management personnel, 16 employees and 10 consultants under the 2004 ASX Plan. At June 30, 2007, equity had been issued to one director under the 2004 ADS Plan and five directors, 10 consultants and 14 employees under the 2004 ASX Plan. At the 2004 Annual General Meeting shareholders authorized the Company to issue in the aggregate up to 12 million ordinary shares under the two plans. This was increased to 22 million ordinary shares at the 2005 Annual General Meeting. This was further increase to 30 million ordinary shares at the 2007 Annual General Meeting. The Share Plan Committee, a sub-committee of the Remuneration Committee administers the two plans and is able to change the terms of the equity issued under them from the default terms.

Under the 2004 ADS Plan, the exercise price must equal or exceed the fair value of the ADS on the date the options are awarded. The option expiration 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 ASX Plan, the exercise price must be equal or be less than the market value of the ordinary shares on ASX on the date of grant. The option expiration 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 ASX Plan as follows:

	Years Ended June 30,					
	2009		2008		2007	
	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	10,187,848	0.08	9,928,262	0.06	4,927,500	0.11
Issued during the year	3,099,818	0.32	4,753,149	0.38	5,908,762	0.36
Exercised during the year	(816,483)	0.27	(1,393,563)	0.62	(758,000)	0.38
Expired during the year	–	Nil	(1,100,000)	Nil	–	Nil
Forfeited during the year	–	Nil	(2,000,000)	Nil	(150,000)	Nil
Outstanding at year end	12,471,183	0.14	10,187,848	0.08	9,928,262	0.06
Exercisable at year end	7,398,846	0.14	5,610,348	0.15	2,140,000	0.26

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

17. SHARE BASED PAYMENTS (continued)

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 one 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$0.25, A$0.38 and A$0.36 for the years ended June 30, 2009, 2008 and 2007, respectively. The weighted average assumptions in calculating fair value were as follows:

- risk-free interest rate of 4.12% for 2009 and 6.63% for 2008;
- no dividends;
- expected volatility of 155% for 2009 and 234.20% for 2008; and
- expected life of 1.85 years for 2009 and two years for 2008.

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 are exercisable for fully paid ordinary shares and the U.S. government bond rate has been used for options which are exercisable for ADRs.

Dividend yield – Prana has never declared or paid dividends on its ordinary shares 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.

Options existing in 2004 and 2006 to purchase 825,000 ordinary shares granted to a consultant outside of the 2004 ASX Plan expired in the year ended June 30, 2007.

Information with respect to the number of shares issued under the 2004 ASX Plan as follows:

	Years Ended June 30,		
	2009	2008	2007
	Number of Shares	Number of Shares	Number of Shares
Beginning of the year	4,166,252	1,787,689	428,439
Issued during the year [1]	910,233	2,378,563	1,359,250
End of the financial year	5,076,485	4,166,252	1,787,689

[1] In the years ended June 30, 2009 and 2008 this includes options to purchase 816,483 and 1,393,563 ordinary shares, respectively granted under the 2004 ASX 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,					
	2009		2008		2007	
	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	US$5.00 (A$6.22)	380,000	US$5.00 (A$5.21)	380,000	US$5.00 (A$5.89)
Issued during the year [1]	–	–	–	–	–	–
Outstanding at year end	380,000	US$5.00 (A$6.22)	380,000	US$5.00 (A$5.21)		US$5.00 (A$5.89)
Exercisable at year end [1]	380,000	US$5.00 (A$6.22)	380,000	US$5.00 (A$5.21)		US$5.00 (A$5.89)

[1] These options are exercisable into ADRs (one option granted under the 2004 ADS Plan is exercisable for one ADR = ten ASX shares)

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 12, 13 and 20 for further information.

Options granted that have not been exercised carry no dividend rights or right to vote.

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

18. SUBSEQUENT EVENTS

On September 8, 2009, the Company entered into a private placement agreement with one of its institutional shareholders in the United States, under which it will raise an aggregate A$6.0 million before costs (approximately A$5.7 million net of costs) in a private placement of its ordinary shares to such investor. Of such amount, A$3.0 million was paid at the closing of the private placement on September 11, 2009 and an additional A$3.0 million will be paid on or before September 30, 2009. The private placement was for 30 million ordinary shares (equivalent to three million ADRs) at a price of A$0.20 per share (A$2.0 per ADR). The Company also agreed to grant the investor, subject to shareholder approval, options to purchase 10 million ordinary shares (equivalent to one million ADRs) at an exercise price of A$0.30 per share (A$3.0 per ADR) that will expire four years after the date of the issuance of the shares in the private placement. If shareholder approval is not obtained for the option grant, the options will be granted at such time that shareholder approval is no longer required for the grant under the rules of the ASX. The proceeds from the private placement will be used to support the Company's research and development programs and to fund its working capital requirements.

Other than as described above, there have been no significant changes in the operation or financial condition of the Company since June 30, 2009.

19. LOSS PER SHARE

	Years Ended June 30,		
	2009	2008	2007
Basic and diluted loss per share	(0.04)	(0.08)	(0.08)
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted loss per share	202,357,885	174,714,146	140,754,495

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

20. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) The Directors of Prana during the year:

Geoffrey Kempler	Executive Chairman Chief Executive Officer
Brian Meltzer	Non-Executive Director
George Mihaly	Non-Executive Director
Peter Marks	Non-Executive Director

(b) The Key Management Personnel of the Company during the year:

Dianne Angus	Chief Operating Officer
Richard Revelins	Company Secretary Chief Financial Officer

(c) 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.

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 issuance of equity. No retirement benefits are payable other than statutory superannuation, if applicable.

The Company's remuneration policy is not directly based on the Company's performance, rather on industry practice.

The Company's primary focus is research activities with a long term objective of developing and commercialising its research and development results.

The Company envisages its performance in terms of earnings will remain negative whilst the Company continues in the research and/or trial phase. Shareholder wealth reflects this speculative and volatile market sector. This pattern is indicative of the Company's performance over the past four years.

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

20. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

The purpose of a performance bonus is to reward individual performance in line with Company objectives. Consequently, performance based remuneration is paid to an individual where the individual's performance clearly contributes to a successful outcome for the Company. This is regularly measured in respect of performance against key performance indicators ("KPI's").

The Company uses a variety of KPI's to determine achievement, depending on the role of the executive being assessed. These include:

- successful contract negotiations;
- Company share price reaching a targeted rate on the ASX or applicable market over a period of time; or
- achievement of research project milestones within scheduled time and/or budget.

	Short Term Benefits		Post-Employment	Equity	
2009 **Directors' remuneration**	**Base Fee** **$**	**Bonus** **$**	**Superannuation Contribution** **$**	**Options** **$**	**Total** **$**
Geoffrey Kempler [1,2 & 4]	299,904	–	29,992	240,413	570,309
Brian Meltzer [1&3]	68,807	–	6,193	72,124	147,124
George Mihaly [1&3]	62,500	–	–	72,124	134,624
Peter Marks [1&3]	45,833	–	–	56,635	102,468
	477,044	–	36,185	441,296	954,525

[1] This includes equity issued as per the Annual General Meetings held on November 30, 2006, November 30, 2005 and November 30, 2004. As per Australian accounting standards, the options granted 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 issued in 2005 and 2006 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 $1.00 and $0.80, respectively, for five consecutive trading days.

[2] On March 1, 2009, Mr. Kempler voluntarily elected to reduce his salary, the total decrease was $73,484. This is a decrease to $329,896 from $403,380.

[3] Effective from March 1, 2009, the Non-Executive Directors voluntarily elected to reduce their salaries by 50% for the period March 1, 2009 to June 30, 2009; this represents a decrease of:

Mr. Brian Meltzer	$15,000
Dr. George Mihaly	$12,500
Mr. Peter Marks	$ 9,167

[4] In accordance with his employment contract, long service leave has been accrued for Mr. Kempler. At June 30, 2009, $40,050 had been accrued to date. No amounts have been paid in the June 30, 2009 financial year.

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

20. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

2008 Directors' Remuneration	Short Term Benefits Base Fee $	Short Term Benefits Bonus $	Post-Employment Superannuation Contribution $	Equity Options $	Total $
Geoffrey Kempler [1,2, 3, 4]	351,273	50,000	35,127	741,072	1,177,472
Brian Meltzer [1]	91,743	–	8,257	247,321	347,321
George Mihaly [1]	75,000	–	–	247,321	322,321
Peter Marks [1]	75,000	–	–	231,790	306,790
	593,016	50,000	43,384	1,467,504	2,153,904

[1] This includes equity issued as per the Annual General Meetings held on December 20, 2007, November 30, 2006, November 30, 2005 and November 30, 2004. As per IFRS the options with market conditions 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 issued in 2004, 2005 and 2006 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 $1.00 and $0.80 respectively for five consecutive trading days. See the 2007 remuneration table for valuations of the options approved at the November 30, 2006, November 30, 2005 and November 30, 2004 Annual General Meetings. The value of the options approved at the December 20, 2007 Annual General Meeting were calculated using the Black-Scholes Model applying the following inputs:

Grant Date: December 20, 2007
Exercise Price: $0.30
Stock Price: $0.50
Years to Expiry: 2.9
Volatility: 387%
Risk-free Interest Rate: 6.82%
Dividend Yield: 0%
Option Price: $0.50

[2] On June 5, 2008, Mr. Kempler received a salary increase to $298,964 plus 10% superannuation for Executive Chairman duties and $67,765 plus 10% superannuation for Chief Executive Officer duties. Total package of $366,729 plus 10% superannuation which is effective on July 1, 2008. This is an increase from $351,273 plus 10% superannuation.

[3] In accordance with his employment contract, long service leave has been accrued for Mr. Kempler. At June 30, 2008 $12,573 had been accrued to date. No amounts have been paid in the June 30, 2008 financial year.

[4] During the year Mr. Kempler received a cash bonus of $50,000 in accordance with his employment contract in relation to a successful capital raising.

2009 Executives' Remuneration	Short Term Benefits Base Fee $	Short Term Benefits Bonus $	Post-Employment Superannuation Contribution $	Equity Options $	Total $
Richard Revelins[1&2]	66,667	–	–	44,307	110,974
Dianne Angus [3 & 4]	292,256	–	26,303	11,718	330,277
	358,923	–	26,303	56,025	441,251

[1] This includes equity issued as per the Annual General Meetings held on November 30, 2006, November 30, 2005 and November 30, 2004. As per Australian accounting standards the options granted 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 granted in 2005 and 2006 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 $1.00 and $0.80 respectively for five consecutive trading days.

[2]On March 1, 2009, Mr. Revelins voluntarily elected to reduce his salary by 50% for the period March 1, 2009 to June 30, 2009; this represents a decrease of $13,333.

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

20. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

[3] Ms Angus received unlisted options during the year. The option prices were calculated using the Barrier Pricing Model applying the following inputs:

Grant Date: 26 May 2009
Pricing Model: American
Option Type: Call
Barrier Type: Up and In
Strike Price: $0.00
Spot Price: $0.22
Barrier: $0.00
Days to Expiry: 1,898
Volatility: 52%
Risk-free Interest Rate: 3.56%
Expected Dividends: $0.00
Option Price: $0.18

[4] In accordance with her employment contract, long service leave has been accrued for Ms Dianne Angus. At June 30, 2009, $17,449 had been accrued to date. No amounts have been paid in the June 30, 2009 financial year.

	Short Term Benefits		Post-Employment	Equity	
2008 **Executives' Remuneration**	**Base Fee** **$**	**Bonus** **$**	**Superannuation Contribution** **$**	**Options** **$**	**Total** **$**
Richard Revelins	80,000	–	–	219,428	299,428
Dianne Angus [1,2 & 3]	280,191	–	25,217	115,000	420,408
	360,191	–	25,217	334,428	719,836

[1] Ms Angus received a salary increase during the year to $292,256 plus 9% superannuation, which is an increase from 268,425 plus 9% superannuation.

[2] Ms Angus received unlisted options during the year. The option prices were calculated using the Barrier Pricing Model applying the following inputs:

Grant Date: December 5, 2007
Pricing Model: American
Option Type: Call
Barrier Type: Up and In
Strike Price: $0.00
Spot Price: $0.23
Barrier: $0.00
Days to Expiry: 1,059
Volatility: 79%
Risk-free Interest Rate: 6.46%
Expected Dividends: $0.00
Option Price: $0.23

[3] In accordance with her employment contract, long service leave has been accrued for Ms Angus. At June 30, 2008 $29,895 had been accrued to date. No amounts have been paid in the June 30, 2008 financial year.

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

20. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

The following Director was under contract at June 30, 2009:

Directors	Duration	Notice Requirements	Termination	Bonus
Mr. Geoffrey Kempler	Until termination by either party Signed September 21, 2007	For Good Reason Mr. Kempler may terminate with 30 days notice Or Without Cause the Company may terminate with 90 days notice	• Pay Mr. Kempler within ninety (90) days of the termination date $1,000,000 provided the Company has sufficient capital requirements to fulfill this clause • Accrued entitlements including all unreimbursed business expenses • Accelerate the vesting of any unvested options	• Bonus of $50,000 following a capital raising of at least A$7m (before costs) prior to September 30, 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 June 30, 2008.
		Without Good Reason Mr. Kempler may terminate with 90 days notice Or With Cause the Company may terminate with 30 days notice	• Bonus pro-rate only if termination occurs in 1st year	Bonus of $50,000 for implementation of the following: • Completion of clinical trial recruitment by September 30, 2007 - $10K bonus • Completion of signed Statistical Analysis Report by February 29, 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 December 31, 2007 - $14K bonus • Develop Prana staff retention strategy and action plan by October 31, 2007 and implement by December 31, 2007 - $10K bonus • As per Remuneration Committee Meeting, June 5, 2008, bonus of $100,000 for outstanding performance including the overseeing of a $A 7.3 million capital raising without incurring the over $400K of fees usually associated with this.

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

20. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

The following Senior Executives were under contract during the financial year ended June 30, 2009:

Key Management Personnel	Duration	Notice Requirements	Termination	Bonus
Ms Dianne Angus	Until termination by either party Signed October 2, 2006 Letter Agreement signed June 12, 2007	For Good Reason Ms Angus may terminate with 30 days notice Or Without Cause the Company may terminate with 120 days notice	• Pay remuneration entitlements one 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 Good Reason Ms Angus may terminate with 120 days notice Or With Cause the Company may terminate without notice	• Permitted to keep and/or exercise options that have vested at the time of termination	
			• Accrued entitlements including all unreimbursed business expenses	

21. AUDITORS' REMUNERATION

	Years Ended June 30, 2009	2008	2007
- audit fees: current year	120,951	219,920	240,800
- tax fees	–	–	–
- other fees	–	–	–
	120,951	219,920	240,800

PricewaterhouseCoopers was appointed as the Company's principal independent registered public accounting firm on November 30, 2006. No non-audit services were provided by PricewaterhouseCoopers during the 2008 and 2009 fiscal years.

Deloitte Touche Tohmatsu served as the Company's principal independent registered public accounting firm until November 30, 2006. The fees billed by Deloitte Touche Tohmatsu, as well as the other member firms of Deloitte Touche Tohmatsu and their respective affiliates, for the 2009 and 2008 fiscal years were A$9,267 and A$71,773, respectively, for audit-related services provided in connection with a Securities and Exchange Commission review of the Company's annual report on Form 20-F for the fiscal year ended June 30, 2006 and an amendment to its annual report on Form 20-F for such period.

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

22. 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 20 to the financial statements.

c. Key Management Personnel Equity Holdings

Fully Paid Ordinary Shares of the Company	Balance July 1, 2008	Received as Remuneration	Received on Exercise of Options	Net Change Other[1]	Balance June 30, 2009
	No.	No.	No.	No.	No.
Geoffrey Kempler	17,055,000	–	–	–	17,055,000
Brian Meltzer	326,666	–	–	–	326,666
George Mihaly	226,666	–	–	–	226,666
Peter Marks	43,111	–	–	–	43,111
Richard Revelins	20,308	–	–	–	20,308
Dianne Angus	250,000	–	–	–	250,000
	17,921,751	–	–	–	17,921,751

Fully Paid Ordinary Shares of the Company	Balance July 1, 2007	Received as Remuneration	Received on Exercise of Options	Net Change Other[1]	Balance June 30, 2008
	No.	No.	No.	No.	No.
Geoffrey Kempler	17,055,000	–	–	–	17,055,000
Colin Masters	184,666	–	–	(98,333)	86,333
Brian Meltzer	326,666	–	–	–	326,666
George Mihaly	226,666	–	–	–	226,666
Peter Marks	43,111	–	–	–	43,111
Richard Revelins[1]	20,308	–	–	–	20,308
Dianne Angus	–	–	250,000	–	250,000
	17, 856,417	–	250,000	(98,333)	18,008,084

Fully Paid Ordinary Shares of the Company	Balance July 1, 2006	Received as Remuneration	Received on Exercise of Options	Net Change Other[1]	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[1]	92,808	–	–	(72,500)	20,308
Ross Murdoch[2]	50,000	120,000	625,000	–	795,000
Dianne Angus	–	–	–	–	–
	17,978,917	120,000	625,000	(72,500)	18,651,417

[1] These options were sold on market.
[2] The balance at June 30, 2007, is the balance at date of resignation.

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

22. RELATED PARTY TRANSACTIONS (continued)

Share Options of the Company	Balance July 1, 2008 No.	Granted as Remuneration No.	Options Exercised No.	Options Forfeited No.	Options Expired No	Options Vested During 2009 fiscal year	Balance June 30, 2009 No.	Total Vested and Exercisable June 30, 2009 No.	Total Unvested June 30, 2009 No.
Geoffrey Kempler	3,000,000		–	–	–	–	3,000,000	1,000,000	2,000,000
Brian Meltzer	950,000		–	–	–	–	950,000	350,000	600,000
George Mihaly	950,000		–	–	–	–	950,000	350,000	600,000
Peter Marks	950,000		–	–	–	–	950,000	350,000	600,000
Richard Revelins	650,000		–	–	–	–	650,000	350,000	300,000
Dianne Angus	1,500,000	194,837	–	–	–	–	1,694,837	1,500,000	194,837
	8,000,000	194,837	–	–	–	–	8,194,837	3,900,000	4,294,837

Share Options of the Company	Balance July 1, 2007 No.	Granted as Remuneration No.	Options Exercised No.	Options Forfeited No.	Options Expired No	Options Vested During 2008 fiscal year	Balance June 30, 2008 No.	Total Vest and Exercisable June 30, 2008 No.	Total Unvested June 30, 2008 No.
Geoffrey Kempler	2,000,000	1,000,000	–	–	–	1,000,000	3,000,000	1,000,000	2,000,000
Colin Master	2,000,000	–	–	(2,000,000)	–	–	–	–	–
Brian Meltzer	600,000	350,000	–	–	–	350,000	950,000	350,000	600,000
George Mihaly	600,000	350,000	–	–	–	350,000	950,000	350,000	600,000
Peter Marks	600,000	350,000	–	–	–	350,000	950,000	350,000	600,000
Richard Revelins	800,000	350,000	–	–	(500,000)	350,000	650,000	350,000	300,000
Dianne Angus	1,250,000	500,000	(250,000)	–	–	750,000	1,500,000	1,500,000	–
	7,850,000	2,900,000	(250,000)	(2,000,000)	(500,000)	3,150,000	8,000,000	3,900,000	4,100,000

Share Options of the Company	Balance July 1, 2006 No.	Granted as Remuneration No.	Options Exercised No.	Options Forfeited No.	Options Expired No	Options Vested During 2007 fiscal year	Balance June 30, 2007 No.	Total Vest and Exercisable June 30, 2007 No.	Total Unvested 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	300,000	500,000
Ross Murdoch[1]	–	625,000	(625,000)	–	–	625,000	–	–	–
Dianne Angus	–	1,250,000	–	–	–	1,000,000	1,250,000	1,000,000	250,000
	3,400,000	5,075,000	(625,000)	–	–	1,625,000	7,850,000	1,500,000	6,350,000

[1]The balance at June 30, 2007, is the balance at date of resignation.
For further information on equity entitlements under employment contracts, refer to Note 20.

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

23. 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.

24. FINANCIAL INSTRUMENTS

The consolidated entity's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the consolidated entity. Risk management is carried out under policies approved by the Board of Directors and overseen by the Audit, Risk and Compliance Committee.

(a) Market Risk

(i) Foreign Currency Risk

The consolidated entity engages in international purchase transactions and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the Australian dollar. The parent entity also has exposure to foreign exchange risk in the currency cash reserves it holds to meet it's foreign currency payments. The Group does not make use of derivative financial instruments to hedge foreign exchange risk.

The following financial assets and liabilities are subject to foreign currency risk, the currency of the original amounts are displayed in brackets, all the amounts in the table below are displayed in $AUD at year-end spot rates:

	Consolidated Entity	
	2009	2008
	$	$
Cash and cash equivalents ($USD)	211,286	301,751
Cash and cash equivalents (€EUR)	74,007	67,710
Cash and cash equivalents (£GBP)	725	73,230
Trade and other payables ($USD)	(53,338)	(22,916)
Trade and other payables (€EUR)	–	–
Trade and other payables (£GBP)	–	(957)
Total exposure	232,680	418,818

The consolidated entity has conducted a sensitivity analysis of its exposure to foreign currency risk. The consolidated entity is currently exposed to the US dollar (USD), Euro (EUR) and Great British Pound (GBP). The sensitivity analysis below is conducted on a currency by currency basis using the sensitivity analysis variable, which has been based on the average annual movement in the AUD/USD, AUD/EUR and AUD/GBP exchange rates over the past five years based on the year-end spot rates. The variables for USD and GBP being 4% and 11%, respectively. There has been no material change in the average annual movement in the AUD/EUR over the past five years based on the year-end spot rates.

Based on the financial instruments held at June 30, 2009, had the Australian dollar depreciated/appreciated by 4% against the U.S. dollar with all other variables held constant, the consolidated entity's post-tax profit for the year would have been $7,249 lower / $8,508 higher (2008: $10,719 lower / $12,580 higher), mainly as a result of foreign exchange gains/losses on translation of U.S. dollar denominated financial instruments as detailed in the above table. The consolidated entity's exposure to other foreign exchange movements is not material.

24. FINANCIAL INSTRUMENTS (continued)

(ii) Interest Rate Risk

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

The consolidated entity exposure to interest rate risk has not changed since the prior year.

At June 30, 2009, the consolidated entity had the following cash accounts:

- A$53,671 in Australia dollar cheque accounts at variable interest rates ranging from 0.02% to 1.36% as of June 30, 2009;
- A$5,292 in Australia dollar savings accounts at an interest rate of 2% as of June 30, 2009;
- A$16,882 in Australia dollar transaction accounts at variable rates ranging from 0% to 0.05% as of June, 2009.
- A$3,942,443 in Australia Business Cash High Interest accounts at an interest rate of 3% as of June 2009;
- A$313 in Australia dollar Business Cash accounts at an interest rate of 2.5% as of June 2009
- US$168,039 (A$208,872) in a U.S. checking account at a interest rate of 0% as of June 30, 2009;
- GBP$179 (A$368) in a GBP cheque account at a variable interest rate of 0% as of June 30, 2009;
- EUR$40,833(A$81,715) in a EUR cheque account at a variable interest rate of 0% as of June 30, 2009;
- A$35,164 in a six month term deposit at a fixed interest rate of 3.70% which matures on 11 August 2009;
- A$200 in petty cash which does not earn any interest;
- GBP$174 (A$357) in petty cash which does not earn any interest;
- SEK$970 (A$156) in petty cash which does not earn any interest;
- US$1,942 (A$2,414) in petty cash which does not earn any interest; and
- CA$2 (A$2) in petty cash which does not earn any interest.

The weighted average interest rate is 2.77% for cash and cash equivalents and 0.59% 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, 2008, the consolidated entity had the following cash accounts:

- A$25,554 in Australia dollar cheque accounts at variable interest rates ranging from 0.10% to 6.25% as of June 30, 2008;
- A$6,800,000 in a three month term deposit at a fixed interest rate of 7.95% as of June 30, 2008;
- A$3,950,416 in at call deposit account, earning interest of 7.20% as of June 30, 2008;
- US$286,264 (A$298,029) in a U.S. checking account at a interest rate of 1.43% as of June 30, 2008;
- GBP$35,075 (A$72,869) in a GBP cheque account at a variable interest rate of 3.57% as of June 30, 2008;
- EUR$41,166 (A$67,710) in a EUR cheque account at a variable interest rate of 3.16% as of June 30, 2008;
- A$11,064 in a 12 month term deposit at a fixed interest rate of 7.25%which matures on 13 January 2009;
- A$35,164 in a three month term deposit at a fixed interest rate of 6.30%which matures on 11 August 2008;
- A$200 in petty cash which does not earn any interest;
- GBP$174 (A$361) in petty cash which does not earn any interest;
- SEK$970 (A$169) in petty cash which does not earn any interest;
- US$3,575 (A$3,727) in petty cash which does not earn any interest; and
- CA$5 (A$5) in petty cash which does not earn any interest.

The weighted average interest rate is 7.45% for cash and cash equivalents and 6.53% 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.

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

24. 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, 2009	Floating Interest Rate	Fixed Interest Maturing in		Non-Interest bearing	Total	Average Interest Rate
		1 year or less	1-5 years			
Financial Assets						
Cash and cash equivalents	$ 4,299,229	–	–	$ 5,748	$ 4,304,977	2.77%
Trade and other receivables	–		–	$ 526	$ 526	
Other current assets	–	$ 35,164	–	$ 185,433	$ 220,597	0.59%
	$ 4,299,229	$ 35,164	–	$ 191,707	$ 4,526,100	
Financial Liabilities						
Payables	–	–	–	$ 604,142	$ 604,142	
Other financial liabilities	–	–	–	–	–	
	–	–	–	$ 604,142	$ 604,142	

June 30, 2008	Floating Interest Rate	Fixed Interest Maturing in		Non-Interest bearing	Total	Average Interest Rate
		1 year or less	1-5 years			
Financial Assets						
Cash	$ 464,162	$ 10,750,416	–	$ 4,456	$ 11,219,035	7.45%
Receivables	–	–	–	$ 120,641	$ 120,641	
Other current assets	–	$ 46,228	–	$ 243,261	$ 289,489	6.53%
	$ 464,162	$ 10,796,644	–	$ 368,359	$ 11,629,165	
Financial Liabilities						
Payables	–	–	–	$ 849,113	$ 849,113	
Other financial liabilities	–	–	–	$ 772,430	$ 772,430	
	–	–	–	$ 1,621,543	$ 1,621,543	

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

24. FINANCIAL INSTRUMENTS (continued)

(b) Credit Risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has no significant concentration of credit risk and it is not the Company's policy to hedge credit risk.

The Company ensures that surplus cash is invested with financial institutions of appropriate credit worthiness and limits the amount of credit exposure to any one counter party.

There has been no significant change in the consolidated entity's exposure to credit risk since the previous year. The carrying amount of the consolidated entity's financial assets represent the maximum credit exposure.

(c) Liquidity Risk
Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The consolidated entity manages liquidity risk by maintaining sufficient bank balances to fund its operations and the availability of funding through committed credit facilities.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

Maturities of Financial Liabilities

2009	Less than 6 months	6-12 months	Total contracted cash flows	Carrying amounts
		Consolidated Entity		
Trade and other payables	604,142		604,142	604,142
Other financial liabilities	–		–	–
		Parent		
Trade and other payables	602,782		602,782	602,782
Other financial liabilities	–		–	–
2008				
		Consolidated Entity		
Trade and other payables	849,113	–	849,113	849,113
Other financial liabilities	772,430	–	772,430	772,430
		Parent		
Trade and other payables	848,072	–	848,072	848,072
Other financial liabilities	772,430	–	772,430	772,430

(d) Capital Risk Management
The consolidated entity's objectives when managing capital are to safeguard the consolidated entity's ability to continue as a going concern and to maintain an optimal capital structure so as to maximize shareholder value. In order to maintain or achieve an optimal capital structure, the consolidated entity may issue new shares or reduce its capital, subject to the provisions of the Company's constitution. The capital structure of the consolidated entity consists of equity attributed to equity holders of the consolidated entity, comprising contributed equity, reserves and accumulated losses disclosed in Notes 12, 13 and 14. By monitoring undiscounted cash flow forecasts and actual cash flows provided to the Board by the Company's Management the Board monitors the need to raise additional equity from the equity markets.

(e) Fair Value Estimation
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.

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

25. ADDITIONAL COMPANY INFORMATION

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

Registered Office	Principal Place of Business
Suite 2 1233 High Street Armadale Vic 3143 Australia	Level 2 369 Royal Parade Parkville Vic 3052 Australia
Tel: +61 (03) 9824 8166	Tel: +61 (03) 9349 4906

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 23, 2009

Exhibit 1.1

CONSTITUTION
OF
PRANA BIOTECHNOLOGY LIMITED

ACN 080 699 065

(as adopted by a special resolution of shareholders and certified by a Director on 28 November 2008)

Contents

Corporations Act

A Company Limited by Shares

Constitution

of

Prana Biotechnology Limited

ACN 080 699 065

1. Preliminary

1.1 Definitions

In this Constitution, unless the context otherwise requires:

"Act" means the *Corporations Act 2001 (Cth)*;

"ACH" means the Australian Clearing House Pty Ltd [ACN 001 314 503];

"ACH Clearing Rules" means the ACH Clearing Rules as amended from time to time;

"ASIC" means Australian Securities and Investments Commission or any other successor body;

"ASTC" means the ASX Settlement and Transfer Corporation Pty Ltd [ACN 008 504 532];

"ASTC Settlement Rules" means the operating rules of ASTC and, to the extent that they are applicable, the operating rules of ASX and the operating rules of the Australian Clearing House Pty Limited;

"ASX" means ASX Limited [ACN 008 624 691];

"Board" means the Directors acting as a Board of Directors;

"CHESS" means the Clearing House Electronic Sub-register System established and operated by;

(a) ACH for the purpose of regulating the clearing of the CHESS approved securities; and

(b) ASTC for the purpose of regulating the approval and settlement of CHESS approved securities.

"CHESS approved securities" means securities approved by ACH and ASTC in accordance with the ACH Clearing Rules and the ASTC Settlement Rules;

"Company" means # Limited ACN #;

"Constitution" means the constitution of the Company for the time being in force;

"Directors" means the directors of the Company from time to time;

"Financial Year" has the meaning given to the term "financial year" in the Act;

"Listing Rules" means the Listing Rules of the ASX and any other rules of ASX which are applicable while the Company is admitted to the Official List, each rule as amended or replaced from time to time, except to the extent of any express written waiver by ASX;

"Member" means a person who is entered in the Register as the holder of Shares in the capital of the Company;

"Month" means calendar month;

"Office" means the registered office for the time being of the Company;

"Official List" means the official list of entities that ASX has admitted and not removed;

"Register" means the registers and/or subregisters of Members to be kept pursuant to the Act and the Listing Rules and includes a branch register and CHESS subregister;

"Related Body Corporate" has the same meaning given to the term "related body corporate" in the Act;

"Resolution" means a resolution other than a Special Resolution;

"Restricted Securities" has the same meaning given to it in the Listing Rules;

"Seal" means the common seal of the Company (if any) or, where appropriate, the duplicate seal or the official seal;

"Secretary" means a person appointed as secretary of the Company and also includes any person appointed to perform the duties of secretary on a temporary basis and any duly appointed assistant secretary;

"Shares" means shares in the capital of the Company; and

"Special Resolution" has the same meaning given to the term "special resolution" in the Act.

1.2 *Corporations Act* and Listing Rules definitions

In this Constitution, unless the context otherwise requires, an expression defined in, or given a meaning for the purposes of, the Act or the Listing Rules, has the same definition or meaning in this Constitution to the extent that it relates to the same matter for which it is defined or given a meaning in the Act or the Listing Rules.

1.3 Interpretation

In this Constitution, unless the context otherwise requires:

(a) a reference to:

(i) the singular includes the plural and vice versa;

(ii) a gender includes every gender;

(iii) unless the contrary intention appears in this Constitution, the Act, any section, regulation or schedule of the Act or any other legislation is a reference to that law as amended, consolidated, supplemented or replaced;

(iv) a reference to the Listing Rules or the ASTC Settlement Rules includes any variation or replacement of those rules and is to be taken to be subject to any applicable waiver or exemption;

(v) "in writing" or "written" includes printing, lithography, photography and other means of representing or reproducing words in a visible form;

(vi) "paid up" or "paid" includes credited as paid up or paid;

(vii) "dividend" includes bonus;

(viii) any person includes a reference to any individual, company, body corporate, association, partnership, firm, joint venture, trust or government agency;

(ix) the word "including" or "includes" means "including but not limited to" or"including without limitation"; and

(b) headings are for convenience only and must be ignored in interpreting this Constitution.

1.4 Replaceable rules not to apply

To the maximum extent permitted by the Act, the provisions of the Act that apply as replaceable rules do not apply to the Company.

1.5 Constitution subject to the Act

This Constitution is subject to the Act and where there is any inconsistency between a clause of this Constitution and the Act, the Act prevails to the extent of the inconsistency.

1.6 Listing Rules, ACH Clearing Rules and ASTC Settlement Rules only have effect if Company is listed

In this Constitution, a reference to the Listing Rules, the ACH Clearing Rules or the ASTC Settlement Rules is to have effect only if at the relevant time the Company is admitted to the Official List and is otherwise to be disregarded.

A reference to the Listing Rules shall be read as if the words "if applicable" appeared immediately thereafter, and shall apply only if the Company is admitted to the Official List or any securities of the Company are quoted on ASX. If the Company is not admitted to the Official List or no securities of the Company are quoted on ASX, the reference to the Listing Rules (and any requirement that a provision be construed or applied subject to or in accordance with the Listing Rules) shall be disregarded.

1.7 Constitution subject to Listing Rules if Company is listed

If the Company is admitted to the Official List the following clauses apply:

(a) Despite anything contained in this Constitution, if the Listing Rules prohibit an act being done, the act must not be done.

(b) Nothing contained in this Constitution prevents an act being done that the Listing Rules requires to be done.

(c) If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be).

(d) If the Listing Rules require this Constitution to contain a provision and it does not contain that provision, is deemed to contain that provision.

(e) If the Listing Rules require this Constitution not to contain a provision and it contains that provision, this Constitution is deemed not to contain that provision.

(f) If any provision of this Constitution is or becomes inconsistent with the Listing Rules, this Constitution is deemed not to contain that provision to the extent of the inconsistency.

2. Share Capital

2.1 Allotment and issue of Shares under control of Directors

The allotment and issue of Shares is under the control of the Directors. Subject to the Act and the Listing Rules, the Directors:

(a) may allot, issue or otherwise dispose of Shares to any persons, on any terms and conditions, at that issue price and at those times as the Directors think fit;

(b) have full power to give any person a call or option over any Shares during any time and for any consideration as the Directors think fit; and

(c) may issue Shares with any preferential, deferred or special rights, privileges or conditions or with any restrictions (whether in regard to dividend, voting, return of Share capital or otherwise) as the Directors determine.

2.2 Company may issue preference Shares

The Company may not issue any preference Shares unless the rights and restrictions attaching to those preference Shares are set out in this Constitution or in a Special Resolution.

2.3 Redeemable preference Shares

The Company may issue preference Shares which are, or at the option of the Company are to be, liable to be redeemed. The terms upon which and the manner in which any redemption is to be effected must, if permitted by law, be specified in the conditions of issue of the preference Shares.

2.4 Rights of holders of preference Shares

All preference Shares issued by the Company confer on the holders of those preference Shares:

(a) the same rights as holders of ordinary Shares to receive notices, reports and accounts and to attend general meetings of the Company; and

(b) the right to vote in each of the following circumstances and in no others:

(i) during a period during which a dividend (or part of a dividend) for the Share is in arrears;

(ii) on a proposal to reduce the Company’s Share capital;

(iii) on a Resolution to approve the terms of a buy-back agreement;

(iv) on a proposal that affects rights attached to the Share;

(v) on a proposal to wind up the Company;

(vi) on a proposal for the disposal of the whole of the Company's property, business and undertaking; and

(vii) during the winding up of the Company.

2.5 Interest on share capital

The Company is authorised to pay interest on share capital in the circumstances and on the conditions provided for in the Act.

2.6 Brokerage or commission

Subject to the provisions and restrictions contained in the Act and the Listing Rules, the Company may pay brokerage or commission to any person in consideration of the person subscribing or agreeing to subscribe (whether absolutely or conditionally) for any Shares in the Company or for procuring or agreeing to procure subscriptions (whether absolutely or conditionally) for any Shares in the Company. Any brokerage or commission may be paid or satisfied in cash, Shares, debentures or debenture stock of the Company or otherwise.

2.7 Joint Holders

Where 2 or more persons are registered as the holders of any Share, they are deemed to hold the Share as joint tenants with benefits of survivorship, subject to the following provisions:

(a) the joint holders are jointly and severally liable for all payments (including calls and instalments) which are to be made for the Share;

(b) on the death of any joint holder, the survivor or survivors are the only person or persons recognised by the Company as having any title to the Share, but the Directors may require evidence of death;

(c) any 1 joint holder may give a valid receipt for any dividend, bonus or return of capital payable to the joint holders; and

(d) delivery of a notice or a certificate for a Share to any joint holder is sufficient delivery to all the joint holders.

2.8 Recognition of trusts or other interests

Subject to the provisions of the Act, the Company is entitled to treat the registered holder of any Shares as the absolute owner of those Shares and, accordingly, the Company is not bound to recognise (whether or not it has notice):

(a) a person as holding a Share upon any trust; or

(b) any equitable, contingent, future or partial interest in any Share or unit of a Share.

3. Certificates

3.1 Certificated holdings

The provisions of this clause 3 apply only to the extent that the Company is required by the Act, the Listing Rules, the ACH Clearing Rules or the ASTC Settlement Rules to issue certificates for Shares or other marketable securities of the Company, and then only for those Shares or other marketable securities for which certificates are required to be issued.

3.2 Issue of certificates

Subject to this Constitution, where the Company is required by the Act, the Listing Rules, the ACH Clearing Rules or the ASTC Settlement Rules to issue certificates for Shares or other marketable securities of the Company, the certificates must be issued under the Seal and in accordance with the Act, the Listing Rules, the ACH Clearing Rules or the ASTC Settlement Rules and must include all information required by the Act, the Listing Rules, the ACH Clearing Rules and the ASTC Settlement Rules.

3.3 Entitlement of Member to certificate

Subject to this Constitution, every Member is entitled free of charge to 1 certificate for each class of Shares or other marketable securities registered in its name or to several certificates each for a reasonable proportion of those Shares or marketable securities.

3.4 Certificate for joint holders

Where Shares or other marketable securities are registered in the names of 2 or more persons, only 1 certificate is required to be issued for each class of those Shares or marketable securities.

3.5 Cancellation of certificate on transfer

(a) Subject to this Constitution, on every application to register the transfer of any Shares or other marketable securities or to register any person as a Member in respect of any Shares or other marketable securities which may have been transmitted to that person by operation of law, the certificate for those Shares or other marketable securities must be delivered up to the Company for cancellation and a new certificate in similar form specifying the Shares or other marketable securities transferred or transmitted must be delivered to the transferee or transmittee within 5 business days after the day of lodgement with the Company of the registrable transfer or transmission notice.

(b) If registration is required for only some of the Shares or other marketable securities specified on the certificate delivered up to the Company, a new certificate specifying the Shares or other marketable securities remaining untransferred or untransmitted must be delivered to the transferor.

3.6 Replacement of certificates

(a) The Company must issue a replacement certificate:

(i) if the certificate is worn out or defaced, upon production of the certificate to the Company to be replaced and cancelled; or

(ii) if the certificate is lost or destroyed, upon the Company being furnished with:

(A) evidence that the certificate has been lost or destroyed, and has not been disposed of or pledged, as is required by the Act;

(B) an undertaking to return the certificate if found, as required by the Act; and

(C) if the Directors consider it necessary, a bond or indemnity as the Act Authorises

(b) All replacement certificates must be issued within 5 business days after the Company receives the original certificate or evidence of loss or destruction.

4. CHESS

4.1 Participation in CHESS

(a) The Board may at any time resolve that the Company will participate in CHESS.

(b) This clause 4 will apply if the Company is granted participation in CHESS.

4.2 Compliance with ACH Clearing Rules and ASTC Settlement Rules

The Company must comply with the ACH Clearing Rules and the ASTC Settlement Rules if its securities are CHESS approved securities. In particular the Company must comply with the requirements of the ACH Clearing Rules, the ASTC Settlement Rules and the Listing Rules regarding the maintenance of registers, the issuing of holding statements and transfers in relation to its CHESS approved securities.

4.3 Registers

If the Company's securities are CHESS approved securities, in addition to the CHESS subregister, it must provide for an issuer sponsored subregister, or a certificated subregister, or both (at least if the Company has Restricted Securities on issue).

4.4 No interference with proper transfer

The Company must not in any way prevent, delay or interfere with the generation of a proper transfer or the registration of a paper-based transfer in registrable form (which satisfies the requirements of clause 8), except as permitted by clause 8.4, the Listing Rules, the ACH Clearing Rules and the ASTC Settlement Rules.

5. Lien over Shares

5.1 Lien

(a) The Company has a first and paramount lien on every Share for:

(i) unpaid calls and instalments on those Shares;

(ii) if the Shares were acquired under an employee incentive scheme, any amount owing to the Company for acquiring those Shares; and

(iii) any amount the Company is required by law to pay (and has paid) in respect of the Share of a Member or deceased Member.

(b) A lien extends to reasonable interest at any rates the Directors may determine, and expenses incurred because the amount is not paid.

5.2 Extent of lien

The Company's lien (if any) on a Share extends to all dividends, bonuses and other monies payable for the Share including the proceeds of sale of the Share, and the Company may deduct or set-off against any dividends, bonuses or other monies, any monies due and payable to the Company.

5.3 Exemption from lien

The Directors may at any time declare any Share to be wholly or in part exempt from the provisions of clauses 5.1 and 5.2.

5.4 Sale under lien

The Company may sell any Shares on which the Company has a lien in any manner the Directors think fit provided that no sale may be made:

(a) unless a sum in respect of which the lien exists is presently payable; and

(b) until the expiration of 30 days after a notice in writing, stating and demanding payment of the amount which is presently payable, has been given to the registered holder of the Shares or the person entitled to the Shares because of the death or bankruptcy of the registered holder.

5.5 Proceeds of sale of Shares sold under lien

The net proceeds of the sale of Shares sold under lien (after payment of all costs and expenses incurred in selling the Shares) will be received by the Company and applied in payment of that part of the amount for which the lien exists and which is presently payable and any interest on that amount, and the balance (if any) is to be paid to the person registered as the holder of the Shares immediately before the Shares were sold.

5.6 Transfer on sale under lien

(a) The Company may do all things necessary to give effect to a sale of Shares on which the Company has a lien, including authorising a Director or any other person to:

(i) execute a transfer of the Shares sold in favour of the purchaser of the Shares; and

(ii) do all acts and things as are necessary or desirable under the Act, the Listing Rules the ACH Clearing Rules and the ASTC Settlement Rules to effect a transfer of the Shares sold in favour of the purchaser of the Shares.

(b) The purchaser is to be registered as the holder of the Shares transferred, and is not bound to see to the application of the purchase money, nor will the purchaser's title to the Shares be affected by any irregularity or invalidity in connection with the sale.

6. Calls

6.1 Directors may make calls

The Directors may make calls as they think fit on the Members for all monies unpaid on the Shares held by the Members that are not monies made payable at fixed times by the conditions of allotment. A call will be deemed to have been made when the Resolution of the Directors authorising that call was passed and may be made payable by instalments. The Directors may revoke or postpone a call.

6.2 Notice of calls

The Company must give written notice of a call at least 30 business days before the call is due. The notice must specify the time and place for payment and any other information required by the Listing Rules. The non-receipt of any notice by, or the accidental omission to give notice of any call to, any Member will not invalidate the call.

6.3 Difference in terms of issue as to calls

The Directors may, on the issue of Shares, differentiate between the holders as to the amount of calls to be paid and the time for payment of those calls.

6.4 Fixed payments deemed calls

Any sum which, by the terms of issue of a Share, becomes payable on allotment or at any fixed date, will for the purposes of this Constitution be deemed to be a call duly made and payable on the date on which the sum is payable. In case of non-payment, all the relevant provisions of this Constitution as to payment of interest and expenses, forfeiture or otherwise will apply as if the sum had become payable by virtue of a call duly made and notified.

6.5 Interest on sums not paid

If a sum called in respect of a Share is not paid on or before the date for payment, then that sum will bear interest from the date for payment to the time of actual payment at any rates as the Directors may determine. The Directors may waive payment of interest, either in whole or in part.

6.6 Payment of calls

Each Member must pay the amount of every call made on it at the times and places appointed by the Directors.

6.7 Proof of calls

In any proceeding for the recovery of monies due for any call, it is sufficient and conclusive evidence of the debt if it is proved that:

(a) the name of the Member sued is entered in the Register as the holder or 1 of the holders of the Shares in respect of which the call was made;

(b) the Resolution making the call was recorded in the minute book; and

(c) notice of the call was given to the Member sued in accordance with this Constitution.

6.8 Prepayment of calls

The Directors may, if they think fit, receive from any Member willing to advance it, all or any part of the amount unpaid upon the Shares held by it beyond the sums actually called up. The Directors may then either:

(a) if the Member so requests, make a call on the Member for the amount advanced, pro rata in respect of all Shares held by that Member on which monies remain unpaid or on any other basis as agreed between that Member and the Directors; or

(b) authorise payment by the Company of interest on the whole or any part of the amount so received until the amount becomes due or is repaid at the rate agreed between the Member paying the sum in advance and the Directors. The Directors may at any time authorise repayment of the whole or any part of the amount paid in advance upon giving to the Member 1 Month’s notice of the date for repayment.

7. Forfeiture of Shares

7.1 Forfeiture upon non-payment of calls

Unless the Directors otherwise determine, any Share upon which a call is unpaid at the expiration of 14 days after the day for its payment will be absolutely forfeited without any Resolution of the Directors or other proceeding. Subject to the Act and the Listing Rules, the Directors may then proceed to cancel or sell the forfeited Shares.

7.2 Evidence of forfeiture

A statement in writing declaring that the person making the statement is a Director or Secretary of the Company and that a Share in the Company has been forfeited on a date stated in the statement, is conclusive evidence of the facts stated in the statement as against all persons claiming to be entitled to the Share.

7.3 Effect of forfeiture

Upon forfeiture of a Share:

(a) the person whose Share is forfeited will cease to be a Member in respect of the forfeited Share;

(b) that person will lose all entitlements to dividends declared in respect of the forfeited Share and not actually paid; and

(c) that person remains liable to pay to the Company all money which, at the date of forfeiture, was payable by it to the Company in respect of the forfeited Share together with interest on that amount from the date of forfeiture until payment at the rate determined by the Directors. The Directors are under no obligation to enforce payment.

7.4 Sale of forfeited Share

(a) If the Directors determine to sell any forfeited Shares, the Company may dispose of any forfeited Shares on any terms and in any manner as the Directors determine, and in accordance with any applicable requirements of the Act and the Listing Rules.

(b) The Company may do all things necessary to give effect to the sale of the forfeited Shares, including authorising a Director or any other person to:

(i) execute a transfer of the Shares sold in favour of the purchaser of the Shares; and

(ii) do all acts and things as are necessary or desirable under the Act, the Listing Rules, the ACH Clearing Rules or the ASTC Settlement Rules, to effect a transfer and to enable the forfeited Shares to be disposed of.

(c) The transferee of the forfeited Shares is not bound to see to the application of any money paid as consideration. The title of the transferee to the Shares is not affected by any irregularity or invalidity in connection with the forfeiture, sale or disposal of the Shares.

7.5 Proceeds of sale

The proceeds of sale of any forfeited Shares received by the Company must be applied in payment of:

(a) first, the expenses of the sale;

(b) second, any expenses necessarily incurred in connection with the forfeiture, including any interest accrued;

(c) third, the calls then due and unpaid; and

(d) the balance (if any) must be paid to the Member whose Shares have been sold within 5 business days of receipt by the Company of the proceeds of sale.

7.6 Redemption of forfeited Shares

A Share belonging to a person which has been forfeited may be redeemed at any time up to, but not including, the day on which the Share is intended to be sold, by payment to the Company of all calls due on the Share and any other costs and expenses which may be permitted by the Act and the Listing Rules, and on payment the person is entitled to the Share as if the forfeiture had not occurred.

7.7 Surrender of Shares

The Directors may accept the surrender of any Share which they are entitled to forfeit on any terms they think fit and any Share so surrendered may be disposed of in the same manner as a forfeited Share.

8. Transfer of Shares

8.1 Transfer document

Subject to this Constitution, the Act, the Listing Rules, the ACH Clearing Rules and the ASTC Settlement Rules a Member may transfer all or any Shares by a transfer document duly stamped (if necessary) and delivered to the Company. The transfer document must be in writing in the usual or common form or in any other form as the Directors may from time to time prescribe or, in particular circumstances, agree to accept and must signed by or on behalf of the transferor or as otherwise permitted by the Act.

8.2 Registration procedure

Subject to this Constitution, the Act, the Listing Rules, the ACH Clearing Rules and the ASTC Settlement Rules, every transfer document must be delivered to the Company accompanied by the certificate for the Shares to be transferred and any other evidence the Directors may require to prove the title of the transferor or its right to transfer the Shares. The Company must retain all transfer documents that are registered but any transfer document which the Directors refuse to register must (except in the case of fraud or suspected fraud) be returned on demand to the person who deposited that document.

8.3 Registration of transfer

Subject to clause 8.4, the Company must register each registrable paper-based transfer of Shares which complies with clauses 8.1 and 8.2, the Act and the Listing Rules and must do so without charge.

8.4 Restrictions on transfer

Except as otherwise provided for in the Listing Rules, the ACH Clearing Rules or the ASTC Settlement Rules, the Directors may in their absolute discretion ask ASTC to apply a holding lock to prevent a proper transfer, or refuse to register a paper-based transfer, of a Share where:

(a) the Company has a lien on the Shares the subject of the transfer;

(b) the Company is served with a court order that restricts a Member's capacity to transfer the Shares;

(c) registration of the transfer may break an Australian law and the ASX has agreed in writing to the application of a holding lock (which must not breach an ACH Clearing Rule or an ASTC Settlement Rule) or that the Company may refuse to register a transfer;

(d) during the escrow period of Restricted Securities;

(e) if the transfer is paper-based, either a law related to stamp duty prohibits the Company from registering it or the Company is otherwise allowed to refuse to register it under the Listing Rules; or

(f) the transfer does not comply with the terms of any employee incentive scheme of the Company.

8.5 Notice of refusal to register

(a) If the Company refuses to register a paper-based transfer under clause 8.4, it must tell the lodging party in writing of the refusal and the reason for it, within 5 business days after the date on which the transfer was lodged.

(b) If the Company asks ASTC to apply a holding lock under clause 8.4, it must tell the holder of the Shares in writing of the holding lock and reason for it, within 5 business days after the date in which it asked for the holding lock.

8.6 Transfer not complete until name entered in the Register

Subject to the ACH Clearing Rules and the ASTC Settlement Rules, the transferor of a Share remains the holder of the Share until the name of the transferee is entered in the Register in respect of that Share.

8.7 More than 3 persons registered

If more than 3 persons are noted in the Register as holders of securities of the Company, or a request is made to register more than 3 persons then (except in the case of executors or trustees or administrators of a deceased Member), the first 3 persons named in the Register or the request (as the case may be) are deemed to be the holders of those securities and no other persons will be regarded by the Company as a holder of those securities for any purpose whatsoever.

9. Transmission of Shares

9.1 Death of a Member

In the event of the death of a Member:

(a) where the Member was a joint holder of any Shares, the surviving joint holder (or holders) is (or are) the only person (or persons) recognised by the Company as having any title to or interest in those Shares; and

(b) the legal personal representatives of the Member (not being 1 of 2 or more joint holders) are the only persons recognised by the Company as having any title to or interest in the Shares registered in its name.

9.2 Transmission on death or bankruptcy

Any person becoming entitled to a Share as a consequence of the death or bankruptcy of a Member or otherwise by operation of law may, upon production of any evidence of its entitlement which the Directors may require, elect either to be registered itself as holder of the Share or to have some person nominated by it registered as the transferee of that Share.

9.3 Election as to registration on transmission

If the person becoming entitled to a Share elects to be registered itself, it must deliver or send to the Company a notice in writing signed by it stating that it so elects. If the person becoming entitled to a Share elects to have another person registered, it must effect a transfer of the Share in favour of that person. All the limitations, restrictions and provisions of this Constitution relating to the right to transfer, the form of transfer and the registration of transfers of Shares will be applicable to any notices or transfers.

10. Alteration of capital

10.1 Company's power to alter capital

Subject to the Act and the Listing Rules, the Company may, by Resolution passed at a general meeting:

(a) consolidate all or any of its Shares into Shares of a larger amount;

(b) subdivide its Shares or any of them into Shares of a smaller amount, but so that in the subdivision the proportion between the amount paid and the amount (if any) unpaid on each subdivided Share is the same as it was for the Share from which the subdivided Share is derived; or

(c) cancel Shares which have been forfeited, subject to the requirements of the Listing Rules.

10.2 Reduction of capital

Subject to the Act and the Listing Rules, the Company may reduce its capital in any manner.

10.3 Power to buy Shares

The Company may, in accordance with the Act and the Listing Rules, buy its own Shares on any terms and conditions determined by the Directors.

11. Variation or cancellation of rights

11.1 Variation or cancellation of rights of class of Shares

Subject to the Act and the Listing Rules, all or any of the rights and privileges attached to any class of Shares (unless otherwise provided by the terms of issue of the Shares of that class) may be varied or cancelled with the consent in writing of the holders of at least 75% of the Shares issued in that class or with the sanction of a Special Resolution passed at a meeting of holders of the Shares of that class. In relation to any meeting to approve that Resolution:

(a) the necessary quorum is the holders present personally or by proxy attorney or representative and entitled to vote in respect of at least 5% of the issued Shares of the class; and

(b) the provisions contained in this Constitution relating to notice of meetings, the appointment of a chairman and of proxies, attorneys and representatives, the depositing and form and validity of proxies and the conduct of general meetings will otherwise apply to any meeting of a class.

11.2 No consent or sanction required for redemption

A consent or sanction referred to in clause 11.1 is not required for the redemption of any Shares or any other variation of rights attaching to any Shares where that redemption or variation is in accordance with the terms of issue of those Shares.

11.3 No variation by issue of further Shares ranking equally

The rights conferred upon the holders of the Shares of any class is not, unless otherwise expressly provided by the terms of issue of the Shares of that class, be deemed to be varied by the creation or issue of further Shares ranking equally in respect of those rights.

12. Restricted Securities

The Company must comply in all respects with the requirements of the Listing Rules relating to Restricted Securities. Notwithstanding any other provisions of this Constitution:

(a) Restricted Securities cannot be disposed of (as the term “disposed” is defined in the Listing Rules) during the escrow period for those Restricted Securities, except as permitted by the Listing Rules or ASX;

(b) the Company must refuse to acknowledge a disposal (including registering a transfer) of Restricted Securities during the escrow period for any Restricted Securities except as permitted by the Listing Rules or ASX; and

(c) during a breach of the Listing Rules relating to Restricted Securities, or a breach of a restriction agreement, the holder of the Restricted Securities is not entitled to any dividend or distribution, or voting rights, in respect of the Restricted Securities.

13. Proportional takeover bids

13.1 Definitions

In this clause:

“approving resolution” has the same meaning as in section 648D(1) of the Act;

"approving resolution deadline" has the meaning specified in section 648D(2) of the Act;

"associate" has the meaning specified in Part 1.2 Division 2 of the Act;

"proportional takeover bid" has the meaning specified in section 9 of the Act;

13.2 Prohibition on registration of transfer unless takeover scheme approved

Where an offer has been made under a proportional takeover bid in respect of Shares included in a class of Shares in the Company the registration of a transfer giving effect to a contract resulting from the acceptance of an offer made under the proportional takeover bid is prohibited unless and until an approving resolution to approve the proportional takeover bid is passed in accordance with the provisions of this Constitution.

13.3 Approving resolution

An approving resolution is to be voted on at a meeting, convened and conducted by the Company of the persons entitled to vote on the approving resolution under section 648D(1)(b) of the Act.

13.4 Entitlement to vote on approving resolution

A person (other than the bidder or an associate of the bidder) who, as at the end of the day on which the first offer under the proportional takeover bid was made, held Shares included in that class is entitled to vote on an approving resolution and, for the purposes of so voting, is entitled to 1 vote for each of those Shares.

13.5 Bidder and associates not entitled to vote

The bidder or an associate of the bidder is not entitled to vote on an approving resolution.

13.6 Approving resolution passed

An approving resolution is taken to have been passed if the proportion that the number of votes in favour of the resolution bears to the total number of votes on the Resolution is greater than 50%, and otherwise is taken to have been rejected.

13.7 General meeting provisions to apply

The provisions of this Constitution that apply to a general meeting of the Company apply, with any modifications as the circumstances require, to a meeting that is convened pursuant to this clause and apply as if that meeting was a general meeting of the Company.

13.8 Meeting to be held before approving resolution deadline

Where takeover offers have been made under a proportional takeover bid, then the Directors of the Company must ensure that a Resolution to approve the proportional takeover bid is voted on in accordance with this clause before the approving resolution deadline in relation to the proportional takeover bid.

13.9 Notice as to whether approving resolution is passed

Where an approving resolution to approve a proportional takeover bid is voted on, in accordance with this clause, before the approving resolution deadline in relation to the proportional takeover bid, the Company must, on or before the approving resolution deadline:

(a) give to the bidder; and

(b) serve on ASX

a notice in writing stating that an approving resolution to approve the proportional takeover bid has been voted on and that the approving resolution has been passed, or has been rejected, as the case requires.

13.10 Approving resolution deemed to have been passed

Where, as at the end of the day before the approving resolution deadline in relation to a proportional takeover bid under which offers have been made, no Resolution to approve the proportional takeover bid has been voted on in accordance with this clause, an approving resolution to approve the proportional takeover bid is, for the purposes of this clause, be deemed to have been passed in accordance with this clause.

13.11 Effect of this clause

This clause ceases to have effect on the third anniversary of the date of its adoption or of its most recent renewal.

14. Unmarketable parcels

14.1 Definitions

In this clause:

"Authorised Price" means the price per Share equal to the average of the last sale price of the Shares of the Company quoted on the ASX for each of the 10 trading days immediately preceding the date of any offer to purchase Unmarketable Parcels accepted by the Company pursuant to this clause;

"Effective Date" means the date immediately following the expiry of the period referred to in the notice given by the Company to Unmarketable Parcel Holders in accordance with this clause;

"Marketable Parcel" means a number of Shares equal to a marketable parcel as defined in the Listing Rules, calculated on the day before the Company gives notice under clause 14.2;

"Unmarketable Parcel" means a number of Shares which is less than a Marketable Parcel; and

"Unmarketable Parcel Holder" means a Member holding less than a Marketable Parcel.

14.2 Notice to Unmarketable Parcel Holder

The Company may give written notice to an Unmarketable Parcel Holder advising of the Company's intention to sell its Unmarketable Parcel under this clause, unless the Unmarketable Parcel Holder, within 6 weeks from the date the notice is sent by the Company, gives written notice to the Company that it wishes to retain its Shares in which case the provisions of this clause will not apply to the Shares held by that Unmarketable Parcel Holder.

14.3 Revocation or withdrawal of notice

If an Unmarketable Parcel Holder has given written notice to the Company that it wishes its Shares to be exempted from this clause, it may at any time prior to the Effective Date revoke or withdraw that notice and the provisions of this clause will then apply to the Shares held by that Unmarketable Parcel Holder.

14.4 Sale of Unmarketable Parcels

Subject to clause 14.2, on and from the Effective Date, the Company may sell or otherwise dispose of the Shares held by each Unmarketable Parcel Holder on any terms and in that manner and at those times that the Directors determine. For the purpose of selling or disposing of those Shares, each Unmarketable Parcel Holder irrevocably:

(a) appoints the Company as its agent to sell all the Shares held by it at a price not less than the Authorised Price;

(b) appoints the Company and each Director and Secretary from time to time jointly and severally as its attorney in its name and on its behalf to effect a transfer document for its Shares and to otherwise act to effect a transfer of its Shares;

(c) appoints the Company as its agent to deal with the proceeds of sale of those Shares in accordance with this clause.

14.5 Company may not sell below Authorised Price

The Company may only sell the Shares of an Unmarketable Parcel Holder if the Company has received offers for all the Shares constituting Unmarketable Parcels at the same price, which may not be less than the Authorised Price.

14.6 Company to pay all costs

The Company will pay all costs and expenses of the sale and disposal of Unmarketable Parcels under this clause.

14.7 Title of purchaser of Unmarketable Parcel

Once the name of the purchaser of the Shares sold or disposed of in accordance with this clause is entered in the Register for those Shares, the title of the purchaser to those Shares is not affected by any irregularity or invalidity in connection with the sale or disposal of those Shares and the validity of the sale may not be impeached by any person.

14.8 Remedy of Unmarketable Parcel Holder

The remedy of any Unmarketable Parcel Holder who is aggrieved by the sale or disposal of its Shares under this clause is limited to a right of action in damages against the Company to the exclusion of any other right, remedy or relief against any other person.

14.9 Evidence of sale in accordance with this clause

A statement in writing declaring that the person making the statement is a Director or Secretary of the Company and that the Shares of an Unmarketable Parcel Holder have been dealt with in accordance with this clause, is conclusive evidence of the facts stated in the statement as against all persons claiming to be entitled to those Shares.

14.10 Receipt of proceeds of sale

The receipt by the Company of the proceeds of sale of the Shares of an Unmarketable Parcel Holder is a good discharge to the purchaser of all liability in respect of the purchase of those Shares and the purchaser will not be bound to see to the application of the money paid as consideration.

14.11 Company to deal with proceeds of sale

The Company will receive the proceeds of sale of the Shares of each Unmarketable Parcel Holder and will deal with those proceeds as follows:

(a) the proceeds must be paid into a separate bank account opened and maintained by the Company for that purpose;

(b) the proceeds must be held in trust for the Unmarketable Parcel Holder;

(c) the Company must, immediately following a receipt of the proceeds, notify the Unmarketable Parcel Holder in writing that the proceeds of the sale of those Shares have been received by the Company and are being held by the Company pending receipt of the certificate for the Shares sold or disposed of and seeking instructions from the Unmarketable Parcel Holder as to how the proceeds are to be dealt with;

(d) the Company must deal with the sale proceeds as instructed by the Unmarketable Parcel Holder on whose behalf they are held if the Member provides to the Company the certificate for those Shares or, if that certificate has been lost or destroyed, a statement and undertaking in accordance with the Act is provided to the Company; and

(e) if the whereabouts of the Unmarketable Parcel Holder are unknown or no instructions are received from the Unmarketable Parcel Holder within 2 years of the proceeds being received by the Company, the Company may deal with those proceeds according to the applicable laws dealing with unclaimed monies.

14.12 Overriding effect of this clause

Subject to clause 14.13 and 14.4, the provisions of this clause 14 have effect despite any other provision of this Constitution.

14.13 Clause ceases to have effect following announcement of takeover bid or takeover announcement

This clause 14 ceases to have effect following the announcement of a takeover bid or takeover announcement but, despite clause 14.14, the procedures set out in this clause may be started again after the close of the bids made under the takeover bid or takeover announcement.

14.14 Clause may be invoked only once in any 12 Month period

The provisions of this clause may be invoked only once in any 12 Month period.

15. General meetings

15.1 Annual general meetings

Annual general meetings of the Company are to be held in accordance with the Act and the Listing Rules. The business of an annual general meeting is:

(a) to receive and consider the profit and loss account and balance sheet and the reports of the Directors and of the auditors and the statement of the Directors;

(b) to elect Directors;

(c) to appoint the auditor;

(d) to fix the remuneration of the auditors; and

(e) to transact any other business which may be properly brought before the meeting.

15.2 General meetings

The Directors may convene a general meeting of the Company whenever they think fit and must convene a meeting when requested by Members in accordance with the Act.

15.3 Members may requisition meeting

Members may requisition the holding of a general meeting in accordance with the Act and the Directors must convene a general meeting as soon as practicable after receiving that requisition.

15.4 Notice of general meeting

Notice of every annual general meeting, general meeting or meeting of any class of Members must be given in the manner provided by this Constitution and the Act to the Members and those persons who are otherwise entitled under this Constitution to receive notices.

15.5 Contents of notice of general meeting

Every notice convening a general meeting must include or be accompanied by all information required by the Act and the Listing Rules and must at least:

(a) set out the place, the day and time for the meeting (and, if the meeting is to be held in 2 or more places, the technology that will be used to facilitate this);

(b) state the general nature of the business to be transacted at the meeting and any Special Resolution to be proposed;

(c) include a statement that:

  (i) a Member entitled to attend and vote is entitled to appoint a proxy;

  (ii) a proxy need not be a Member; and

  (iii) a Member who is entitled to cast 2 or more votes may appoint 2 proxies and must specify the proportion or number of votes each proxy is appointed to exercise;

(d) be accompanied by an instrument of proxy in the form described in this Constitution or in any other form as the Directors may from time to time prescribe or accept; and

(e) if required by the Listing Rules, include a voting exclusion statement.

15.6 Omission to give notice

Except as prescribed by the Act, the accidental omission to give notice of a meeting to any Member or the non-receipt of notice of a meeting by any Member does not invalidate any of the proceedings at that meeting.

16. Proceedings at general meeting

16.1 Member deemed to be present

A Member may attend a general meeting at which it is entitled to be present, and is deemed to be present, in any of the following ways:

(a) in person;

(b) by attorney;

(c) by proxy;

(d) in the case of a Member that is a body corporate, by a representative appointed by section 250D of the Act.

16.2 Attorney of Member

Any Member may appoint an attorney to act on its behalf at all meetings of the Company or all meetings of the Company during a specified period. Before the first meeting at which the attorney acts on the Member's behalf, a power of attorney must be deposited at the Office or at any place specified in the notice convening that meeting.

16.3 Representative of body corporate

Any Member that is a body corporate may, in accordance with the Act, by Resolution of its Directors authorise any person to act as its representative at any meeting. That representative is then entitled to exercise the same powers as the body corporate appointing the representative could have exercised as a Member, if it were a natural person.

16.4 Quorum for general meeting

No business may be transacted at any general meeting unless a quorum is present at the commencement of the business. A quorum is 3 Members present in person or by attorney or proxy.

16.5 No quorum

If a quorum is not present within 30 minutes after the time appointed for the meeting, any meeting convened on a requisition of Members is dissolved but any other meeting stands adjourned to the same day in the next week at the same time and place or to any other day, time and place as the Directors may appoint by notice to the Members. If at the adjourned meeting a quorum is not present within 30 minutes after the time appointed for the adjourned meeting, then those Members who are present in person are deemed to be a quorum and may transact the business for which the meeting was called.

16.6 Chairman of general meeting

The chairman of the Directors, or, in the chairman's absence, the deputy chairman (if any) will be entitled to take the chair at every general meeting. If there is no chairman or if at any meeting the chairman is not present within 30 minutes after the time appointed for holding the meeting or if the chairman is unwilling to act, the Directors present may choose a chairman. If the Directors do not choose a chairman, the Members present must choose 1 of the Directors to be chairman, and if no Director is present or willing to take the chair, the Members must choose 1 of the Members to be chairman.

16.7 Powers of chairman

The chairman is responsible for the general conduct of the general meeting. At any general meeting, a declaration by the chairman that a Resolution or Special Resolution has been carried or carried by a particular majority or not carried and an entry to that effect in the minutes of proceedings of the Company is conclusive evidence of the fact without proof of the number or proportion of votes recorded in favour of or against that Resolution or Special Resolution.

16.8 Adjournment of general meeting

The chairman of a general meeting may adjourn the meeting from time to time and from place to place, but no business will be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

16.9 Notice of adjourned meeting

If any general meeting is adjourned for more than 1 month, a notice of the adjournment must be given to Members of the Company in the same manner as notice was or ought to have been given of the original meeting.

17. Voting

17.1 Resolution determined by majority

At a general meeting all Resolutions submitted to the meeting will be decided by a simple majority of votes except where a greater majority is required by this Constitution, the Act or the Listing Rules.

17.2 Casting vote of chairman

In the case of an equality of votes, the chairman will have a casting vote in addition to the vote or votes to which the Chairman may be entitled as a Member, unless the chairman is not entitled for some other reason to cast a vote on the Resolution or if the chairman casts a vote and the Act, the Listing Rules or this Constitution require that no account be taken of the vote, in which case the Resolution is not passed.

17.3 Method of voting

Every Resolution submitted to the meeting, in the first instance, will be determined by a show of hands unless a poll is demanded in accordance with clause 17.4 or the Act before or immediately after the declaration of the result of the vote on a show of hands.

17.4 Demand for poll

A poll may be demanded on any Resolution by:

(a) the chairman;

(b) at least 5 Members present in person or by attorney or proxy or by representative; or

(c) any 1 or more Members holding Shares conferring not less than 5% of the total voting rights of all Members having the right to vote on the Resolution.

A demand for a poll does not prevent a general meeting continuing to transact any business except the question on which the poll is demanded.

Unless a poll is duly demanded, a declaration by the chairman of a general meeting that a resolution has on a show of hands been carried or carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the company, is conclusive evidence of the fact without proof of the number of proportion of the votes recorded for or against the resolution.

If a poll is duly demanded at a general meeting, it must be taken in the way and either at once or after an interval or adjournment as the chairman of the meeting directs. The result of the poll as declared by the chairman is the resolution of the meeting at which the poll was demanded. The poll cannot be demanded at a general meeting on the election of a chairman of the meeting. The demand for a poll may be withdrawn with the chairman's consent.

17.5 Conduct of poll

The chairman will decide in each case the manner in which a poll is taken, but in all cases it must ascertain the number of votes attaching to Shares held or represented by persons voting in favour of a Resolution or Special Resolution and the number of votes attaching to Shares held or represented by persons voting against the Resolution. Any dispute as to the admission or rejection of a vote will be determined by the chairman and that determination made in good faith will be final and conclusive.

17.6 Votes

Subject to this Constitution, the Listing Rules and the rights or restrictions on voting which may attach to or be imposed on any class of Shares:

(a) on a show of hands every Member (including each holder of preference Shares who has a right to vote) present in person or by proxy or attorney or representative will have 1 vote; and

(b) on a poll every Member (including each holder of preference Shares who has a right to vote) present in person or by proxy, attorney or representative will have 1 vote for each fully paid Share held by that Member and a fraction of a vote for each partly paid Share, equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) for that Share, ignoring any amounts paid in advance of a call.

17.7 Direct Voting

The Directors may determine that at any general meeting or class meeting, a member who is entitled to attend that meeting is entitled to a direct vote. A 'direct vote' includes a vote delivered to the company by post, fax or other electronic means approved by the directors. The directors may specify the form, method and timing of giving a direct vote at a meeting in order for the vote to be valid.

17.8 Voting if call unpaid on Shares

A Member will not be entitled to vote at any general meeting in respect of Shares held by the Member for which calls or other monies are due and payable to the Company at the time of the meeting. Subject to any restrictions affecting the right of any Member or class of Members to attend any meeting, a Member holding any Shares upon which no calls or other monies are due and payable to the Company is entitled to receive notices and to attend any general meeting and to vote and be reckoned in a quorum despite that monies are then due and payable to the Company by that Member in respect of other Shares held by that Member. Upon a poll, a Member will only be entitled to vote in respect of Shares held by the Member upon which no calls or other monies are due and payable to the Company at the time of the meeting.

17.9 Voting by joint holders

Where there are joint holders of any Share, any joint holder may vote at any meeting either personally or by proxy or attorney or representative in respect of the Shares as if they were solely entitled to those Shares, but if more than 1 joint holder is present at any meeting (whether personally, by proxy or by attorney or by representative) and tenders a vote, only the vote of the joint holder whose name appears first on the register will be counted. Several legal personal representatives of a deceased Member will for the purpose of this clause be deemed to be joint holders of the Shares registered in the name of that Member.

17.10 Voting by transmittee

A person entitled to transmission of a Share under clause 8 who, at least 48 hours before the time notified for a general meeting (or an adjourned meeting), satisfies the Board of its right to that Share, may vote at that general meeting in respect of that Share as if the person were registered as the holder of the Share.

17.11 Voting by Member of unsound mind

If a Member is of unsound mind or is a person whose person or estate is liable to be dealt with in any way under a law relating to mental health, that Member's committee or trustee or other person who properly has the management of the Member's estate may, if that person has at least 48 hours before the time notified for a general meeting (or an adjourned meeting) satisfied the Board of its relationship to the Member or the Member's estate, exercise the rights of the Member in respect of the general meeting as if the committee, trustee or other person were the Member.

17.12 Voting exclusions

If:

(a) in accordance with the requirements of the Listing Rules; or

(b) to ensure that a Resolution on which the Act requires that particular persons do not cast a vote so that the Resolution has a specified effect under the Act;

the notice of a general meeting includes any voting exclusion statement specifying that, in relation to particular business to be considered at that general meeting, votes cast by particular persons (whether specified by name or description of particular classes of persons) are to be disregarded by the Company, the Company must take no account, in determining the votes cast on a Resolution relating to that business (whether a Special Resolution or an ordinary Resolution) or for any other purpose, of any vote cast or purported to be cast by or on behalf of any of those persons (whether on a show of hands or on a poll) in relation to that Resolution except to the extent permitted by the Listing Rules.

17.13 Ruling on entitlements and votes

An objection may be raised with the chairman of a general meeting as to the qualification of a purported voter or the admission or rejection of a vote by any person present and entitled (or claiming to be entitled) to vote but that objection may be made only at the general meeting or adjourned meeting at which the purported voter wishes to vote or the vote objected to is given or tendered and, in relation to that objection:

(a) the decision of the chairman is final and conclusive; and

(b) a vote not disallowed as a result is valid and effective for all purposes.

18. Proxies

18.1 Instrument appointing proxy

The instrument appointing a proxy must be in writing and signed by the appointor or the appointor's attorney duly authorised in writing, or, if the appointor is a body corporate, by its corporate representative or at least 2 of its officers.

18.2 Deposit of proxy with company

The instrument appointing a proxy and the original power of attorney (if any) under which it is signed or a certified copy of the power of attorney must be received by the Company at least 48 hours before the meeting by delivery to the Company's office, by facsimile received at the Company's office or at any other place, fax number or electronic address specified for the purpose in the notice of meeting or otherwise by any other means permissible under section 250B of the Act.

18.3 Presence of Member

If a Member has a direct vote, or is present in person, or by its corporate representative, and a person appointed by that Member as proxy is also present at that meeting, that person may not exercise the rights conferred by the instrument of proxy while the Member is present.

18.4 Validity of vote given in accordance with proxy

Unless the Company has received written notice of the matter before the start or resumption of the meeting at which a proxy votes, a vote cast by the proxy will be valid even if, before the proxy or attorney voted:

(a) the Member dies;

(b) the Member is mentally incapacitated;

(c) the Member revokes the proxy's appointment;

(d) the Member revokes the authority under which the proxy was appointed by a third party; or

(e) the Member transfers the Share for which the proxy was given.

18.5 Form of proxy

(a) Every instrument of proxy must specify the Member's name and address, the Company's name, the proxy's name or the name of the office held by the proxy and the meetings at which the proxy may be used, and must otherwise comply with the provisions of section 250A of the Act.

(b) The instrument of proxy may be worded so that a proxy is directed to vote either for or against each of the resolutions to be proposed. Any instrument of proxy deposited in accordance with this Constitution in which the name of the appointee is not filled will be deemed to be given in favour of the chairman of the meeting to which it relates. The instrument of proxy may specify the proportion or number of votes that the proxy may exercise.

19. Directors

19.1 Number of Directors

The number of the Directors must not be less than 3, nor, until otherwise determined by the Company in general meeting, more than 10.

19.2 No Share qualification

A Director need not be the holder of any Shares in the Company.

19.3 Election of Directors by company

The election of Directors must be by Resolution of the Company in general meeting.

19.4 Directors may fill casual vacancies or appoint additional Directors

Notwithstanding clause 19.3, the Directors have power at any time and from time to time to appoint any other person as a Director either to fill a casual vacancy or as an addition to the Board but so that the total number of Directors must not at any time exceed the maximum number for the time being fixed by or under this Constitution. Any Director appointed under this clause after the Company is Listed must retire from office at, and will be eligible for re-election at the next annual general meeting following their appointment, but that Director will not be taken into account in determining the number of Directors who are to retire by rotation.

19.5 Eligibility for election as a Director

Except in the case of a Director retiring from the Board under this Constitution or a person recommended for appointment by the Board, a person is only eligible to be appointed as a Director by Resolution of the Company in general meeting, where the Company receives at its Office at least 30 business days before the relevant general meeting both:

(a) a nomination of the person by a Member; and

(b) a consent to that nomination signed by the person nominated for election as a Director.

19.6 Alternate Director

Subject to the provisions of the Act and the Listing Rules, each Director may from time to time by written notice to the Company appoint any person (whether or not a Member) to act as an alternate Director in their place during any period they think fit. The following provisions apply to any alternate Director:

(a) that Director may be removed or suspended from office by written notice to the Company from the Director who appointed it;

(b) that Director is entitled to receive notice of meetings of the Board, to attend meetings (if the Director who appointed it is not present) and to be counted towards a quorum at meetings;

(c) that Director is entitled to vote at meetings it attends on all Resolutions on which its appointor could vote had that appointor attended and, where that Director is a Director in its own right, it has a separate vote on behalf of the Director it is representing in addition to its own vote;

(d) that Director may exercise any powers that the appointor may exercise in its own right where the appointor is unavailable for any reason except the power to appoint an alternate Director. The action of an alternate Director will be conclusive evidence as against third parties of the unavailability of the appointor;

(e) that Director automatically vacates office if the Director who appointed it is removed or otherwise ceases to hold office for any reason;

(f) that Director, whilst acting as a Director, is responsible to the Company for its own acts and defaults and is not deemed to be the agent of the Director by whom it was appointed;

(g) that Director is not entitled to receive any remuneration from the Company but is entitled to reimbursement for reasonable travelling and other expenses incurred by it in attending meetings of the Board or otherwise on the Company's business;

(h) that Director is not to be taken into account in determining the number of Directors for the purposes of this Constitution; and

(i) that Director may act as an alternate for more than 1 Director.

19.7 Auditor cannot be Director

No auditor of the Company or partner or employee or employer of an auditor can be appointed as a Director or an alternate Director of the Company.

20. Director's tenure of office

20.1 Directors' tenure of office

Each Director, subject to the Act, the Listing Rules and this Constitution must not hold office (without re-election) past the third annual general meeting following its appointment or election or 3 years, whichever is longer, after which they must retire from office. This clause does not apply to the managing director, but if there is more than 1 managing director, only 1 is entitled not to be subject to this clause.

20.2 Retirement by rotation

Unless otherwise determined by a Resolution of the Company, while the Company is Listed, one third of the Directors for the time being, or if their number is not a multiple of 3, then the whole number nearest one third, must retire from office at each annual general meeting. The Directors to retire will be those who have been longest in office since their last election, but as between persons who became Directors on the same day, those to retire will, unless they otherwise agree among themselves, be determined by drawing lots. A retiring Director may act as a Director throughout the meeting at which it retires and at any adjournment. This clause does not apply to the managing director, but if there is more than 1 managing director, only the managing director who was first appointed is entitled not to be subject to re-election.

20.3 Retiring Director eligible for re-election

A Director who retires or whose office is vacated under this Constitution will be eligible for election or re-election to the Board. If another person is not elected by the Company to fill the vacated office, the retiring Director will, if offering itself for re-election and not being disqualified under the Act or this Constitution from holding office as a Director, be deemed to have been re-elected as a Director unless at that general meeting:

(a) it is expressly resolved not to fill the vacated office or to reduce the number of Directors; or

(b) a Resolution for the re-election of that Director is put and lost.

20.4 Removal of Director by the Company

The Company may by Resolution remove any Director at any time.

20.5 Vacation of office

(a) The office of a Director will be automatically vacated if:

(i) the Director becomes an insolvent under administration;

(ii) the Director becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the laws relating to mental health;

(iii) the Director's office is vacated or the Director is prohibited from being a Director in accordance with any of the provisions of the Listing Rules, the Act or any order made under the Act;

(iv) the Director resigns its office by notice in writing to the Company;

(v) the Director, either by itself or by its alternate Director, fails to attend Board meetings for a continuous period of 3 Months without leave of absence from the Board; or

(vi) the Director is an executive director upon termination of its employment or services agreement with the Company.

(b) A Director whose office is vacated under sub-paragraphs (i), (ii) or (iii) of paragraph (a), above, will not be eligible for re-election until the disability (or disabilities) referred to is (or are) removed.

21. Director's remuneration

21.1 Remuneration for non-executive directors

Subject to clause 21.3 and the Listing Rules, the Directors will be paid remuneration for services rendered as Directors (but excluding any remuneration payable to any Director under any executive service contract with the Company or a Related Body Corporate) as the Company in general meeting may from time to time determine, which may be divided among the Directors in any proportions and in any manner as they may from time to time determine. The remuneration of a Director will be deemed to accrue from day to day.

21.2 Additional remuneration for extra services

If any Director performs extra services or makes any special exertions, whether in going or residing abroad or otherwise for any of the purposes of the Company, that Director may be paid an additional sum for those services and exertions. This payment may be either in addition to or in place of any remuneration determined under the preceding clause.

21.3 Remuneration to be in accordance with Listing Rules

The remuneration payable to Directors must comply with the Listing Rules and in particular:

(a) fees payable to non-executive directors must be by way of a fixed sum, and not by way of a commission on or a percentage of profits or operating revenue;

(b) the remuneration payable to executive directors must not include a commission on or percentage of operating revenue; and

(c) the total fees payable to Directors must not be increased without the prior approval of Members in general meeting.

21.4 Expenses of Directors

In addition to any remuneration, the Directors must also be paid all travelling and other expenses incurred by them in attending and returning from meetings of the Directors, any committee of the Directors or any general meetings of the Company or otherwise in connection with the business of the Company.

22. Director's contracts

22.1 Directors not disqualified from holding office or contracting with Company

Except as otherwise provided in the Act or the Listing Rules:

(a) no Director will be disqualified by virtue of its office from holding any office or place of profit (other than as auditor) with the Company or with any company promoted by the Company or with any corporation in which the Company is a Member or which is a Member of the Company or in which the Company is otherwise interested;

(b) no Director will be disqualified by virtue of its office from contracting with the Company (whether as vendor, purchaser or otherwise);

(c) no contract referred to in this clause 22 or any contract or arrangement entered into by or on behalf of the Company in which any Director is in any way interested can be avoided and no Director will be liable to account to the Company for any profit arising from that contract or arrangement or from any office referred to in this clause 22.1 by reason only of that Director holding that office or of the Director's fiduciary relationship with the Company.

22.2 Director can act in professional capacity

Subject to the Act and the Listing Rules, a Director or a Director's firm may act in a professional capacity (other than as auditor) for the Company and that Director or that Director's firm is entitled to remuneration for professional services as if the relevant Director was not a Director.

22.3 Director not to vote on contract in which it has a material personal interest

Subject to the Act and the Listing Rules, neither a Director nor its alternate may vote at any meeting of the Board about any contract or arrangement in which the Director has, whether directly or indirectly, a material personal interest, nor be present while the relevant matter is considered at the meeting. However, that Director may execute or otherwise act in respect of that contract or arrangement.

22.4 Directors to declare interest

(a) Any Director who has a material personal interest in a matter that relates to the affairs of the Company must give the other Directors notice of the interest, unless the interest is of a type referred to in section 191(2)(a) of the Act, or all of the conditions referred to in section 191(2)(c) of the Act are satisfied.

(b) The Director must declare the nature and extent of the Director's interest and the relation of the interest to the affairs of the Company at the meeting of the Directors as soon as possible after the Director becomes aware of their interest in the matter.

(c) A Director who has an interest in a matter may give a standing notice to the other Director's of the nature and extent of that Director's interest in the matter in accordance with section 192 of the Act.

22.5 Directors to declare potential conflicts

Any Director who holds any office or possesses any property the holding or possession of which might (whether directly or indirectly) create duties or interests in conflict with its duties or interests as a Director of the Company must declare the fact of its holding that office or possessing that property and the nature and extent of any conflict at the first meeting of the Directors held after it becomes a Director or (if it is already a Director) at the first meeting of the Directors held after the relevant facts come to its knowledge.

22.6 Secretary to record declarations of Directors

The Secretary must record in the minutes of the meeting any declarations made or notices given by a Director under this Constitution.

23. Powers of Directors

23.1 Powers of Directors

Subject to the Act and to any provision of this Constitution, the Directors will manage, or cause the management of, the business of the Company and the Directors may pay, or cause to be paid, all expenses incurred in promoting and forming the Company and may exercise, or cause to be exercised, all powers of the Company that are not, by the Act or by this Constitution, required to be exercised by the Company in general meeting.

23.2 Powers to borrow or raise money

Without limiting the generality of the previous clause, the Directors may from time to time at their discretion borrow or raise any sum or sums of money or obtain other financial accommodation for the purposes of the Company and may grant security for the repayment of that sum or sums or the payment, performance or fulfilment of any debts, liabilities, contracts or obligations incurred or undertaken by the Company in any manner and upon any terms and conditions as they think fit and in particular by the issue or re-issue of bonds, perpetual or redeemable debentures or any mortgage, charge or other security on the undertaking or the whole or any part of the property of the Company (both present and future) including its uncalled or unpaid capital for the time being.

23.3 Directors may vote Shares in other corporations

Subject to the Act and the Listing Rules, the Directors may exercise the voting power conferred by the Shares in any corporation held by the Company in any manner they think fit, including in circumstances where a Director may be interested in the exercise, such as an exercise in favour of any Resolution appointing a Director as an officer of a corporation or voting or providing for the payment of remuneration to officers of the other corporation.

23.4 Agent or attorney

The Directors may at any time appoint any person or persons to be an agent or attorney of the Company for any purposes and with any powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under this Constitution) and for any period and subject to any conditions as the Directors think fit. Any appointment may be made in favour of any company or the members, directors, nominees or managers of any company or firm or in favour of any fluctuating body of persons (whether nominated by the Directors or otherwise) and any document appointing an agent or power of attorney may contain provisions for the protection or convenience of the agent or attorney and of persons dealing with the agent or attorney as the Directors may think fit.

23.5 Sub-delegation of powers

Any agent or attorney appointed by the Directors may be authorised by the Directors to sub-delegate all or any of the powers, authorities and discretions for the time being vested in them.

24. Executive directors

24.1 Managing director

The Directors may at any time appoint 1 or more members of the Board to the office of managing director or to any other executive office for any period and on any terms they think fit and, subject to the terms of any agreement entered into in any particular case, may revoke any appointment. Any appointment is automatically determined if the person ceases to be a Director.

24.2 Directors may confer powers on executive directors

The Directors may confer upon a managing director or other executive director any of the powers exercisable by the Directors upon those terms and conditions and with any restrictions as they think fit. Any powers so conferred may be concurrent with or to the exclusion of their own powers. The Directors may at any time revoke, withdraw, alter or vary all or any of those powers.

24.3 Remuneration of executive directors

Subject to the Listing Rules and the terms of any agreement entered into with any executive director, the Board may fix the remuneration of each executive director which may comprise salary or commission on or participation in profits of the Company.

25. Proceedings of Directors

25.1 Board meetings

The Directors may meet either:

(a) in person;

(b) by telephone;

(c) by audiovisual linkup; or

(d) by any other instantaneous communications medium for conferring;

for dispatch of business, and adjourn and otherwise regulate their meetings as they think fit.

25.2 Director to be regarded as present at meeting

A Director is regarded as present at a meeting where the meeting is conducted by telephone, audiovisual linkup or other instantaneous communications medium for conferring, if the Director is able to hear, and to be heard by, all others attending the meeting.

25.3 Place of meeting

A meeting conducted by telephone, audiovisual linkup or other instantaneous communications medium for conferring, will be deemed to be held at the place agreed upon by the Directors attending that meeting, provided that at least 1 of the Directors present at the meeting was at that place for the duration of the meeting. Meetings may be held outside Australia.

25.4 Convening of Directors meeting

A Director may at any time and the Secretary upon the request of a Director must convene a meeting of Directors.

25.5 Notice of meeting

Notice of every meeting of Directors must be given to each Director then in Australia, but failure to give or receive that notice will not invalidate any meeting.

25.6 Directors may act notwithstanding vacancy

The Directors may act notwithstanding any vacancy on the Board, but if and so long as their number is below the number required for a quorum, they must not act except in the case of emergency or for the purpose of filling up vacancies or summoning a general meeting.

25.7 Quorum for Board meetings

At a meeting of Directors, the number of Directors necessary to constitute a quorum is that number as is determined by the Directors and, unless otherwise determined, is 2.

25.8 Meeting competent to exercise all powers

A meeting of the Directors at which a quorum is present will be competent to exercise all or any of the powers and discretions vested in or exercisable by the Directors generally.

25.9 Chairman of Board meetings

The Directors may elect a chairman and deputy chairman of their meetings and determine the periods for which they are to hold office. If no chairman or deputy chairman is elected or if at any meeting neither the chairman nor the deputy chairman is present at the time appointed for the meeting, the Directors present at the meeting may choose 1 of the Directors present to be chairman of the meeting.

25.10 Documents tabled at meeting

An original document, or a photocopy or facsimile copy of that document, which is in the possession of, or has been seen by, all Directors attending the Directors' meeting prior to, or at the time of, that meeting, will be deemed to be a document tabled at that meeting.

25.11 Questions to be decided by majority

Questions arising at any meeting of the Board will be decided by a majority of votes of Directors present and voting. Subject to the Listing Rules, in the case of an equality of votes, the chairman of the meeting will have a second or casting vote, but the chairman will not have a second or casting vote where there are only 2 Directors present who are competent to vote on the question at issue.

25.12 Votes of alternate directors

An alternate director involved in any meeting of Directors has one vote for each Director for which that person is an alternate director and if that person is also a Director has one vote as a Director.

25.13 Equality of Votes

In the event of an equality of votes, the chairman of the meeting has a casting vote in addition to the chairman's deliberative vote unless only two Directors present are entitled to vote on the question.

25.14 Resolution in writing

A resolution in writing signed by:

(a) All Directors who are eligible to vote on the resolution; or

(b) Directors who are eligible to vote on the resolution and constituting in number not less than a majority of all appointed Directors, is taken to have been passed by the Directors without a meeting and will be valid and effectual as if it had been passed at a meeting of the Directors duly convened and held.

For the purposes of this clause, the signature of an alternate Director will be as effective as, and may be substituted for, the signature of its appointor.

25.15 Separate Copies

Separate copies of a document may be used for signing by the Directors provided the wording of the resolution and statement is identical in each copy and the last of the Directors constituting the majority, as required, signs the document. The document may be received signed by email or facsimile.

25.16 Resolution passed when signed by last of eligible Directors

The resolution is passed when signed by the last of all eligible Directors or the last Directors required to constitute the majority, as relevant.

25.17 Committee powers and meetings

The Directors may delegate any of their powers to a committee of Directors or to a sole Director as they think fit and may revoke that delegation. Any committee can exercise the powers delegated to it in accordance with any directions that may from time to time be imposed upon it by the Board. The meetings and proceedings of any committee consisting of 2 or more Directors will be governed by the provisions of this Constitution regulating the meetings and proceedings of the Directors so far as they are applicable and are not superseded by any direction made by the Board under this clause.

25.15 Validity of acts of Directors

All acts done by any meeting of the Directors or by a committee of the Directors or by any person acting as a Director will be valid even it is discovered afterwards that there was some defect in the appointment or election of that Director or person acting as a Director or that any Director was disqualified or had vacated office or was otherwise not entitled to vote or act.

26. Secretary

A Secretary or Secretaries of the Company must be appointed by the Directors in accordance with the Act. At least 1 Secretary must be ordinarily resident in Australia. The Directors may also appoint acting and assistant Secretaries. Those appointments may be for any term, at any remuneration and upon any conditions as the Directors think fit and any person so appointed may be removed by the Directors.

27. Minutes and registers to be kept

27.1 Minutes

The Directors must cause to be entered in minute books of the Company within 1 Month of the relevant meeting, minutes containing details of:

(a) the names of the Directors present at each meeting of the Directors and of any committee of Directors;

(b) all declarations made or notices given by any Director (either generally or specifically) of its interest in any contract or proposed contract or of its holding of any office or property whereby any conflict of duty or interest may arise; and

(c) all Resolutions and proceedings of general meetings of the Company, meetings of the Directors and meetings of any committee of the Directors.

27.2 Minutes to be signed by chairman

Any minutes of any general meetings of the Company, meetings of the Directors or meetings of any committee of the Directors must be signed by the chairman of the meeting or by the chairman of the next succeeding meeting and once signed will constitute prima facie evidence of the matters stated in the minutes.

27.3 Registers

In accordance with the provisions of the Act and the Listing Rules, the Directors must cause the Company to keep:

(a) a register of the holders of any debentures issued by the Company;

(b) a register of charges; and

(c) any other registers or subregisters required by the Listing Rules, the ACH Clearing Rules or the ASTC Settlement Rules.

27.4 Branch registers

The Company may cause a branch register of Members to be kept at any place outside Australia. Subject to the Act, the Directors may make any provisions or arrangements they think fit for the keeping of any branch register, the transfer of Shares to, on or from any branch register and to ensure compliance with the requirements of any local law.

28. The Seal

28.1 Use of common seal

If the Company has a seal:

(a) the Directors must provide for the safe custody of the Seal;

(b) the Seal must be used only with the authority of the Directors or a committee of the Directors with authority from the Directors to authorise the use of the Seal;

(c) every document to which the Seal is affixed must be signed by a Director and countersigned by another Director, a Secretary, an assistant Secretary or another person appointed by the Directors to countersign that document or a class of documents which includes that document.

28.2 Duplicate seals

The Company may have for use in place of its common seal, 1 or more duplicate seals, each of which is a copy of the Seal with the words “duplicate seal” on it.

28.3 Share seal

The Company may also have a duplicate common seal which is a copy of the Seal with the words “share seal” on it. The share seal must only be used in sealing certificates for Shares and other securities of the Company and must be used and affixed in like manner to the Seal.

28.4 Affixing the Share seal

The Board may determine:

(a) the manner (which may be by a mechanical or other automatic means) in which the share seal is to be affixed and that affixing attested; and

(b) that the affixing of the share seal need not occur in the presence of any person;

(c) that no signatures of any persons are required for the affixing of the share seal; and

(d) that, if signatures are required for the affixing of the share seal, those signatures may be affixed by any mechanical or other automatic means.

29. Negotiable instruments

All cheques, bills of exchange, promissory notes and other negotiable instruments may be signed, drawn, accepted, made or endorsed (as the case may be) for and on behalf of the Company by any persons and in any manner as the Directors may determine.

30. Reserves

30.1 Reserves

Before declaring any dividends, the Directors may set aside out of the profits of the Company any sums they think proper as reserves to be applied to meet contingencies, to equalise dividends, to pay special dividends, to repair, improve or maintain any property of the Company or for any other purpose the Directors in their absolute discretion consider to be in the interests of the Company. Pending that application, the reserves may, at the discretion of the Directors, be used in the business of the Company or be invested in any investments the Directors think fit (including the purchase of Shares of the Company). The Directors may deal with and vary these investments and dispose of all or any part for the benefit of the Company and may divide the reserves into special reserves as they think fit.

30.2 Carry forward of profits

The Directors may carry forward any profits they consider ought not to be distributed as dividends without transferring those profits to a reserve.

30.3 Revaluation of assets

Subject to the Act, the Directors may revalue any assets of the Company.

31. Dividends

31.1 Power to determine and declare dividends vested in Directors

The power to determine that a dividend is payable and to declare dividends (including interim dividends) is vested in the Directors who may fix the amount and the timing for payment and the method of payment of any dividend in accordance with this Constitution.

31.2 Apportionment of dividends

Subject to this Constitution, the Act, the Listing Rules and the rights of Members entitled to Shares with preferential, special or qualified rights as to dividend, dividends are to be apportioned and paid among the Members in proportion to the amounts paid up (not credited) on the Shares held by them. Any amount paid on a Share in advance of a call will be ignored when calculating the relevant proportion.

31.3 Dividends only payable out of profits

No dividend is payable except out of the profits of the Company. The declaration of the Directors as to the amount of the profits of the Company is conclusive.

31.4 Dividend payable by distribution of assets

(a) The Directors when declaring a dividend may:

(i) resolve that the dividend be paid wholly or partly by the distribution of specific assets including bonus Shares or other securities of the Company or any other corporation; and

(ii) to the extent permitted by law, direct that the dividend be payable to particular Members wholly or partly out of any particular fund or reserve or out of profits derived from any particular source and to the remaining Members wholly or partly out of any other particular fund or reserve or out of profits derived from any other particular source and may make the direction despite that by doing so the dividend will form part of the assessable income for taxation purposes of some Members and will not form part of the assessable income of others.

(b) All matters concerning those dividends including valuation of assets is determined by the Directors as they think expedient.

31.5 Dividends may be payable in foreign currency

Dividends will be declared in Australian currency, but the Directors may, if they think fit, determine that any dividend payable to some or all the Members will be paid in a currency or currencies other than Australian currency and for that purpose the Directors may at the time of declaration of the dividend stipulate a date on which they will determine the rate or rates at which the dividend will be converted into the other currency or currencies. Payment in another currency or currencies of the amount of any dividend converted pursuant to this clause will be deemed as between the Company and all Members to be an adequate and proper payment of the amount of the dividend.

31.6 No interest payable on dividends

Interest is not payable by the Company in respect of any dividend.

31.7 Directors may retain certain dividends

The Directors may retain the dividends payable on any Shares in respect of which any person is entitled to become a Member as a consequence of death, bankruptcy or other operation of law until that person or a nominated transferee becomes a Member in respect of the Shares.

31.8 Directors may deduct from dividends money payable to Company

The Directors may deduct from any dividend payable to a Member all sums of money (if any) presently payable by the Member to the Company on account of calls or otherwise.

31.9 Payment of dividends

(a) Any dividend, interest or other monies payable in respect of any Shares may be paid by cheque sent through the post to:

(i) the registered address of the Member or person entitled or, in the case of joint holders, to the registered address of that holder whose name appears first on the Register in respect of the joint holding; or

(ii) to that person at that address as the holder or joint holders may in writing direct.

(b) Every cheque will be made payable to the order of the person to whom it is sent and is at its risk.

31.10 Unclaimed dividends

Except as otherwise provided by the Act, all dividends unclaimed for 1 year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed.

31.11 Dividend Reinvestment Plan

The Directors may implement and in their discretion maintain, on terms and conditions determined by the Directors from time to time, a dividend reinvestment plan (the Dividend Reinvestment Plan) for cash dividends paid by the Company in relation to Shares in the capital of the Company to be reinvested by way of subscription for Shares to be issued and allotted by the Company. Participation in the Dividend Reinvestment Plan will be available to those Members who wish to participate in the Dividend Reinvestment Plan and are eligible to do so under the terms and conditions of the Dividend Reinvestment Plan.

31.12 Amendment of Dividend Reinvestment Plan

The Directors may vary, amend or suspend any terms or conditions of the Dividend Reinvestment Plan as and when they think fit in their discretion.

32. Capitalisation of profits

32.1 Capitalisation of profits

The Directors may resolve to capitalise any sum for the time being standing to the credit of any of the Company's reserve accounts, profit and loss account, arising from a revaluation or sale of assets or otherwise available for distribution to Members. The sum capitalised will be applied for the benefit of Members (in the proportions to which those Members would have been entitled in a distribution of that sum by way of dividend) in one or both of the following ways:

(a) in or towards paying up any amounts for the time being unpaid on any Shares held by those Members; or

(b) in paying up in full or in part any unissued Shares or debentures of the Company to be allotted and distributed credited as fully paid to those Members.

32.2 Directors powers in relation to capitalisation of profits

In giving effect to any Resolution for capitalisation under clause 32.1, the Directors may:

(a) appoint any person to make an agreement on behalf of the Members entitled to benefit from the Resolution where that agreement is required under the Act or is otherwise considered by the Directors to be desirable;

(b) issue fractional certificates or make cash payments where Shares or debentures become issuable in fractions; and

(c) otherwise make provisions for adjusting differences and settling any difficulty arising pursuant to the Resolution including a determination that fractions will be disregarded or that a fractional entitlement be increased to the next whole number.

33. Financial statements

33.1 Financial records

The Directors must cause financial and other records to be kept to correctly record and explain the transactions and financial position of the Company, to enable true and fair profit and loss accounts and balance sheets to be prepared and to permit preparation of any other documents required by the Act, the Listing Rules or this Constitution. The records must be kept:

(a) in a manner which will to enable them to be conveniently and properly audited;

(b) for 7 years after the completion of the transactions or operations to which they relate; and

(c) at the Office or at any other place as the Directors think fit and at all times be open to inspection by the Directors.

33.2 Financial, Director's and auditor's reports to be laid before annual general meeting

At each annual general meeting, the Directors must lay before the Company a financial report, a Directors' report and an auditors report for the last Financial Year of the Company that ended before that annual general meeting which comply with all applicable provisions of the Act and the Listing Rules.

33.3 Financial statements and reports

The Company must cause copies of the Company's financial statements and other reports to be lodged with the ASIC and ASX and sent to holders of its securities as required by the Act and the Listing Rules.

34. Audit

34.1 Auditors

Auditors of the Company are appointed and removed and their remuneration, rights and duties are regulated by the Act.

34.2 Financial statements to be audited

The financial statements of the Company for each Financial Year must be audited by the auditors in accordance with the Act.

34.3 Register to be audited

The Register, including any subregisters kept pursuant to the Listing Rules, the ACH Clearing Rules or the ASTC Settlement Rules, and any branch register of Members of the Company must be audited at least once every 12 Months or whenever ASX otherwise asks.

35. Inspection of records

Subject to the Act, the Directors may determine whether, to what extent, at what times and places and under what conditions the accounting and other records of the Company or any of them will be open to the inspection of the Members. No Member (who is not a Director) will have any right to inspect any account, book or document of the Company or receive any information concerning the business, trading or customers of the Company or any trade secret or secret process of the Company except as provided by the Act or as authorised by the Directors or a Resolution of the Company in general meeting.

36. Notices

36.1 Service of notices by Company

A notice may be given by the Company to any Member either personally, by facsimile or electronically to the relevant facsimile number or electronic address of the Member as shown on the Register or provided by the Member, by sending it by post addressed to the Member at its address as shown in the Register or otherwise by any method (including by advertisement) as the Directors may determine.

36.2 Listing Rules and ASTC Rules

Any notice given under the Listing Rules or ASTC Settlement Rules must contain everything those rules require it to contain.

36.3 Posting notices to overseas Members

In the case of a Member whose registered address is outside Australia, a notice sent by post will be sent by airmail.

36.4 Notices to joint holders

A notice may be given by the Company to the joint holders of a Share by giving the notice to the joint holder whose name appears first in the Register and that notice will be sufficient notice to all the joint holders.

36.5 Notice deemed to be served

(a) Any notice by advertisement will be deemed to have been served on the day of publication of the newspaper containing the advertisement.

(b) Any notice sent by post will be deemed to have been served on the day following the day on which the notice is posted unless sent by airmail to an address outside the country in which it was posted, in which case it will be deemed to have been served on the fifth day following the day on which it is posted.

(c) A notice sent by facsimile or other electronic means will be deemed to have been served on the same day that it is sent.

36.6 Service by post

In proving service by post, it will be sufficient to prove that the notice was properly addressed and posted with the required postage. A certificate in writing signed by any manager, Secretary or other officer of the Company that the notice was so addressed and posted is conclusive evidence of proper service by post.

36.7 Notices to Members whose whereabouts unknown

Where:

(a) the Company has bona fide reason to believe that a Member is not known at the address shown for that Member in the Register;

(b) the Company has subsequently made an enquiry at that address as to the whereabouts of the Member; and

(c) the enquiry either elicits no response or a response indicating that the Member's present whereabouts are unknown;

all future notices will be deemed to be given to the Member if the notice is exhibited in the Office for a period (not including weekends and public holidays) of 48 hours and will be deemed to be duly served at the commencement of that period. This clause will apply unless and until the Member informs the Company that the Member has resumed residence at the Member's address shown in the Register or notifies the Company of a new address to which the Company may send the Member notices (which new address is deemed to be the Member's registered place of address).

36.8 Notices binding on transferees

Every person who by operation of law, transfer or otherwise becomes entitled to any Share will be bound by every notice in respect of the Share which, prior to its name and address being entered on the Register, is duly given to the person from whom it derives its title to the Share.

36.9 Notice to deceased or bankrupt Members

Any notice or document given to a Member will be deemed to have been duly given in respect of any Shares held solely or jointly by the Member despite that the Member is deceased or bankrupt and whether or not the Company has notice of its decease or bankruptcy until some other person is registered in its stead as the holder or joint holder.

36.10 Signing of notices

The signature to any notice to be given by the Company may be written or printed.

36.11 Counting of days

Where a given number of days' notice or notice extending over any other period is required to be given, that period shall begin the day after the notice is given. Where a notice refers to two separate time periods, by reference to a particular act or event each separate period shall be calculated by including the first or final day of the period (depending on whether the period is expressed to be "before" or "after" the act or event).

37. Winding up

37.1 Distribution of surplus assets

If in a winding up, there remains any assets available for distribution to Members, then subject to the rights of the holders of Shares issued upon special terms and conditions, this Constitution, the Act and the Listing Rules, those assets will be distributed amongst the Members in returning capital paid up on their Shares and distributing any surplus in proportion to the amount paid up (not credited) on Shares held by them.

37.2 Fee or commission paid to liquidator to be approved in general meeting

No fee or commission will be paid by the Company to any Director or liquidator upon any sale or realisation of the Company's undertaking or assets or any part thereof except with the approval of the Company in general meeting, that meeting to be convened by notice specifying the fee or commission proposed to be paid.

37.3 Distribution in specie

If the Company is wound up (whether voluntarily or otherwise), the liquidator may, with the sanction of a Special Resolution, divide among the contributories in specie or kind any part of the assets of the Company and may, subject to obtaining the same sanction, vest any part of the assets of the Company in trustees upon those trusts for the benefit of the contributories or any of them as the liquidator thinks fit. For the purposes of this clause, the liquidator may set values as it considers fair and reasonable on any property to be divided and determine how the division is to be carried out.

38. Indemnity and insurance

38.1 Indemnity

To the extent permitted by law:

(a) the Company must indemnify each Director and other officer of the Company against any liability (other than legal costs) incurred in acting as a Director or officer of the Company other than:

  (i) a liability owed to the Company or a Related Body Corporate;

  (ii) a liability for a pecuniary penalty order under section 1317G or a compensation order under section 1317H of the Act; or

  (iii) a liability that did not arise out of conduct in good faith;

(b) the Company must indemnify each Director and other officer of the Company for costs and expenses incurred by a Director or officer of the Company in defending an action for a liability incurred in acting as a Director or officer of the Company except for legal costs incurred:

  (i) in defending or resisting any proceedings, whether civil or criminal, in which the Director or officer is found to have a liability for which they could not be indemnified under subclause (a) above;

(ii) in defending or resisting criminal proceedings in which the Director or officer is found guilty;

(iii) in defending or resisting proceedings brought by the Australian Securities and Investments Commission or by a liquidator for a court order if the grounds for making the order are found by the court to have been established, except for costs incurred in responding to actions taken by the Australian Securities and Investments Commission or a liquidator as part of an investigation before commencing proceedings for the court order; or

(iv) in connection with proceedings for relief to the Director or other officer under the Act in which the relief is denied by the court; and

(c) the Company may make a payment, or agree to make a payment, whether by way of advance, loan or otherwise, for any legal costs incurred by a Director or officer, on the condition that the Director or officer must repay the amount paid by the Company to the extent that the Company is ultimately found not liable to indemnify the Director or officer for those legal costs.

38.2 Insurance

To the extent permitted by law the Company may pay, or agree to pay, a premium in respect of a contract insuring a person who is or has been a Director or other officer of the Company or of a subsidiary of the Company other than a liability arising out of:

(a) conduct involving wilful breach of duty in relation to the Company; or

(b) a contravention of section 182 or 183 of the Act.

Exhibit 4.20

PRANA BIOTECHNOLOGY
Limited ACN 080 699 065
Level 2, 369 Royal Parade
Parkville Vic 3052 Australia
Telephone: +61 3 9349 4906
Facsimile: +61 3 9348 0377

22th May, 2009

Professor Ashley Bush
52/167 Fitzroy Street
St Kilda,
Vic. 3182

Dear Ashley,

RE: Letter Amendment to the Consultancy Services Agreement dated 8th January 2004 and Letter Agreement dated 14 November 2007 between Consultant and Prana Biotechnology Limited, collectively known as the 'Consultancy Agreement'.

I refer to our discussion on 20th April 2009 regarding the need to change the remuneration arrangement under the above Consultancy Agreement with Prana. As agreed, the revised annual consultancy fee will be AUD 60,000, effective 1st June 2009.

To formalize this change, we are amending the Consultancy Agreement by this Letter Amendment such that clause 6.1 is replaced in its entirety to read as follows;

'During the Term, Prana shall pay the Consultant an annual consultancy fee of US$100,000.00 (one hundred thousand United States Dollars) in equal monthly installments in arrears directly into such account as the Consultant may from time to time during the Term in writing nominate, the first installment to be paid one month after the Commencement Date. As of June 1st 2009, Prana shall pay the Consultant an annual consultancy fee of AUD60,000.00 (sixty thousand Australian Dollars) in equal monthly installments in arrears directly into such account as the Consultant may from time to time during the Term in writing nominate'.

Further the Remuneration Schedule, Annexure C, section 1, 'Services Fees Package' is replaced in its entirety to read as follows;

'Annual Consultancy Fee: AU$ 60,000 per annum.

This fee is to be increased annually on each anniversary of the Commencement Date, in accordance with the increase in the Consumer Price Index in Australia'.

To confirm your acceptance of this arrangement, please sign and date in the space provided below.

Yours sincerely,

Dianne Angus
Chief Operating Officer
Prana Biotechnology Limited

Acknowledged and accepted by Professor Ashley Bush

Signed ……

Dated ……

Exhibit 4.21

PROCESS DEVELOPMENT AND MANUFACTURING AGREEMENT

This PROCESS DEVELOPMENT AND MANUFACTURING AGREEMENT (hereinafter "**Agreement**") is made by and between Prana Biotechnology Ltd ACN 080 699 065 ("**Prana**"), a company incorporated in Australia whose registered office and principal place of business is at Level 2,369 Royal Parade, Parkville Victoria 3052 and Dr. Reddy's Laboratories Limited ("**Dr. Reddy's**"), a company incorporated and existing under the laws of India, having its principal place of business at 7-1-27 Ameerpet Hyderabad 500 016 India.

Dr. Reddy's and Prana are individually referred to as a "Party" and jointly as the "Parties".

WHEREAS:

(i) After executing a Confidentiality Agreement dated 28th March 2008, Prana and Dr. Reddy's entered into discussions relating to Prana's requirement for a process development and manufacturing project (hereinafter referred to as "Project") to carry out process research, feasibility, optimization, scale-up, cGMP manufacture and stability studies of PBT2 API.

(ii) Following such discussions and the exchange of proposal requests and offers between the Parties, Dr. Reddy's has agreed, at the request of Prana, to undertake the Project, on the terms and conditions contained in this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Definitions

For purposes of this Agreement, capitalized terms, whether used in the singular or plural, shall have the following meanings, unless the context clearly requires otherwise:

(a) "Affiliate" shall mean, with respect to a Party, any entity controlling, controlled by, or under common control with such Party. For these purposes, "control" shall refer to: (i) the possession, directly or indirectly, of the power to direct the management or policies of an entity, whether through the ownership of voting securities, by contract or otherwise; or (ii) the ownership, directly or indirectly, of more than fifty percent (50%) of the voting securities or other ownership interest of an entity.

(b) "Agreement" means this agreement and includes any schedule or annexure to it.

(c) "API" means an active pharmaceutical ingredient of the Compound.

(d) "Approved Purposes" for a given Party means the performance of the Project and its obligations under this Agreement.

(e) "Business Day" means a day other than Saturday, Sunday or a public holiday or bank holiday in the place where an act is to be performed or a payment is to be made.

(f) "Commencement Date" means 23 September, 2008.

(g) "Compound" or "PBT2" means 5,7-Dichloro-2-dimethylaminomethyl-8-hydroxyquinoline hydrochloride.

(h) "Confidential Information" means Dr. Reddy's Confidential Information or Prana Confidential Information as the context allows.

(i) "Dr. Reddy's Confidential Information" means:

(i) the Proposal;

(ii) all information concerning Dr. Reddy's comprising its research projects, plans and strategies, trade secrets, Know-how, technology, business operations and financial dealings which is or has been disclosed to or obtained by Prana prior to or after the date of this Agreement (whether orally, electronically or in writing) other than Prana Confidential information and information that Prana can establish:

(A) was already in the public domain at the time of its provision to Prana; or

(B) was independently discovered by Prana without the aid, application or use of the Dr. Reddy's Confidential Information.

(j) "First RFP" has the meaning given in the definition of "RFP".

(k) "GMP" or "cGMP" means the current good manufacturing practices, standards and requirements specified in US 21 CFR parts 210 and 211 and ICH Q7.

(1) "Intellectual Property Rights" ("IP") means any and all intellectual, industrial and commercial property rights throughout the world including rights and interests in respect of or in connection with Patents, inventions, ideas, discoveries, trade secrets, Know-how, whether or not patentable, confidential information, copyright (including future copyright and rights in the nature of or analogous to copyright), trade marks, service marks, database rights, designs, whether or not registered or registrable and includes applications for any of the foregoing and the right to apply for any of the foregoing in any part of the world.

(m) "Know-how" means all information not in the public domain of whatsoever nature, including trade secrets, ideas, discoveries, inventions, data, formulae, techniques, procedures for experiments and tests, methods or schemes for synthesising compounds, uses of/or indications for chemical compounds, technical data or specifications, testing methods, assays, isolation and purification methods, designs, sketches, records, biological materials and analyses.

(n) "Material Form" in relation to information, includes any form (whether visible or not) of storage from which the information can be reproduced, and any form in which the information is embodied or encoded and in relation to Prana Materials, means the materials themselves.

(o) "Patents" mean all patent applications, patents, or letters patents, and any claims in any such patent applications or patents, in any part of the world, including, without limitation, all continuations, continuation-in-parts, reissues, extensions, substitutions, confirmations, registrations, re-validations, and additions, and any supplementary protection certificates in respect thereof.

(p) "Prana Arising IP" means all IP generated, developed, conceived, created, invented, developed, discovered, derived, modified, improved or adapted by Dr. Reddy's, Prana or their respective Affiliates and Representatives in the course of performing the Project.

(q) "Prana Background IP" means all Intellectual Property Rights vested in, owned or controlled by or licensed to Prana or any Affiliate of it as at the Commencement Date.

(r) "Prana Confidential Information" means:

(i) the Prana Materials;

(ii) the Results;

(iii) the RFP;

(iv) Prana Background IP and Prana Arising IP;

(v) all information concerning Prana comprising the Compound, Prana's research projects, plans and strategies, products, materials and compounds, trade secrets, Know how, technology, business operations and financial dealings which is or has been disclosed to or obtained by Dr. Reddy's prior to or after the date of this Agreement (whether orally, electronically or in writing) other than information that Dr. Reddy's can establish:

(A) was already in the public domain at the time of its provision to Dr. Reddy's; or

(B) was independently discovered by Dr. Reddy's outside the Project without the aid, application or use of the Prana Confidential Information.

(s) "Prana Materials" means:

(i) samples of the Compounds and any other materials including reference standards provided by Prana to Dr. Reddy's for the purpose of the Project; and

(ii) any APIs of the Compound or other materials manufactured by Dr. Reddy's in the course of the Project.

(t) "Project" means a process development and manufacturing project consisting of Sub-Projects to carry out process research, feasibility, optimization, scale-up, cGMP manufacture and Stability Studies of PBT2 API.

(u) Project Works means each of the Sub-Projects that Prana gives Dr. Reddy's written authority to undertake.

(v) "Proposal" means both:

(i) Dr. Reddy's 2nd Revised Offer for PBT2 manufacture dated 18 September, 2008 provided in response to the First RFP and contained in Appendix C; and

(ii) Dr. Reddy's Offer for PBT2 Optimization through Route 2 dated 29 September, 2008 provided in response to the RFP Addendum and contained in Appendix D.

(w) "Quality Agreement" means the agreement to be entered by the Parties pursuant to clause 2(i).

(x) "Representatives" in relation to a Party means a director, officer, employee, contractor, consultant, agent or adviser of that Party.

(y) "Results" means:

(i) all results, data, information, processes, procedures, methodologies, techniques, concepts, ideas, compounds, materials, items or things conceived, created, developed, discovered, derived, modified, improved or adapted by Dr. Reddy's or Prana or their respective Affiliates and Representatives during, or as a consequence of, the Project; and

(ii) all papers, materials, records, laboratory notebooks and documents (in written or electronic form) which have been produced by Dr. Reddy's or Prana or their respective Affiliates and Representatives in relation to the Project and the Results.

(z) "RFP" means both:

(i) the Request for Proposal: Process Development and cGMP API Manufacture of PBT2 sent by Prana to Dr. Reddy's on 14 August, 2008 for the purpose of inviting a Proposal from Dr. Reddy's for the Project ("**First RFP**"), and contained in Appendix E; and

(ii) the Request for Proposal Addendum: Process Development and cGMP API Manufacture of PBT2 submitted by Prana to Dr. Reddy's ("**RFP Addendum**") and contained in Appendix F.

(aa) "RFP Addendum" has the meaning given in the definition of RFP.

(bb) "Route 2" means the method of manufacture of the Compound which is referred to in the RFP Addendum as Route 2.

(cc) "Route 3" means the method of manufacture of the Compound which is referred to in the First RFP as Route 3.

(dd) "Scope of Project Works" means the particular tasks for each Sub-Projects as specified in Appendix A.

(ee) "Sign-Off" means a formal written statement issued by Prana to Dr. Reddy's which would indicate the acceptance of work that is carried out by Dr. Reddy's towards any Sub-Project as authorized by Prana and also acknowledgment of completion of Dr. Reddy's' obligations under that Sub-Project work.

(ff) "Sub-Projects" means the discrete works projects specified in the Scope of Project Works to be undertaken by Dr. Reddy's pursuant to this Agreement, subject in each case to the receipt of written approval from Prana.

(gg) "Timetable" means the timetable for the commencement and completion of each Sub-Project. Timetables may be replaced in accordance with clauses 2 (b) or 2 (d). The first Timetable is contained in Annexure B.

2. Engagement and Obligations of Dr. Reddy's

(a) Prana engages Dr. Reddy's to perform the Project (to the extent of those Sub-Projects authorised by Prana in accordance with clause 2 (b)), and Dr. Reddy's agrees to accept the engagement on the terms and conditions contained in this Agreement.

(b) Dr. Reddy's must receive written authority from Prana's Head of Development or its Discovery and Non-Clinical Development Manager before commencing any Sub-Project. Subject to clause 3 (b) in relation to Sub-Project 1A, without such authority for a given Sub-Project, Dr Reddy's must not undertake and may not charge Prana its fee for the Sub-Project or any other amount. If in relation to a given Sub-Project, Prana provides written authority to undertake the Sub-Project after the relevant commencement date specified in the Timetable, then the Parties will agree in writing in good faith on a new Timetable to replace the existing one.

(c) Dr. Reddy's will perform and carry out the Project Works will all due care and skill in accordance with the Scope of Project Works and the Latest Timetable that would be agreed by and between Dr. Reddy's and Prana. In case the timetable gets revised due to whatsoever reason, Dr. Reddy's and Prana will agree in good faith to reassess the timetable and update the existing Timetable in writing.

(d) During the course of the Project, Prana may give Dr. Reddy's written notice of any Project Works (or parts thereof) that have become a priority for Prana. On receipt of such a notice, Dr. Reddy's must re-prioritise its work in order to perform the priority works. In this regard, the parties must, where the circumstances reasonably require it, agree in good faith in writing on a new Timetable and payment terms to replace the existing Timetable and terms.

(e) Dr. Reddy's must provide the following updates and reports to Prana:

(i) weekly written updates (in a format acceptable to Prana, which will be communicated to Dr. Reddy's in a separate email) of the work undertaken and the Results obtained for the week, problems encountered by Dr. Reddy's, the stage of the Timetable that Dr. Reddy's is up to and any other information that would be relevant to Prana in relation to the Project; and

(ii) a written report (in a format acceptable to Prana, which will be communicated to Dr. Reddy's in a separate email) detailing all of the work carried out and all the Results obtained for each Sub-Project undertaken, including all practices, procedures, processes and data (including spectra) and information developed or generated in the conduct of the Sub-Project along with any future recommendations, within thirty (30) days of the completion of the work specified in the Scope of Project Works for that Sub-Project.

(f) Dr. Reddy's will participate in weekly teleconferences with Prana to present its updates and reports and allow Prana to ask any questions that it may have concerning the Project and set the work priorities for the following week. A Representative of Dr. Reddy's must take the minutes of each telephone conference and prepare these for the consideration and approval of the Parties at the next telephone conference.

(g) All Results arising out of the Project must be recorded in laboratory notebooks. These laboratory notebooks must:

(i) only be used in relation to the Project;

(ii) be maintained and signed in accordance with best industry practice; and

(iii) be made available for inspection by Prana upon request by Prana in writing.

(h) Dr. Reddy's must comply with GMP (in relation to the manufacturing work to be undertaken by it) and all applicable laws in the performance of its obligations under this Agreement.

(i) Prana and Dr Reddy's agree to enter into a quality agreement (on mutually agreed terms) in relation to the GMP manufacturing work in Sub-Project 5 prior to the commencement of that Sub-Project.

(j) Provided Prana gives reasonable notice, Dr. Reddy's must allow Prana or any Representative of it to attend any premises at which Project Works are being conducted for the purpose of inspecting all Project works, materials and information to ensure the compliance by Dr. Reddy's with its obligations under this Agreement. Prana's Representative shall only have the right to access works, materials and information that relate exclusively to the Project, and only if such access would not compromise Dr. Reddy's confidentiality obligations to another party and/or its internal QA programs. Notwithstanding the foregoing, if Prana's Representative is not an employee of Prana, (i) it must not be a competitor of Dr. Reddy's or any of its Affiliates, and (ii) will not be permitted to access or to examine any Project works, materials and information, until he/she has entered into a non-disclosure agreement with Dr. Reddy's

(k) If at any time during or after the termination of this Agreement, Prana requires a third party to perform any work relating to PBT2 (or any API of it), including its manufacture, then Dr Reddy's must, at the request of Prana, co-operate with Prana and the third party supplier and provide such assistance, advice, documentation and information (including the relevant Results) as is necessary to enable the third party supplier to perform the work requested by Prana subject to a written understanding between the parties (which is consistent with this paragraph (k)). In consideration of Dr Reddy's assistance under this paragraph (k), Prana agrees to pay Dr Reddy's a service fee which shall be agreed in good faith by the Parties within 14 days of Prana's initial request. Prana also agrees to pay all out-of-pocket expenses reasonably incurred by Dr Reddy's, provided that any anticipated expenses in excess of USD$1,000 are approved by Prana in writing before they are incurred.

3. Payment

(a) The total cost of the Project is One Million Three Hundred and Sixty Five Thousand United States Dollars (USD 1,365,000/-) (Including Scenario 1 manufacturing in Sub-Project 5) OR Eight Hundred and Seventy Eight Thousand United States Dollars (USD 878,000/-) (Including Scenario 2 manufacturing in Sub-Project 5), payable to Dr. Reddy's, for all the work and deliverables under the Sub-Projects if the entire Project is undertaken by Dr Reddy's.

(b) The amount payable by Prana to Dr. Reddy's for Sub-Project 1A as set out below is a concessional price and has been quoted on the basis that Dr. Reddy's shall exclusively receive written authority under Clause 2(b) to undertake all the Sub-Projects in accordance with the Scope of Project Works contained in Appendix A. Specifically, if for any reason Prana elects not to provide written authority to Dr. Reddy's for commencing Sub-Project 5 within 90 days of the date specified in the Timetable, Prana shall not be entitled to the concessional price. In such an event Dr. Reddy's is at liberty to increase the price to USD 130,000/- for Sub-Project 1A if that Sub-Project is approved by Prana and undertaken by Dr Reddy's and raise an additional invoice for the additional amount of USD 70,000 and Prana shall be liable to pay the same. The prices mentioned hereunder are valid for a period of 12 months effective from Commencement Date. After expiry of such 12 month term, Dr. Reddy's may at its discretion revise the prices.

Sub-Project Pricing

Sub-Projects 1 & 2: Process Development (Familiarization / Optimization Study – only one of routes – either Route 2 or Route 3) and Analytical Method Transfer

- USD 130,000/-

Sub-Project 1A: Optimization of second route that is not covered under Project 1 above, this could be either Route 2 (if Route 3 gets covered under Project 1 above) or Route 3 (if Route 2 gets covered under Project 1 above) **(optional work)** and Prana reserves the right to request this service in writing)

- USD 60,000/-

Sub-Project 2A: Manufacture of 500 gm Scale-up batch - USD 93,000/-

Sub-Project 3: Polymorph Studies - USD 55,000/-

Sub-Project 4: Manufacture of Gold Standard - USD 30,000/-

Sub-Project 5: cGMP manufacture:

Scenario 1 - USD 1,027,000/-

Scenario 2 - USD 540,000/-

Sub-Project 6: Stability Study (48 months) - USD 30,000/-

The payment terms for each Sub-Project shall be:

Sub-Project 1 & 2:

- 50% of the value will be paid as an advance (USD 65,000/-) on authorisation of this Sub-project subject to clause 2(b)
- 50% of the contract value will be paid after completion (USD 65,000/-)

Sub-Project 1A:

- 50% of the value will be paid as an advance (USD 30,000/-) on authorisation of this Sub-project subject to clause 2(b)
- 50% of the contract value will be paid after completion (USD 30,000/-)

Sub-Project 2A:

- 50% of the value will be paid as an advance (USD 46,500/-) on authorisation of this Sub-project subject to clause 2(b)
- 50% of the contract value will be paid after completion (USD 46,500/-)

Sub-Project 3 & 4:

- 50% of the value will be paid as an advance (USD 42,500/-) on authorisation of the Sub-project subject to clause 2(b)
- 50% of the contract value will be paid after completion (USD 42,500/-)

Sub-Project 5:

- 40% of the value will be paid as an advance (USD 410,800/- OR USD 216,000/-) on authorisation of this Sub-project subject to clause 2(b)
- 20% of the value will be paid after sharing the Certificate of Analysis (USD 205,400/- OR USD 108,000/-)
- 40% of the value will be paid after material reaches the destination (USD 410,800/- OR USD 216,000/-)

Sub-Project 6:

- 20% of the value will be paid as an advance (USD 6,000/-) on authorisation of this Sub-project subject to clause 2(b)
- 25% of the value will be paid after completion of 1st year (USD 7,500/-)
- 25% of the value will be paid after completion of 2nd year (USD 7,500/-)
- 20% of the value will be paid after completion of 3rd year (USD 6,000/-)
- 10% of the value will be paid after completion of 4th year and submission of final report (USD 3,000/-)

(c) All payments are to be made within 30 days of invoicing. Except in relation to advances, each of the Sub-Projects shall be invoiced on completion of the Sub-Project. Further, each Sub-Project may be invoiced independent of the completion of other Sub-Projects. If any Sub-Project is not authorised by Prana (for whatever reason), then Prana will have no liability to pay Dr Reddy's for the Sub-Project fees or any other amount. If Sub-Project 5 does not get authorised then the price for Sub-Project 1A will be revised in accordance with the terms mentioned above.

(d) All payments (other than advance payments) are subject to Prana having received the requisite updates and reports under clause 2 (e) and, where applicable, the relevant materials in the quantities, form and purity that complies with Prana's requirements as specified in Scope of Project Works.

(e) The payment amount mentioned herein do not include freight, insurance and other shipping expenses for transportation of Compound (or any API of it), materials or samples thereof to Australian port of entry or any other international port and Prana shall bear all such expenses, and shall reimburse Dr. Reddy's in full in case Dr. Reddy's is called upon to incur any such expenses. In case the Compound (or any API of it) or materials are to be retained at Dr. Reddy's after the manufacture is over, then this shall be held at Dr. Reddy's at the risk of Prana (subject to Dr Reddy's complying with its obligations under clause 6).

(f) All payments by Prana to Dr. Reddy's pursuant to this Agreement shall be made without any withholding or deduction of any withholding tax or other tax or mandatory payment to governmental agencies. If Prana is legally required to make any such withholding or deduction from any payment to Dr. Reddy's under this Agreement, the sum payable by Prana upon which such withholding or deduction is based shall be increased to the extent necessary to ensure that, after such withholding or deduction, Dr. Reddy's receives and retains, free from liability for such withholding or deduction, a net amount equal to the amount Dr. Reddy's would have received and retained in the absence of such required withholding or deduction.

4. Intellectual Property and Patent Rights

(a) Dr. Reddy's acknowledges and agrees that the Prana Background IP will at all times remain the exclusive property of Prana or its relevant Affiliate.

(b) The Parties acknowledge and agree that all Prana Arising IP will vest in and be solely owned by Prana.

(c) Dr Reddy's will subject to a separate written understanding between the parties and for such consideration as the Parties, acting reasonably and in good faith, may mutually agree, provide Prana all assistance and advice and execute all necessary documents as may be required by Prana from time to time, in relation to:

(i) any applications by Prana for Patents or other registrable Intellectual Property Right in respect of the Arising IP;

(ii) the prosecution and maintenance of any such applications and consequent registrations;

(iii) any applications, submissions or other documents that Prana seeks to file with a regulatory authority or other government department, agency or body to obtain an approval or consent in relation to the testing, manufacture or sale of the Compound or an API of it; and

(iv) any other purpose reasonably arising from or incidental to this Agreement.

5. Term and Termination

(a) This Agreement shall commence on the Commencement Date and shall, subject always to earlier termination under this Clause 5, continue until ninety (90) days after delivery by Dr. Reddy's to Prana of the final written report and /or Compound API or other material required to be manufactured as the case may be for the last Sub-Project approved by Prana.

(b) Notwithstanding any other provision of this Agreement, either Party shall have the right at any time by giving notice to the other to terminate this Agreement forthwith in any of the following events:

(i) if the other Party commits a material breach of this Agreement and the breach is not capable of remedy;

(ii) if the other Party commits a material breach of this Agreement and, where such breach is capable of remedy, that Party does not remedy such breach within 30 days from service of notice upon it that it is in breach and requiring it to remedy such breach; or

(iii) if the other Party enters into liquidation, whether compulsory or voluntary (other than for the purposes of solvent reconstruction or amalgamation where the resulting Party assumes all such Party's obligations under this Agreement), or has a receiver, controller or administrator or similar official appointed over some or all it assets or compounds with its creditors or suffers any similar action in consequence of its indebtedness to creditors; or

(iv) if either Party is delayed or incapable of performing its obligations under this Agreement as a result of a matter described in Clause 12 for continuous period of 90 days or more.

(c) Notwithstanding any other provision of this Agreement, either Party may terminate this Agreement by giving the other Party 30 days written notice.

(d) The obligations of the Parties under clauses 1, 2 (k), 3, 4, 5, 7, 9 (b), 10, 14 and 15 will survive the expiry or termination of this Agreement. The obligations of the Parties under clause 6 will survive the expiry or termination of this Agreement for seven (7) years.

(e) On the expiry or termination of this Agreement:

(i) Dr. Reddy's must provide Prana with all outstanding updates and reports as existing at the date of such expiry/termination under clause 2 (e) for any completed or partly completed Sub-Project;

(ii) Dr. Reddy's must deliver to Prana all materials produced by it as part of any completed or partly completed Sub-Project in the quantities, form and purity that complies with Prana's requirements as set forth in the Scope of Project Works (Appendix A);

(iii) Prana must pay all sums which have accrued or been invoiced by Dr. Reddy's up to the expiry or termination date. If a Sub-Project is only partly completed on the expiry or termination date, then Dr. Reddy's will only be entitled to a proportion of its fee for that Sub-Project and non-cancellable pass-through expenses necessary to wind down such Sub-Project. Proportion of the fee shall be calculated on the basis of the percentage of the Sub-Project completed by Dr. Reddy's. If this amount is less than the total of the advance and other progress payments already paid by Prana for the Sub-Project, then Dr. Reddy's must refund the difference within 30 days of its excess fee being agreed with Prana;

(iv) Dr. Reddy's must return the Prana Materials and all Material Forms of the Prana Confidential Information to Prana. In the case of Prana Materials, the Parties acknowledge and agree that Dr. Reddy's may retain samples of the Prana Materials manufactured by it so that it may comply with its GMP obligations;

(v) Prana must return all Material Forms of the Dr. Reddy's Confidential Information to Dr. Reddy's.

(f) No expiry or termination of this Agreement shall affect any of the rights and obligations of the parties accrued up to the date of expiry or termination.

6. Confidentiality

(a) Each Party acknowledges and agrees that the Confidential Information of the other Party will at all times remain the exclusive property of that other Party. Each Party also undertakes to keep the Confidential Information of the other secret and to protect and preserve the confidential nature and secrecy of that Confidential Information.

(b) Prana agrees and acknowledges in relation to Dr. Reddy's Confidential Information, and Dr. Reddy's agrees and acknowledges in relation to Prana Confidential Information, that it:

(i) may only use or reproduce the other Party's Confidential Information for the Approved Purposes;

(ii) must not disclose the other Party's Confidential Information to any person except as permitted by this Agreement;

(iii) must not permit unauthorised persons to have access to the other Party's Confidential Information;

(iv) must not make, or assist or permit any person (including its Representatives) to make any unauthorised use, disclosure or reproduction of the other Party's Confidential Information;

(v) must ensure that any person who has access to the other Party's Confidential Information does not make any unauthorised use, reproduction or disclosure of that information;

(vi) must enforce the confidentiality obligations imposed or required to be imposed by this Agreement, including diligently prosecuting at its cost any breach or threatened breach of those confidentiality obligations by a person to whom that Party has disclosed the other Party's Confidential Information and, where appropriate, making applications for interim or interlocutory relief; and

(vii) must provide assistance reasonably requested by the other Party, in relation to any proceedings the other Party may take against any person for unauthorised use, copying or disclosure of the other Party's Confidential Information.

(c) A Party may disclose the other Party's Confidential Information to a Representative on a need to know basis but in each case, only to the extent necessary for the Approved Purposes, and provided the Representatives are placed under confidentiality obligations no less onerous than those set out in this Agreement.

(d) Each Party must procure that its Representatives (whether or not still employed or engaged in that capacity) do not do or omit to do anything which, if done or omitted to be done by that Party, would breach its obligations under this Agreement.

(e) The obligations of confidentiality and non-disclosure contained in this clause 6 do not apply if and to the extent that the Confidential Information is required to be supplied by virtue of any statute, law or regulation. Each Party must notify the other immediately if it becomes aware of any legal requirement to disclose part or all of the other Party's Confidential Information.

(f) Each Party must:

(i) establish and maintain effective security measures to safeguard the other Party's Confidential Information from access or use not authorised under this Agreement;

(ii) keep the other Party's Confidential Information under its own control;

(iii) maintain complete, accurate and up-to-date records of use, copying and disclosure of the other Party's Confidential Information and immediately produce these records to the other Party, on request; and

(iv) immediately notify the other Party of any suspected or actual unauthorised use, copying or disclosure of the other Party's Confidential Information.

(g) Either Party may at any time by notice in writing to the other Party request the return of all Material Forms of its Confidential Information in the possession, power or control of the other Party or any of its Representatives (whether or not those Material Forms were created by the other Party or its Representatives) and the other Party must immediately comply with such request. In the case of Prana Materials to be returned by Dr. Reddy's, the parties acknowledge and agree that Dr. Reddy's may retain samples of the Prana Materials manufactured by it so that it may comply with its GMP obligations.

(h) Return of the Material Forms of Confidential Information under clause 5(e) does not release a Party from its obligations under this clause 6.

7. Liability

(a) Each Party agrees to be responsible and assume liability for and indemnify the other Party and its Representatives and Affiliates (collectively the "Indemnified Party") from and against all liabilities, losses, damages, claims and proceedings suffered or incurred by the Indemnified Party as a result of any breach of this Agreement by it, or any wrongful or negligent acts or omissions or breach of any law by it or its Representatives or Affiliates.

(b) Provided Dr. Reddy's has complied with its obligations under clauses 2 (c), (h) and (j) and 6 of this Agreement and that Dr. Reddy's has completed its obligations under each sub projects authorized by Prana and as set out in Appendix A, which Prana has subsequently agreed to by giving Dr. Reddy's a formal 'Sign-off, Prana will defend, indemnify and hold harmless Dr. Reddy's and its Representatives and Affiliates from and against any and all liability losses, costs, damages or expenses (including court costs and attorneys fees) incurred from or arising in connection with any claim (including claims for infringing third party Intellectual Property Rights) arising out of or are in any way relating to:

(i) Prana's use of the Prana Arising IP, the Results, Compound, APIs or any materials produced during the Project and provided to Prana;

(ii) Dr. Reddy's use, for Approved Purposes, of the Prana Materials, Compound APIs, Prana Background IP, Prana Arising IP or the Results;

(iii) personal injuries or death to persons or property loss or damage which occurs on Dr. Reddy's premises or the premises of Dr. Reddy's Affiliates as a result of the conduct of the Project to the extent it is attributable to circumstances that could have been avoided by Dr Reddy's if it had been aware of relevant information on the Compound that was knowingly or negligently withheld from Dr. Reddy's by Prana.

(c) Dr. Reddy's will indemnify and hold harmless Prana, its Representatives and Affiliates from and against all costs, expenses, liabilities, losses, damages, claims and proceedings suffered or incurred by them which have arisen out of or are in any way relating to:

(i) personal injuries or death to persons or property loss or damage which occurs on Dr. Reddy's' premises or the premises of Dr. Reddy's' Affiliates which are caused by any act or omission, negligence or breach of this Agreement by Dr. Reddy's or its Affiliates or any of their respective Representatives;

(ii) any use by Dr. Reddy's (other than for the Approved Purposes) or its Affiliates (or by third parties under licence from or other arrangement with Dr. Reddy's or its Affiliates) of the Prana Materials, Prana Background IP, the Prana Arising IP, the Results or Compound APIs.

(d) Despite any other provision of this Agreement, neither Party will have any liability to the other Party (or any Affiliate of it) for any consequential or indirect loss or damage (including loss of profits) ("**Consequential Loss**") suffered or incurred by the other Party (or any Affiliate of it), howsoever arising This paragraph (d) will not prevent a Party recovering Consequential Loss suffered or incurred by it (or an Affiliate of it) as a result of a breach by the other Party of its obligations of confidentiality under this Agreement nor will it prevent either Party recovering from the other, as applicable, Consequential Loss under paragraphs b(i), b(ii) b(iii) and (c)(ii) above.

8. Hazardous Information

Prana will make all information (if any) which it has available to it concerning the health and other hazards of the Compound and its synthesis and any other materials including reference standards provided by Prana to Dr. Reddy's for the purpose of the Project. Dr Reddy's must assess these hazards and take the necessary measures in relation to the Project to:

(a) ensure the safety of its Representatives; and

(b) avoid any loss or damage to its premises or property.

9. Assignment and Subcontracting

(a) No assignment of this Agreement by either Party shall be effective without the prior written consent of Prana.

(b) Prana may assign all or any of its rights and obligations under this Agreement at any time without the prior consent of Dr Reddy's. If it assigns this Agreement to a third party, then Dr Reddy's reserves the right to terminate this Agreement once it has completed the Sub-Projects which have been authorized by Prana and are in progress. If such an assignment is carried out by Prana, then the assignee will have to guarantee the payments that have become or will become due to Dr. Reddy's in relation to the Sub-Projects being carried out by Dr. Reddy's. The assignee will also have to fulfill its obligations under the guarantee even if Dr. Reddy's terminates this Agreement after such an assignment.

(c) Dr. Reddy's must not subcontract any of its obligations under this Agreement without the prior written consent of Prana.

(d) If Prana in its absolute discretion consents to the subcontracting of the performance of any of the Project Works, then:

(i) Dr. Reddy's shall remain fully responsible for the performance of the Project Works and must continue to comply with each and every one of its obligations under this Agreement;

(ii) without limitation, all acts or omissions of the subcontractor shall be deemed acts or omissions of Dr. Reddy's; and

(iii) Dr. Reddy's must ensure that any subcontractor so engaged complies with, and enters into a written agreement with Dr. Reddy's under the terms of which the subcontractor agrees to comply with all relevant provisions of this Agreement as if it were a party to this Agreement.

10. Notices

(a) A notice, consent, approval or other communication (each a **Notice**) under this agreement must be signed by or on behalf of the Party giving it, addressed to the Party to whom it is to be given and:

(i) delivered to that Party's address;

(ii) sent by pre-paid mail to that Party's address; or

(iii) transmitted by facsimile to that Party's address.

(b) A Notice given to a Party in accordance with this clause 10 is treated as having been given and received:

(i) if delivered to a Party's address, on the day of delivery if a Business Day, otherwise on the next Business Day;

(ii) if sent by pre-paid mail, on the tenth Business Day after posting; or

(iii) if transmitted by facsimile to a Party's address and a correct and complete transmission report is received, on the day of transmission if a Business Day, otherwise on the next Business Day.

(c) For the purpose of this clause the address of a Party is the address set out below or another address of which that Party may from time to time give notice to the other Party:

If to Prana:

Dianne Angus
Chief Operating Officer
Prana Biotechnology Ltd
Level 2, 369 Royal Parade, Parkville Victoria 3052

Facsimile: +61 3 9348 0377

If to Dr. Reddy's: Mr. Manoj Mehrotra
Vice President – Business Development
Dr. Reddy's Laboratories Limited
7-1-27, Ameerpet
Hyderabad–500 016
A.P., India

Facsimile: +91 40 2304 6600

11. Entire Agreement

Save for the Confidentiality Agreement between the Parties dated 28 March 2008, the letter Agreement between the Parties dated 23 September, 2008 and the Quality Agreement, this Agreement, sets forth the entire agreement between the Parties as to its subject matter. In the event of any incompatibility between the terms of this Agreement and the said Confidentiality Agreement, the letter agreement or the Quality Agreement, the terms of this Agreement shall prevail and take priority. None of the terms of this Agreement shall be amended except in writing signed by both Parties.

12. Force Majeure

A Party shall not be liable for a failure to perform any of its obligations under this Agreement due to any cause or circumstance which is beyond its control, including without limitation, acts of God, wars, riots, interference by military or para-military, strikes, lock-outs or other labour unrest, fires, explosions, shipwrecks, shortage in material if the supplier(s) of such material is unable to supply due to causes and circumstances beyond their control as exemplified above ("**Force Majeure**"). In the case of Force Majeure, the obligations of the Party affected shall be suspended and it shall not be liable for damages or for penalties for non-performance to the extent that such nonperformance is caused by the Force Majeure event with the proviso that if the Force Majeure period should extend more than three (3) months then the other Party shall have the right to terminate this Agreement forthwith upon written notice at any time after expiration of said three (3) months period. In addition, non-performance shall only be excused during the continuation of the Force Majeure event.

13. Independent Contractors

The parties are independent contractors and this Agreement shall not be construed as creating or evidencing a partnership, agency, employment or joint venture relationship between them.

14. Dispute Resolution

(a) If a dispute arises in connection with this Agreement or relating to this Agreement including its interpretation and any question regarding its existence, validity or termination, then a Party wishing to have the dispute resolved must give the other Party a notice specifying the dispute and requiring its resolution under this clause 14 ("**Dispute Notice**").

(b) Within 14 days of the date of service of the Dispute Notice, each Party must:

(i) appoint a Representative with authority to negotiate and settle the dispute; and

(ii) notify the other Party in writing of the appointed Representative's name and contact details.

(c) The authorised Representatives and the Parties that they represent must then use their reasonable endeavours to resolve the dispute within 42 days of the date of service of the Dispute Notice. If they fail to resolve the dispute within this period, then either Party may institute arbitration proceedings under the London Court of International Arbitration Rules, which Rules are deemed to be incorporated by reference into this clause. The number of arbitrators shall be one. The seat, or legal place, of arbitration shall be London. The language to be used in the arbitration proceedings shall be English.

15. Governing Law and Jurisdiction

(a) This Agreement shall be construed, governed, interpreted, and applied in accordance with the laws of England.

(b) Each Party irrevocably and unconditionally:

(i) submits to the jurisdiction of the London Court of International Arbitration; and

(ii) waives any claim or objection based on absence of jurisdiction or inconvenient forum.

Executed by the Parties by their duly authorised representatives

Prana Biotechnology Ltd

By 

(Name): Dianne Angus

(Title): Chief Operating Officer

(Date): 23 Dec. '08

Dr. Reddy's Laboratories Limited

By 

(Name): Manoj Mehrotra

(Title): Vice President – Business Development

(Date): Dec 26, 2008

Amendment to Agreement dated 26th Dec'08 signed by and between

Dr. Reddy's Laboratories Limited
Bollaram Road, Miyapur,
Hyderabad 500 049
India
(hereinafter referred to as "Dr. Reddy's")

and

Prana Biotechnology Ltd
Level 2, 369 Royal Parade, Parkville Victoria, 3052
Australia
(hereinafter referred to as "Prana")

Dr. Reddy's and Prana are collectively referred to as the "PARTIES"

This amendment will supersede the mentioned clauses contained in above mentioned agreement and will be in effect from 3rd Feb'09 onwards.

1. Terms to be varied

The following sentence in Clause 2:

(b) Dr. Reddy's must receive written authority from Prana's Head of Development or its Discovery and Non-Clinical Development Manager before commencing any Sub-Project. Subject to clause 3 (b) in relation to Sub-Project 1A, without such authority for a given Sub-Project, Dr Reddy's must not undertake and may not charge Prana its fee for the Sub-Project or any other amount. If in relation to a given Sub-Project, Prana provides written authority to undertake the Sub-Project after the relevant commencement date specified in the Timetable, then the Parties will agree in writing in good faith on a new Timetable to replace the existing one.

is ammended as follows:

(b) Dr. Reddy's must receive written authority from Prana's Head of Development or its Discovery and Non-Clinical Development Manager before commencing any Sub-Project. Subject to clause 3 (b) in relation to Sub-Project 1A, without such authority for a given Sub-Project, Dr Reddy's must not undertake and may not charge Prana its fee for the Sub-Project or any other amount. Following such written authorization by Prana for a given Sub-project, Prana, upon Dr. Reddy's request, will also issue a Purchase Order for the materials to be manufactured in accordance with the given Sub-Project. If in relation to a given Sub-Project, Prana provides written authority to undertake the Sub-Project after the relevant commencement date specified in the Timetable, then the Parties will agree in writing in good faith on a new Timetable to replace the existing one.

In witness whereof, the parties hereto have signed this Agreement

Signed for and on behalf of
Dr. Reddy's Laboratories Limited

Signature 

Name: Manoj Mehrotra

Witness Signature

Witness Name: Rajat Kumar

Signed for and on behalf of
Prana Biotechnology Ltd.

Signature

Name: Dianne Angus

Witness Signature

Witness Name: Graham Heeily

Amendment 2 to Agreement dated 26th Dec'08 signed by and between

Dr. Reddy's Laboratories Limited
Bollaram Road, Miyapur,
Hyderabad 500 049
India
(hereinafter referred to as "Dr. Reddy's")

and

Prana Biotechnology Ltd
Level 2, 369 Royal Parade, Parkville Victoria, 3052
Australia
(hereinafter referred to as "Prana")

Dr. Reddy's and Prana are collectively referred to as the "PARTIES"

This amendment will include the following additional and amended clauses in the above mentioned agreement and will be in effect from 13th March'09 onwards.

1. Terms to be added

i. The following section is inserted in Appendix A:

"**Sub-Project 1B: Process Optimisation for the Reduction of Potentially Genotoxic Impurities in PBT2 API**

The identification of three possible genotoxic impurities, quinoline N-oxide, quinoline chloride and chloroethane, has resulted in the requirement for tighter control of their presence in PBT2 API. The new specification for these impurities has been set at not more than 3 ppm, on a weight-for-weight basis, according to the draft FDA guidance on genotoxic impurities[1] and the similar EMEA document[2]. In addition to the process development and optimisation goals detailed in Sub-Project 1 as detailed in the main agreement dated 26th Dec'08, Dr. Reddy's will perform the following additional activities:

(a) Optimise the process to achieve levels of the potentially genotoxic impurities at the new required specification in the scale up manufacture of PBT2 (Sub-Project 5).

(b) Establish in-process control (IPC) specifications for the potentially genotoxic impurities to achieve consistency in the levels in the API.

(c) Monitor the levels of the potentially genotoxic impurities, to the level required, in each intermediate batch produced during process optimisation, as appropriate to the stage in the process."

[1] Guidance for Industry – Genotoxic and Carcinogenic Impurities in Drug Substances and Products: Recommended Approaches (Draft Guidance), U.S. Department of Health and Human Services Food and Drug Administration, Center for Drug Evaluation and Research (CDER) December 2008

[2] Guideline On The Limits Of Genotoxic Impurities, European Medicines Agency, Committee For Medicinal Products For Human Use (CHMP) June 2006

ii. The following section is inserted in Appendix A:

"Sub-Project 2B: Further Analytical Method Development and Limited Validation

The scope of this Sub-Project involves the development and validation of new methods for PBT2 API assay and related substances and potentially genotoxic impurities.

(a) Analysis by Dr. Reddy's has shown the possible presence of a previously un-reported impurity in previously manufactured GMP batches of PBT2. A new method is therefore required to be developed and validated to ensure all impurities in the API, except those identified as potentially genotoxic, are measured and reported according to the relevant ICH guideline[3]. Dr Reddy's will validate the methods according to the ICH guideline on the validation of analytical procedures[4] and limit their activities to the following validation parameters only:

1. System Precision – PBT2 and related substances
2. Repeatability – PBT2 and related substances
3. Intermediate Precision – PBT2 and related substances
4. Specificity – PBT2 and related substances
5. Stability Indicating Nature – PBT2 only
6. Detection limit and Quantitation limit – PBT2 and known related substances (chlorquinaldol, chlorobenzoic acid, quinoline diol, quinoline diacetate)
7. Linearity and Range – PBT2 and known related substances (chlorquinaldol, chlorobenzoic acid, quinoline diol, quinoline diacetate)
8. Robustness. If this evaluation does not show the method to be robust, the method will be further developed to establish robustness according to the definition set out in the guideline.

The method developed should be able to quantify all the known related substances (chlorquinaldol, chlorobenzoic acid, quinoline diol, quinoline diacetate but excluding quinoline n-oxide and quinoline chloride) on a weight-for-weight basis to a Quantitation limit of 0.05%. The limited validation will be performed according to an approved protocol with acceptance criteria for each validation parameter being set in advance and agreed on by both parties. A validation report will be produced suitable for inclusion in regulatory submissions.

(b) To support the new specifications for the limit of the potentially genotoxic impurities in PBT2 API (quinoline N-oxide, quinoline chloride and chloroethane), methods are required to be developed to enable the quantification of these impurities, on a weight-for-weight basis, to a limit of quantification of 3 ppm as required by the EMEA and (draft) FDA guidelines on genotoxic impurities (refer to Sub-Project 1B). Dr Reddy's will validate the methods according to the ICH guideline on the validation of analytical procedures(4) and limit their activities to the following validation parameters only for each analyte:

1. System Precision

[3] Impurities In New Drug Substances Q3A(R2), International Conference On Harmonisation Of Technical Requirements For Registration Of Pharmaceuticals For Human Use, October 2006

[4] Validation Of Analytical Procedures: Text And Methodology Q2(R1), International Conference On Harmonisation Of Technical Requirements For Registration Of Pharmaceuticals For Human Use, November 2005

2. Repeatability

3. Intermediate Precision

4. Specificity

5. Detection limit and Quantitation limit

6. Linearity and Range

7. Robustness (solution stability)

The limited validation will be performed according to an approved protocol with acceptance criteria for each validation parameter being set in advance and agreed on by both parties. A validation report will be produced suitable for inclusion in regulatory submissions."

iii. The following section is inserted in Clause 3 under "Sub-Project Pricing":

"Sub-Project 1B: Process Optimisation for the Reduction of Potentially Genotoxic Impurities in PBT2 API

– USD 20,000/-

Sub-Project 2B: Further Analytical Method Development and Validation

– USD 15,000/-

The cost of Sub-Project 2B takes into account both the increased scope it introduces as well as the corresponding decrease in scope of Sub-Project 2"

iv. The following text is inserted in Clause 3 under "The payment terms for each Sub-Project shall be:":

"Sub-Project 1B:

- 50% of the value will be paid as an advance (USD 10,000/-) on authorisation of this Sub-project subject
- 50% of the contract value will be paid after completion (USD 10,000/-)

Sub-Project 2B:

- 50% of the value will be paid as an advance (USD 7,500/-) on authorisation of this Sub-project subject
- 50% of the contract value will be paid after completion (USD 7,500/-)"

2. Terms to be varied

The above additions to the agreement dated 26th Dec'08 result in a decrease in the scope of Sub-project 2. Amendments reflecting this decreased scope are shown below.

i. Clause 4 of Appendix A is amended to the following:

"4. Sub-Project 2: Analytical Method Tech Transfer and Development

The scope of this Sub-Project, set out below, will include the transfer of analytical technology to Dr. Reddy's from Prana, the refinement of the transferred methods and the establishment of further methods by Dr. Reddy's. Final specifications for the API will be agreed on by both parties during the course of the Project

(a) The current methods for the release of PBT2 drug substance to an approved specification and analysis of stability samples will be provided for transfer to Dr. Reddy's laboratories. In order to confirm the success of the transfer, the methods for the determination of polymorphic form will undergo a formal method transfer verification. Prana will supply Dr. Reddy's with samples of PBT2 produced from different batches for analysis so as to compare the results with the current CoA's for those batches. The transferred methods will be considered verified if the comparison of the Dr. Reddy's analysis results and the current CoA results falls within predefined limits, agreed by both parties, and documented in an analytical method transfer protocol.

(b) Dr. Reddy's will establish methods and specifications for heavy metals, water determination by Karl Fischer titration, residue on ignition, chloride content, melting point by DSC and microbial limits in PBT2 drug substance. Where applicable, the relevant compendial methods from the USP will be used. These methods will be validated or verified, to the extent agreed with Prana, for their intended use.

(c) If, after execution of Sub-Projects 1 and 1A (if Project 1A gets executed), the solvents used in the manufacturing process used in Sub-Projects 2A, 4 and 5 differ from those of the manufacturing process of the previous PBT2 GMP batch (DA1020702.1), Dr. Reddy's will develop a method for the determination of the applicable residual solvents in the API in accordance with the limits set in the ICH guideline "Q3C Impurities: Residual Solvents. Note For Guidance On Impurities: Residual Solvents". The method will be validated or verified, to the extent agreed with Prana, for its intended use. If the solvents used in the manufacturing process remain unchanged, the current method for residual solvents will undergo method transfer verification, as described in Clause i(a)."

In witness whereof, the parties hereto have signed this Agreement

Signed for and on behalf of Dr. Reddy's Laboratories Limited	Signed for and on behalf of Prana Biotechnology Ltd.
Signature Name: Manoj Mehrotra	Signature Name: Dianne Angus
Witness Signature Witness Name:	Witness Signature Witness Name:

Exhibit 8.1

LIST OF SUBSIDIARIES

We have the following wholly-owned subsidiaries, both of which are currently inactive:

- Prana Biotechnology Inc., incorporated in the United States
- Prana Biotechnology UK plc, incorporated in the United Kingdom.

Exhibit 12.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(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 23, 2009

/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.

Exhibit 12.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(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 23, 2009

/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.

Exhibit 13.1

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, 2009, 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.

September 23, 2009

/s/ Geoffrey P. Kempler *
_____
Geoffrey P. Kempler
Chief Executive Officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

Exhibit 13.2

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, 2009, 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 23, 2009

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

Exhibit 15.1

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in Registration Statement on Form S-8 (File No. 333-153669) of Prana Biotechnology Limited (the "Company") of our report dated September 23, 2009 relating to the Company's consolidated financial statements, which appear in this Form 20-F.

/s/ PricewaterhouseCoopers

PricewaterhouseCoopers
Melbourne, Victoria, Australia
September 23, 2009