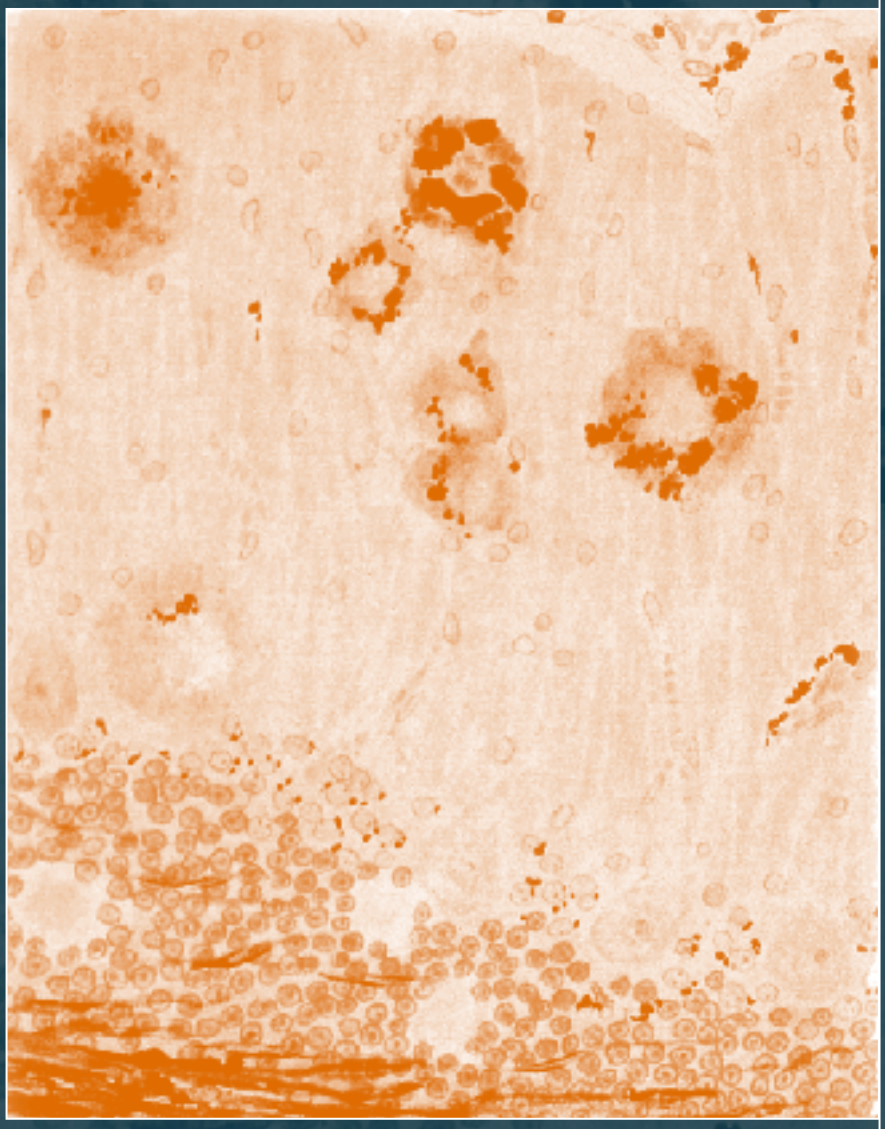
PRANA
BIOTECHNOLOGY
Limited

ABN 37 080 699 065

ANNUAL REPORT **2001**



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Contents

Our Mission

Medical science has made a significant number of breakthroughs over the past century. The average life span in western cultures has substantially increased. Heart disease and cancer have been amongst the most successful areas of drug discovery over the last 20 years. The diseases associated with aging have, however, yet to be fully understood or effectively treated.

Diseases of aging are in fact diseases capable of being prevented or cured. They are no longer regarded as an inevitable part of aging.

Within this context Prana's 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.

Annual General Meeting

The Annual General Meeting of Prana Biotechnology Limited will be held at Suite 2, 1233 High Street, Armadale, Victoria 3143 on Friday 16 November 2001.

The formal Notice of Meeting and Proxy form are included with this Report.

PRANA BIOTECHNOLOGY Limited

Dear Investors and Friends of Prana,

I'm extremely pleased and proud of the progress that Prana's world class scientists have made over the past months in advancing our platform technology for the treatment of age-related neurodegenerative diseases.

For almost 20 years, the world's leading laboratory and clinical efforts to find a viable therapy and potential cure for Alzheimer's Disease (AD) has focused on the aggregation of the amyloid protein in the brain. Although these plaques were known to scientists since 1904, it was only in 1984 that the full amino acid sequence of this protein was described, opening the way to develop strategies to treat Alzheimer's Disease. Indeed, the Chairman of Prana's Scientific Advisory Board (SAB), Professor Colin Masters of the University of Melbourne, was a world pioneer in describing this protein and driving a global effort to develop therapies to prevent its aggregation in the brain. Other Prana SAB members, Professors Ashley Bush and Rudolph Tanzi at the Massachusetts General Hospital at Harvard Medical School, discovered the role of metals in facilitating the aggregation of the protein, which underpins Prana's main scientific platform.

By identifying molecules based on these discoveries, Prana is now well over half way through completing a Phase II clinical trial to demonstrate the effectiveness of its theory in treating patients with Alzheimer's Disease. Prana is poised to complete the world's first 'proof of concept' trial in humans, not just laboratory mice; demonstrating that affecting the accumulation of amyloid can help patients with the disease. Not surprisingly, in the past year and particularly in the past few months, both scientific and pharmaceutical industry leaders throughout the world have keenly watched Prana.

The efforts of our scientific teams this year have significantly bolstered our metal-protein theory in the quest for the treatment and potential cure for a host of other neurodegenerative diseases including pre-clinical research into diseases such as Creutzfeldt-Jacob Disease (CJD or "Mad Cow" disease) and Motor Neuron Disease (ALS or Lou Gehrig's disease). This cross-relationship amongst other neurodegenerative diseases, which appear to involve the activity of proteins under metal mediated oxidative stress, is the basis for Prana's science platform.

This year we have established a new chemistry team to drive our rational drug design and medicinal chemistry programs to discover new molecules suitable for entering into human clinical trials.

Prana's global presence and acceptance has grown over the course of the past year. We have successfully gained over two million dollars in governmental and private grants to promote and develop our science. In June 2001, Neuron magazine published a research paper written by Prana scientists demonstrating its enormous success in treating transgenic mice. This work provided the data needed to enter into human trials and was of such significance that it was reported widely, including on the front page of the science section of the Wall Street Journal. Prana's once heretical science is rapidly gaining credibility as a potential therapy for patients suffering Alzheimer's disease.

Today, I remain confident and committed to Prana and the merits of our science. Our story is compelling and in telling our story to many, we have successfully gained much investor support. The Company's share price has more than doubled since our inception into the public markets. Earlier this year, we successfully established a Level I American Depository Receipt (ADR) program, sponsored by The Bank of New York that trades over the counter on NASDAQ under the symbol PRNAY.

In closing, on behalf of the Board of Directors, I thank you for your continued support and look forward to a strong year.

Sincerely,

Geoffrey Kempler
Executive Chairman

Review of Operations

Background

Prana Biotechnology Limited ("Prana") listed on the Australian Stock Exchange during March 2000. The Company's platform technology has been developed over a period of many years with the financial support of various grants and private equity totalling in excess of $15 million. The majority of these funds have been directed at research into Alzheimer's Disease, however the outcomes demonstrated by this research have created strong implications for other age-related degenerative disorders where the pathology of the disease is based on the inter-relationship between certain metals and particular proteins.

In Alzheimer's Disease the relevant protein 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 Masters, Beyreuther and Professor Rudolph Tanzi of Harvard Medical School discovered the way beta-amyloid was produced and in 1994 Professor Ashley Bush of Harvard Medical School discovered the interaction between metals and beta-amyloid, causing toxicity in Alzheimer's Disease, paving the way for the development of therapeutic drugs to treat the disease.

Prana's intellectual property has been developed over an extended period through the collaborative efforts of some of the world's most highly regarded scientists and research institutions in this field.

Research Institutions

The intellectual property owned by Prana has been developed at several internationally recognised institutional research facilities:

- The Massachusetts General Hospital, Genetics and Aging Unit in Boston
- The University of Melbourne, Department of Pathology
- The Mental Health Research Institute of Victoria

Work conducted at these institutions identified an initial lead compound named PBT-1 which is now being used in Prana's Phase II Clinical Trials. The research program also aims to find further and potentially more effective compounds for the treatment of Alzheimer's Disease as well as for Prana's other major disease targets. For this purpose Prana established a relationship with Professor Peter Colman. Professor Colman is recognised as an authority on the creation of new chemical entities through rational drug design techniques and has been a member of Prana's Scientific Advisory Board since its inception.

Core Intellectual Property

Prana's intellectual property is regarded as a "core intellectual property" on the basis that it addresses the causes of a broad spectrum of age related diseases based on the interrelationship of certain metals, present in all cells, with a particular aggregated protein. The most advanced of Prana's disease targets is its research into potential therapeutics for the treatment of Alzheimer's Disease, however the core intellectual property is also applicable for:

- Cataracts
- Creutzfeldt-Jakob Disease (CJD or Mad Cow Disease)
- Tardive Dyskinesia
- Motor Neuron Disease
- Parkinson's Disease
- Huntington's Disease

Clinical Trials

Based on the effectiveness of Prana's lead compound PBT-1 in laboratory models, the Ethics Committee at the Royal Melbourne Hospital approved a Phase II human clinical trial to evaluate PBT-1 in patients with Alzheimer's disease. The trial commenced in August 2000.

The clinical trial is being conducted principally at Prana's sponsored facilities at the Mental Health Research Institute and the Royal Melbourne Hospital. Prescribed dosages of PBT-1 are being administered to 50% of the study candidates, the other 50% receive a placebo. The trial is a "double blind trial" so neither the medical personnel nor the patients involved in the trial are aware as to who receives PBT-1 and who receives the placebo until the trial is unmasked at its conclusion. All subjects perform various prescribed cognitive tests to determine if the introduction of PBT-1 has a demonstrable effect as compared to those subjects receiving the placebo.

The clinical trial has completed enrollment and results are expected to be available in 2002. The clinical trial currently underway places Prana at the forefront of world development in the race to develop an effective therapeutic agent to treat Alzheimer's Disease. There is currently no treatment or prevention for Alzheimer's Disease nor any successful treatment for any of the principal forms of neuro degenerative disease which comprise Prana's disease targets.

It is estimated that a successful drug for the treatment of Alzheimer's Disease could command annual global sales in excess of $5 billion. Prana and its Scientific Advisory Board believes that Prana's technology and the current human trials of PBT-1 place it among the leaders in the world in terms of developing a therapeutic means to treat Alzheimer's Disease.

Rational Drug Design

The relationship between Prana and Professor Colman is of critical value in designing new chemical entities through rational drug design techniques which may become effective therapeutics for Prana's disease targets.

Professor Colman employed rational drug design techniques in the discovery of Relenza® which has proven successful in the treatment of influenza. Rational drug design employs computer-generated models, which target the molecular composition of various substances (in the case of Alzheimer's Disease the beta-amyloid Protein) and design new chemical entities with the propensity to influence the targeted substances (proteins).

To date the Prana's medicinal chemists, headed by Dr Guy Krippner, have developed New Chemical Entities ("NCE's") which target the β Amyloid protein. These NCE's are now undergoing the required laboratory testing before they are available for human testing.

Although Prana hopes to demonstrate "proof of principle" in its Phase II trials utilising PBT-1, it is envisaged that rational drug design will provide new and specifically designed drugs which will display greater efficacy in disaggregating aggregation prone proteins such as β Amyloid, paving the way for an ongoing raft of successful therapeutic agents.

START Grant Award

In July this year, Prana announced a $1.74 million START Grant from the Australian Industry Research and Development Board (IR&D) to expand the company's platform for drug treatment of neurodegenerative diseases. The START Grant will markedly accelerate Prana's rational drug design program to synthesize new chemical entities (NCEs) as potential therapeutic agents for Alzheimer's disease. It advances the program to progress the NCEs through in vitro screening assays and pre-clinical development prior to further clinical trials in patients suffering from the disease.

The grant has been awarded after careful review of the company's development program by a panel of eminent scientists and is further scientific endorsement of the biology underlying and supporting the medicinal chemistry program to develop drugs for Prana's disease targets. The grant substantially expands and accelerates Prana's business strategy.

Neuron Publication

In June this year, the prestigious scientific journal Neuron released scientific findings by Prana sponsored scientists Dr Robert Cherny and Dr Ashley Bush, showing that PBT-1 could provide the first successful treatment of the underlying biological cause of Alzheimer's disease (AD).

In the article, Drs Cherny and Bush reported that Prana's lead compound, PBT-1, a copper/zinc-binding drug that was given orally to transgenic mice markedly reduced their Alzheimer brain pathology within nine weeks, decreasing beta-amyloid accumulation by 50 percent during that period. This article came after years of research conducted by Drs Cherny and Bush and their colleagues at Massachusetts General Hospital, Harvard Medical School, and the Mental Health Research Institute of Victoria, University of Melbourne. The focus of their discovery highlights the unique binding attributes of the beta-amyloid protein with zinc and copper. This breakthrough provides a viable explanation for the abnormal binding of these metals with beta-amyloid that is commonplace in AD. This reaction ultimately leads to the corruption of the protein and its ensuing toxicity. Copper and Zinc are normally present at high concentrations in the regions of the brain that are most affected by AD damage.

The results of this significant study were reported in a major article in the New York Wall Street Journal on 21 June 2001.

Journal of Biological Chemistry Publication

In April this year the prestigious scientific Journal of Biological Chemistry published Prana sponsored scientists Dr Kevin Barnham and Dr Cyril Curtain's research results on the interactions between metals and beta-amyloid peptide, and identifying a potentially useful antioxidant function for beta-amyloid in healthy people. To effectively treat Alzheimer's disease, it is crucial to have the right target. This research contributes significantly to Prana's understanding of the basic processes that cause Alzheimer's disease.

Creutzfeldt-Jakob Disease

In August 2000, the London-based Medical Research Council warned that the disease could be more widespread than previously thought and that healthy appearing animals can be carriers of the disease. In the UK the incidence of these diseases is increasing at a rate of 20 to 30% pa. There is currently no cure for this fatal disease. Mad Cow Disease entered the human food chain in 1980s leading to a collapse of the entire UK beef trade at the time.

There are several research activities in the world directed at this disease however the Board believes Prana has potential to be one of the first to progress to clinical trials in the quest to develop a treatment. The rationale behind this position is based on Prana's discoveries about the relationship between aggregation-prone proteins susceptible to metal-mediated oxidative stress. In the case of Alzheimer's Disease the target protein is beta-amyloid, in CJD it is the Prion protein, which in many ways resembles the beta-amyloid protein of Alzheimer's Disease.

The impact upon the potential market size for a successful therapeutic to treat CJD has increased significantly by virtue of these new findings and Prana has announced its intention to accelerate its research effort in this area.

Biochemistry Publication

In early 2001, the scientific journal Biochemistry published research results by Prana sponsored scientist Dr Roberto Cappai and colleagues confirming the role of metals in the aggregation and neurotoxicity of the abnormal form of the prion protein (PrP), believed to be responsible for the transmissible spongiform encephalopathies. This publication confirms Prana's discoveries about the relationship between aggregation prone proteins and metal mediated oxidative stress.

Cataracts

Basic research in this area is being progressed with studies conducted in Boston and Melbourne. Preliminary animal data is becoming available. A significant publication on this has appeared in the journal Biochemistry, showing that Prana's technology is applicable to the aging lens of the eye. As described in the Company's prospectus the potential market for global sales for a successful therapeutic is estimated to be $1 billion per annum.

Tardive Dyskinesia

Around 1% of the world's population suffers from schizophrenia. Standard treatment is with anti-psychotic drugs. Tardive Dyskinesia is a Parkinson-like syndrome that affects 20% to 50% of all patients taking anti-psychotic compounds. After many years on these drugs, Tardive Dyskinesia becomes the rule rather than the exception. The condition is usually irreversible and cannot be treated effectively. There is currently no treatment available and it is estimated that around $1 billion per annum in global sales could be achieved for a successful therapeutic.

Work in this area has approached the 'proof of concept' stage in which test tube experiments can now be translated into screens for drug development. This aspect of Prana's portfolio is being considered for development in conjunction with other commercial partners.

Motor Neuron Disease

(MND), (ALS or Amyotrophic Lateral Sclerosis)

ALS is a fatal disease, manifested by progressive paralysis over 5 to 10 years. There is currently no effective therapy for this tragic illness. The disease involves degeneration of the nerve cells in the spinal column, which has now been related to mutations of a protein that interacts with metal ions.

Worldwide there are about 100,000 cases of Motor Neuron Disease and it is estimated that an effective therapy could generate $500 million per annum in global sales.

Collaborative studies with other internationally recognized research groups are progressing, and preliminary animal experiments are in development. The mechanisms underlying this disease have not been fully elucidated, but the oxidative changes associated with the aggregation of critical proteins in the spinal cord and brain stem continue to be at the centre of a world-wide research effort. A drug target is expected to emerge in the near future.

Parkinson's Disease

Parkinson's disease is another crippling disease of the aging population. It causes a progressive slowing of movement, tremor and the loss of fine motor control. Increasing dementia is being recognised as a significant component of Parkinson's Disease. Existing therapies may provide some short term symptomatic relief but do not address the underlying cause of the disease. Prana believes its platform technology may affect the aggregation of the proteins concerned and may provide a pathway for reversing the disease. Parkinson's Disease is believed to affect 150 people per 100,000 or 2.5% of persons over the age of 85. A successful therapeutic is estimated to command global sales of $1.5 billion per annum.

The Melbourne research team headed by Drs Qaio Xin Li and Janetta Culvenor is working on the key protein that aggregates to form the diagnostic marker of this disease. The aggregated form of this protein is susceptible to the same therapeutic strategy that is being used for Alzheimer's disease, and tests are about to be conducted on test-tube samples to confirm this approach. Experimental animal models are becoming available for this debilitating disorder, and the targets for drug development are expected to be available within the next 12 months.

Intellectual Property Report

Project	Status	Comments
Alzheimer's Disease University of Melbourne Family "A method for assaying and treating Alzheimer's Disease"	Three patents granted, one in US and two in Australia, one European patent granted but being opposed, three applications under examination.	Broad scope claimed. While the grant of the European patent has been opposed, this will be vigorously defended.
Alzheimer's Disease BRI Family "Beta amyloid peptide inhibitors"	Published International patent application, not yet examined by National patent offices.	Early stage of prosecution. Very few citations raised during International examination.
Alzheimer's Disease General Hospital Corporation Families 1&2 "An in vitro system for determining the formation of Aβ Amyloid"	One patent allowed and awaiting grant in US. Two applications awaiting examination, further application proposed.	
Alzheimer's Disease General Hospital Corporation Family 3 "A diagnostic assay for Alzheimer's Disease"	One patent granted in US, one application under examination in US, one application awaiting examination in Canada.	
Alzheimer's Disease General Hospital Corporation Family 4 "Identification of agents for use in the treatment of Alzheimer's Disease"	Applications under examination in US and Australia, awaiting examination in Canada, Japan and Europe. Further International application filed.	Early stage in prosecution.
Alzheimer's Disease General Hospital Corporation/University of Melbourne Family 6 "Use of a preferred compound for the therapy of Alzheimer's Disease"	One application under examination in US, not yet published. Expected to trigger an Interference Action.	A further inventor from University of Melbourne was added to application after the application was filed. This application is in conflict with the opponents of the University of Melbourne European patent. The ownership of this invention in the US will be determined by the Board of Patent Appeals and Interferences.
Alzheimer's Disease General Hospital Corporation Family 7 "Agents for use in the treatment of Alzheimer's Disease"	US patent allowed and awaiting grant, Australian application under examination, 3 applications awaiting examination, one further application proposed.	Prospects for the grant of further patents looks promising considering the relatively smooth progress through US examination.
Alzheimer's Disease General Hospital Corporation Family 8 "Method for Screening drugs useful for treating Alzheimer's Disease"	One application under examination in US, further unpublished International application (in Family 4, see above).	Early stage of prosecution.
Alzheimer's Disease and other neurological conditions Prana/General Hospital Corporation "Neurotoxic Oligomers"	Published International application, awaiting International examination.	Early stage of prosecution.
Cataract General Hospital Corporation	Unpublished International application.	Early stage of prosecution.
Tardive Dyskinesia General Hospital Corporation Family 5 "Methods for screening drugs to predict Tardive Dyskinesia"	One patent allowed and awaiting grant in US, Australian application under examination, three applications awaiting examination, one further application proposed.	Prospects for the grant of further patents looks promising considering the relatively smooth progress through US examination.

Corporate Governance Statement

The Board of Directors of Prana Biotechnology Limited is responsible for the corporate governance of the Company.

This statement sets out the main corporate governance practices that were in operation throughout the financial year, except where otherwise indicated.

The Board guides and monitors the business and affairs of Prana Biotechnology Limited on behalf of the shareholders by whom they are elected and to whom they are accountable

Composition of the Board

The Board should comprise of at least 3 Directors.

The Directors in office at the date of this statement are:

Geoffrey P. Kempler	Executive Chairman
Colin L. Masters	Executive Director
Brian D. Meltzer	Non-Executive Director
George W. Mihaly	Non-Executive Director

Board Responsibilities

As the Board acts on behalf of the shareholders and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations.

Board responsibilities are divided into operating activities, scientific activities and financial and capital markets activities. Operating activities are principally undertaken by the Executive Chairman, Mr Kempler who is predominantly responsible for overall management of the Company, agreements and negotiations with research institutions and supervision of the Company's intellectual property portfolio. Scientific activities are undertaken under the direct responsibility of Professor Colin Masters who chairs the Company's Scientific Advisory Board. The Company's Scientific Advisory Board, which is comprised of a number of the leading scientists in the field of age-related degenerative disorders, oversees and administers the Company's research activities. Mr Meltzer is predominantly responsible for the Company's financial and treasury operations and advises the board with respect to capital markets and corporate activities.

Audit, Risk and Compliance Committee

The Committee is responsible for considering risk management, legal compliance and financial reporting. It:

- Reviews annual and half yearly financial statements with management and auditors prior to their submission to the Board;
- Monitors the establishment and effective operation of adequate risk management procedures;
- Reports to the Board on any observed major failures or operation of key administrative and internal control systems and significant non-compliance with legislation; and
- Reviews the scope and annual plans of the external audit.

The members of the Committee during the year were:

G P Kempler
B D Meltzer
R Revelins – Company Secretary

Directors' Report

Your Directors submit their report for the year ended 30 June 2001.

Directors

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Name, qualifications, experience and special responsibilities.

Mr Geoffrey Paul Kempler

B.Sc. Grad. Dip. App. Soc. Psych.

Executive Chairman

Mr Kempler, aged 46, is one of the founders of Prana and has been primarily responsible for the successful negotiation of the Company's existing contractual relationships with Massachusetts General Hospital, the University of Melbourne and the Biomolecular Research Institute. He was appointed a Director of the Company on 11 November 1997.

Mr Kempler is a qualified psychologist and the Managing Director and major shareholder of Aroma Science Pty Ltd which holds the Australian distribution and marketing rights to the Aveda range of cosmetic products.

As Executive Chairman Mr Kempler has overall management responsibility and will continue to be primarily responsible for ongoing negotiations with respect to the Technology. He is also a member of the Audit, Risk and Compliance Committee.

Professor Colin Louis Masters

B.Med.Sci (Honours), M.B., B.S., M.D., F.R.C. Path (U.K.), F.R.C. Path (Aust.), F.A.A

Executive Director

Professor Masters, aged 54, a Director of the Company since 9 December 1999, graduated with a degree in Medicine from the University of Western Australia in 1970. Since this time Professor Masters has held many senior scientific research positions predominantly in the area of Alzheimer's disease research and is Professor and Head of the Department of Pathology at the University of Melbourne. He is Chief of Neuropathology and Director of Research Laboratories at the Mental Health Research Institute of Victoria and Consultant in Pathology at the Royal Melbourne Hospital.

Professor Masters chairs the Scientific Advisory Board of Prana and is primarily responsible for the implementation of the research strategy of the Company.

Mr Brian Derek Meltzer
B.Com., MEc.

Non-Executive Director

Mr Meltzer, aged 47, a Director of the Company since 9 December 1999, is a merchant banker with the international investment bank Babcock & Brown. He has 20 years experience in finance, including 12 years at AIDC Ltd where he was Director of Investment Advisory Services.

He is a Director of Momentum Ventures Limited, licenced 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 a number of private companies. He is also a director on the boards of the Australia-Israel Chamber of Commerce and the Paraplegic and Quadriplegic Association of Victoria (Paraquad). He is a member of the Audit, Risk and Compliance Committee.

Dr George William Mihaly
B.Pharm., M.Sc., Ph.D., GAICD

Non-Executive Director

Dr Mihaly, aged 48, a Director of the Company since 9 December 1999, 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 – one of Australia's leading independent consultant research organisations (CRO) to the pharmaceutical industry. Synermedica merged with the Global CRO, Kendle International Inc., in April 2000 and Dr Mihaly continues as Managing Director of the merged entity in Australia (now called Kendle Pty Ltd).

Over the course of the last 22 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.

DIRECTORS' REPORT continued

Interests in the Shares and Options of the Company and Related Bodies Corporate

As at the date of this report, the relevant interests of the Directors in the shares and options of the Company were:

Prana Biotechnology Limited

	Ordinary shares	Options over ordinary shares
G. Kempler	15,270,000	8,635,000
C. Masters	13,000	1,005,000
B. Meltzer	100,000	360,000
G. Mihaly	26,000	336,000

Earning per share	**Cents**
Basic earnings/(loss) per share	(7.8)

Dividends

The Directors did not pay any dividends during the financial year. The Directors do not recommend the payment of a dividend in respect to the financial year.

Corporate Information

Corporate Structure

Prana Biotechnology Limited is a company limited by shares that is incorporated and domiciled in Australia.

Nature of operations and principal activities

The principal activities during the year of the Company were to commercialise research into Alzheimer's Disease and other major age-related degenerative disorders.

There have been no significant changes in the nature of those activities during the year.

Employees

The company employed 3 employees at 30 June 2001 (2000: 2 employees)

Review and Results of Operations

The net loss for the year after income tax was $4,138,979 (2000: $1,326,288 loss).

Patent, research and development costs which comprise the majority of expenses for the period of $2,363,000 are considerably higher than the prior year costs of $422,000 which only included three months of expenditure as the company listed on the Australian Stock Exchange on 28 March 2000 and accordingly did not incur large expenditures of this nature prior to listing. In addition, the Board has reviewed Prana's entire expenditure for the financial year and considers that certain costs relating to patent costs totalling $329,000 are of a non-recurring nature. Further information on the review of operations of the Company and the results of those operations are contained elsewhere in the Annual Report.

Significant Changes in the State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company during the financial year under review not otherwise disclosed in this annual report.

Significant Events after the Balance Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years except from matters listed below:

Since the end of the financial year the Company announced that it had been granted a $1.74 million START grant from the Australian Industry Research and Development Board to expand the company's core intellectual property for drug treatment of neuro-degenerative diseases. $226,000 of this grant has been accrued in the financial statements as at 30 June, 2001.

During August 2001 Prana announced the securing of a partnership with Neuroscience Victoria to commercialise new projects devoted to neuroscience research. The partnership includes a major funding award which is part of the $160 million National Major Research Facilities funding package. The Neuroscience Victoria led consortium comprises the Howard Florey Institute, the Mental Health Research Institute, University of Melbourne, Monash University and Prana as the commercialising entity. Prana is the only non-research institute member of the consortium.

DIRECTORS' REPORT continued

Likely Developments and Expected Results

The likely developments in the Company's operations, to the extent that such matters can be commented upon, are covered in the Review of Operations contained elsewhere in this Annual Report. In the opinion of the Directors, disclosure of information regarding the expected results of those operations in financial years after the current financial year is not predictable at this stage, or may prejudice the interests of the Company. Accordingly, this information has not been included in this report.

Environmental Regulation and Performance

The Company is involved in scientific research and development, and the activities of the Company do not create any significant environmental impact to any material extent. The Company's scientific research activities are in full compliance with all prescribed environmental regulations.

Share Options

Unissued shares

As at the date of this report there were 28,655,000 unissued ordinary shares under options as follows:

- 7,995,000 options exercisable on or before 1 March 2003 at $0.50
- 20,250,000 options exercisable after 1 March 2002 and on or before 1 December 2004 at $0.50
- 400,000 options exercisable on or before 20 March 2004 at $0.50
- 10,000 Employee and Consultant Incentive options exercisable on or before 30 June 2005 at $0.50

Shares Issued as a result of the exercise of options

No ordinary shares were issued as a result of the exercise of options.

Indemnification and Insurance of Directors and Officers

During the financial year the Company entered into a policy to indemnify Directors and Officers against certain liabilities incurred as a Director or Officer, including costs and expenses associated in successfully defending legal proceedings. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

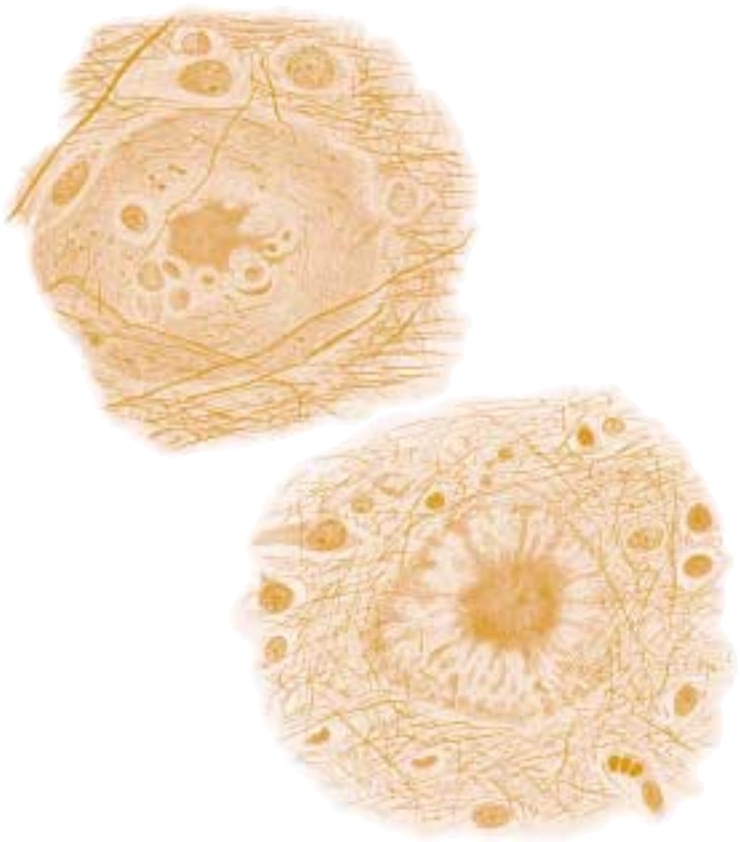
Directors' and Other Officers' Emoluments

Remuneration Policy

Emoluments of Directors and Officers of the Company are determined by the Board which assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive.

Remuneration for the services of the Executive Directors are formalised in service agreements.

Details of the nature and amount of each element of the emoluments of each Director of the Company for the financial year are shown in the following table.



Emoluments of Directors of Prana Biotechnology Limited

	Annual Emoluments			
	Base fee $	Bonus $	Other $	Total $
G. Kempler	92,593	-	7,407	100,000
C. Masters	50,000	-	-	50,000
B. Meltzer	25,000	-	-	25,000
G. Mihaly	23,148	-	1,852	25,000

Emoluments of the five most highly paid executive officers of the Company

G. Kempler and C. Masters are the only Executive Officers of the Company. Their emoluments are disclosed in the table above.

Options granted to Directors and any of the five most highly paid officers

There were no options granted over unissued shares in Prana Biotechnology Limited during or since the end of the year to any Director or any of the five most highly paid Officers of the Company as part of their remuneration.

Directors' Meetings

The number of meetings of Directors held during the year and the number of meetings attended by each Director were as follows:

	Directors' Meetings		Audit, Risk and Compliance Committee Meetings	
	Meetings held while a Director	Meetings attended	Meetings held while a Director	Meetings attended
G Kempler	10	10	2	2
C Masters	10	10	-	-
B Meltzer	10	10	2	2
G Mihaly	10	9	-	-

As at the date of this report, the Company had an Audit, Risk and Compliance Committee consisting of Geoffrey Kempler, Brian Meltzer and Richard Revelins.

Signed in accordance with a resolution of the Directors made pursuant to s.298(2) of the Corporations Act 2001.

Geoffrey Kempler
Director

Melbourne, 28 September 2001

Statement of Financial Performance

Year ended 30 June 2001	Notes	Company 2001 $	Company 2000 $
Revenue from ordinary activities	2	**516,182**	78,758
Depreciation and amortisation expense	3	**(1,140,658)**	(654,977)
Patents, research and development expense	3	**(2,362,917)**	(421,933)
Consulting fee expense		**(306,530)**	(179,998)
Legal fee expense		**(252,675)**	(13,082)
Employee benefits expense		**(122,199)**	-
Other expenses from ordinary activities		**(470,182)**	(135,056)
(Loss) From ordinary activities before income Tax expense		**(4,138,979)**	(1,326,288)
Income Tax expense relating to ordinary activities	4	-	-
Net (Loss)	12	**(4,138,979)**	(1,326,288)
Total changes in equity other than those resulting from transactions with owners as owners		**(4,138,979)**	(1,326,288)
Earnings Per Share - Basic (cents per share)	18	**(7.8)**	(3.5)

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 30 June 2001	Notes	Company 2001 $	Company 2000 $
Current Assets			
Cash assets		**6,854,873**	4,469,589
Receivables	5	**355,621**	38,193
Other	6	**166,341**	323,639
Total Current Assets		**7,376,835**	4,831,421
Non-Current Assets			
Property, plant and equipment	7	**149,555**	156,667
Intangible assets	8	**14,788,353**	15,888,356
Total Non-Current Assets		**14,937,908**	16,045,023
Total Assets		**22,314,743**	20,876,444
Current Liabilities			
Payables	9	**912,258**	147,137
Provisions	10	**9,608**	-
Total Current Liabilities		**921,866**	147,137
Total Liabilities		**921,866**	147,137
Net Assets		**21,392,877**	20,729,307
Equity			
Contributed equity	11	**12,276,892**	7,474,343
Reserves	12	**14,661,942**	14,661,942
Accumulated losses	12	**(5,545,957)**	(1,406,978)
Total Equity		**21,392,877**	20,729,307

The accompanying notes form part of these financial statements.

Statement of Cash Flows

Year ended 30 June 2001	Notes	Company 2001 $	Company 2000 $
Cash flows from operating activities			
Payments to suppliers and employees		**(2,651,685)**	(1,006,571)
Interest received		**253,177**	78,758
Income tax (paid)/refund		**38,193**	(38,193)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	13	**(2,360,315)**	(966,006)
Cash flows from investing activities		**-**	-
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**-**	-
Cash flows from financing activities			
Proceeds from issue of shares		**4,999,999**	8,000,000
Payment of share issue costs		**(254,400)**	(525,677)
Repayment of borrowing- other		**-**	(2,038,748)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**4,745,599**	5,435,575
NET INCREASE/(DECREASE) IN CASH HELD		**2,385,284**	4,469,569
Add opening cash brought forward		**4,469,589**	20
Closing cash carried forward	13	**6,854,873**	4,469,589

The accompanying notes form part of these financial statements.

Notes to Financial Statements

30 June 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Framework

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Significant Accounting Policies

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

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

(a) Changes in accounting policies

In accordance with Accounting Standard AASB 1041 "Revaluation of Non-Current Assets", on 1 July 2000 the Company changed its policy for accounting for core intellectual property. In accordance with the new Standard, the Company has reverted to the cost basis of measurement. The Directors have deemed the carrying amount of core intellectual property as at 1 July 2000 to be cost for financial reporting purposes. Accordingly, the change in accounting policy does not affect the carrying amount of core intellectual property recorded in the financial statements. However, the balance of the assets revaluation reserve recorded in the financial statements as 1 July 2000 relating to the previous revaluation of core intellectual property, amounting to $14,661,942 is no longer available to absorb any future writedown of core intellectual property.

(b) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at the lower of cost and net realisable value. For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash.

(c) Recoverable Amount

Non-current assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount, the expected net cash flows have not been discounted to their present value.

(d) Property, plant and equipment

Plant and equipment are measured at cost. Depreciation is provided on a straight line basis on plant and equipment as follows:

	2001	2000
Plant and equipment	20%-33%	20%

(e) Intangibles

Core intellectual property

Core intellectual property (formerly called research and development, patents and options) consists of patents and other technical know-how in existence at December 1999. Costs associated with the development of the Company's core intellectual property up until December 1999, including patent application costs, were capitalised.

After considering an independent valuation of the Company's core intellectual property at December 1999, the Directors revalued it to $16,500,000. In accordance with Accounting Standard AASB 1041 "Revaluation of Non-Current Assets", on 1 July 2000 the Directors deemed the carrying amount of core intellectual property to be cost for financial reporting purposes (refer also to note 1(a) above).

Core intellectual property is being amortised on a straight line basis over a period of 15 years, being the period in which the future benefits are expected to arise. The Directors regularly review the carrying value of core intellectual property to ensure its carrying value does not exceed its recoverable amount.

Patent renewal costs are written off as an expense as they are incurred. Refer also to note 1 (p) for the Company's accounting policy in relation to research and development costs.

(f) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Payables to related parties are carried at the principal amount. No interest is charged by the lender.

(g) Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

30 June 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(h) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest

Control of the right to receive the interest payment.

(i) Income tax

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Where assets are revalued no provision for potential capital gains tax has been made.

(j) Employee entitlements

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Employee entitlements expenses and revenues arising in respect of the following categories:

- Wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- Other types of employee entitlements;
- Are charged against profits on a net basis in their respective categories.

The value of the employee share incentive scheme described in note 15 (b) is not being charged as an employee entitlement expense.

(k) Earnings per share

Basic earnings per share is determined by dividing the loss from ordinary activities after related income tax expense by the weighted average number of ordinary shares outstanding during the financial year.

(l) Comparative Amounts

The Company has adopted the presentation and disclosure requirements of Accounting Standards AASB 1018 "Statement of Financial Performance", AASB 1034 "Financial Report Presentation and Disclosure" and AASB 1040 "Statement of Financial Position" for the first time in the preparation of this financial report. In accordance with the requirements of these new/revised Standards, comparative amounts have been reclassified in order to comply with the new presentation format. The reclassification of comparative amounts has not resulted in a change to the aggregate amounts of current assets, non-current assets, current liabilities, non-current liabilities or equity, or the net profit/loss of the Company as reported in the prior year financial report.

(m) Financial Instruments Issued by the Company

Debt and Equity Instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction Costs on the Issue of Equity Instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and Dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

(n) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense;

   or

ii. for receivables and payables which are recognised inclusive of GST.

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

(o) Receivables

Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts.

(p) Research and Development Costs

Research and development costs are recognised as an expense when incurred. Grants received or receivable in relation to research and development costs are recognised as revenue in the Statement of Financial Performance.

Notes to Financial Statements continued

30 June 2001	Company	
	2001	2000
	$	$
2. REVENUE FROM ORDINARY ACTIVITIES		
Revenues from operating activities		
Interest		
Other persons/corporations	**290,182**	78,758
Research grant	**226,000**	-
Total revenues from ordinary activities	**516,182**	78,758
3. EXPENSES FROM ORDINARY ACTIVITIES		
Expenses		
Depreciation of non-current assets		
Plant and equipment	**40,655**	43,333
Amortisation of non-current assets		
Core intellectual property	**1,100,003**	611,644
Total depreciation and amortisation expenses	**1,140,658**	654,977
Patents, research and development expenses		
Research and development	**1,610,054**	26,923
Patents	**752,863**	395,010
Total patent, research and development expenses	**2,362,917**	421,933
4. INCOME TAX		
(a) Prima facie income tax on the operating loss before income tax at 34% (2000: 36%)	**1,407,253**	477,464
Non-tax deductible items - amortisation of intangibles	**(374,001)**	(221,191)
Net timing differences	**(4,214)**	(3,600)
Timing differences and tax losses not brought to account as future income tax benefits (note 4(b))	**(1,029,038)**	(252,673)
Income tax expense	**-**	-
(b) Potential future tax benefits at 30% (2000: 34%) not brought to account attributable to:		
Tax losses - revenue	**1,138,623**	269,235
Timing differences	**5,282**	3,400
	1,143,905	272,635

30 June 2001

4. INCOME TAX continued

The future income tax benefit arising from these balances has not been recognised as an asset because recovery is not virtually certain. The benefit of these tax losses will only be obtained if:

(i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(ii) the conditions for deductibility imposed by tax legislation continue to be complied with; and

(iii) no changes in tax legislation adversely affect the Company in realising the benefit.

The Company has no franking credits available at year end.

	Company	
	2001 $	2000 $
5. RECEIVABLE (CURRENT)		
Sundry debtors	**254,713**	38,193
Other receivables	**37,005**	-
Goods and services tax	**63,903**	-
	355,621	38,193
6. OTHER ASSETS (CURRENT)		
Prepayments	**166,341**	323,639
7. PROPERTY, PLANT AND EQUIPMENT		
Equipment		
Gross Carrying Amount		
Balance at beginning	**200,000**	200,000
Additions	**33,543**	-
Disposals	**-**	-
Balance at end	**233,543**	200,000
Accumulated Depreciation		
Balance at beginning	**(43,333)**	-
Disposals	**-**	-
Depreciation expense	**(40,655)**	(43,333)
Balance at end	**(83,988)**	(43,333)
Net Book Value		
As at 30 June 2000	**156,667**	
As at 30 June 2001	**149,555**	

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in note 3 to the financial statements.

Notes to Financial Statements continued

30 June 2001	Notes	Company 2001 $	Company 2000 $
8. INTANGIBLE ASSETS			
Core Intellectual property - at cost (2000: At Directors' valuation)		**16,500,000**	16,500,000
Accumulated amortisation		**(1,711,647)**	(611,644)
		14,788,353	15,888,356
Aggregate amortisation allocated during the year is recognised as an expense and disclosed in note 3 to the financial statements			
9. PAYABLES (CURRENT)			
Trade creditors		**820,497**	110,516
Other creditors		**31,078**	10,000
Amounts payable to Director-related entity	22	**33,400**	26,621
Goods and services tax payable		**27,283**	-
		912,258	147,137
10. PROVISIONS (CURRENT)			
Employee entitlements	15	**9,608**	-
11. CONTRIBUTED EQUITY			
(a) Contributed equity			
Ordinary shares fully paid		**12,268,892**	7,474,343
Options fully paid		**8,000**	-
	15	**12,276,892**	7,474,343

(b) Movements in shares on issue

		2001 Number of shares	2001 $	2000 Number of shares	2000 $
Beginning of the financial year		**50,505,000**	**7,474,343**	20	20
Issued during the year					
- Equity raisings	(i)	**6,755,266**	**5,048,949**	16,000,960	8,000,960
less transaction costs			**(254,400)**		(529,137)
- Exercise of options		**-**	**-**	5,000	2,500
297 for 1 share division		**-**	**-**	5,920	-
5,000 for 1 share division		**-**	**-**	34,493,100	-
End of the financial year		**57,260,266**	**12,268,892**	50,505,000	7,474,343

30 June 2001

11. CONTRIBUTED EQUITY continued

(b) Movements in shares on issue continued

(i) Date	Details	Number	Issue Price	$
15 February 2001	Private placement of shares	6,666,666	$0.75	4,999,999
4 April 2001	Issue of shares (i)	50,000	$0.40	20,000
27 June 2001	Issue of shares (i)	38,600	$0.75	28,950
		6,755,266		5,048,949

(i) In consideration for services provided

(c) Share Options

28,655,000 options over ordinary shares (2000: 28,245,000)

(b) Movements in options

		2001		2000	
		Number of options	$	Number of options	$
Beginning of the financial year		**28,245,000**	**-**	28,245,000	-
Issued during the year	(i)	**410,000**	**8,000**	-	-
End of the financial year		**28,655,000**	**8,000**	28,245,000	-

(i) Date	Details	Number	Issue Price	Exercise Price
4 April 2001	Issue of shares (i)	400,000	$0.02	$0.50
27 June 2001	Issue of shares (i)	10,000	-	$0.50

(i) In consideration for services provided

(d) Terms and conditions of contributed equity

Ordinary Shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holders to one vote, either in person or by proxy, at a meeting of the Company. Optionholders are not entitled to vote at a meeting of the Company.

	Notes	Company	
		2001 $	2000 $
12. RESERVES AND ACCUMULATED LOSSES			
Asset revaluation reserve	12(a)	**14,661,942**	14,661,942
Accumulated losses	12(b)	**(5,545,957)**	(1,406,978)

Notes to Financial Statements continued

30 June 2001

	Company	
	2001	2000
12. RESERVES AND ACCUMULATED LOSSES continued	**$**	$
(a) Asset Revaluation continued		
(i) Nature and purpose of reserve		
The Assets Revaluation Reserve is used to record increments and decrements in the value of non-current assets.		
(ii) Movements in reserve		
Balance at beginning of year	**14,661,942**	-
Revaluation of core intellectual property to Directors' Valuation	**-**	14,661,942
Balance at end of year	**14,661,942**	14,661,942
From 1 July 2000, as allowed by AASB 1041, "Revaluation of Non-Current Assets", we have deemed the carrying value of our intangible assets at valuation (refer to note 8 for assets carried at valuation) to be cost. As a result, the asset revaluation reserve can no longer be used to record the writedowns of these assets to recoverable amount. Any writedowns of these assets to recoverable amount from 1 July 2000 must be made through the Statement of Financial Performance (refer note 1(a)).		
(b) Accumulated losses		
Balance at beginning of year	**(1,406,978)**	(80,690)
Net loss	**(4,138,979)**	(1,326,288)
Balance at end of year	**(5,545,957)**	(1,406,978)
13. STATEMENT OF CASH FLOWS		
(a) Reconciliation of the operating (loss) after tax to the net cash flows from operations		
(Loss) from ordinary activities after tax	**(4,138,979)**	(1,326,288)
Non-cash items		
Depreciation of non-current assets	**40,655**	43,333
Amortisation of intangible assets	**1,100,003**	611,644
Non-cash share issue in consideration of operating expenses	**56,950**	-
Changes in assets and liabilities		
Increase/(decrease) in payables	**731,579**	67,137
(Increase)/decrease in receivables	**(317,429)**	(38,193)
(Increase)/decrease in prepayments	**157,298**	(323,639)
Increase/(decrease) in provision for employee entitlements	**9,608**	-
Net cash flow from/(used in) operating activities	**(2,360,315)**	(966,006)
(b) Reconciliation of cash		
Cash balance comprises:		
- cash on hand	**6,854,873**	4,469,589
Closing cash balance	**6,854,873**	4,469,589

30 June 2001

14. EXPENDITURE COMMITMENTS

Under the terms of a Research Funding and Intellectual Property assignment agreement between Prana Biotechnology Limited and the University of Melbourne, Prana is required to pay the University a minimum sum of $297,000 (inclusive of GST), each year for a period of 3 years from 1 December 2000 for research projects.

Under the terms of a Strategic Alliance Agreement between Prana Biotechnology Limited and Kendle Pty Ltd, Kendle will provide consultancy services to Prana in relation to the co-ordination, planning and management of intellectual property, research and development, planning, management and commercialisation strategy for the period from 1 December 2000 to 31 December 2001.

Under the terms of a licence agreement between the Company and the General Hospital Corporation conducting business as The Massachusetts General Hospital, Prana is required to pay the hospital USD 166,590 for a period of 30 months from 1 January 2001 for the right to use the results of research under a licence to patent rights in order to commercially develop, manufacture, use and distribute products through the world.

Professor Ashley Bush has entered a Consultancy Agreement with the company for the provision of research and development services relating to technologies in respect of inventions and treatments for diseases caused by metal-mediated oxidative stress. The agreement provides for a term of three years commencing on 1 February 2000 with a monthly consultancy fee payable by the company of $6,000.

Malvern Administrative Services Pty Ltd provides administrative support at a rate of $10,000 per month. Aroma Science Pty Ltd provides office, computer administration and meeting facilities at a rate of $2,500 per month.

These latter two commitments may be terminated with 3 months' notice from either Prana or the other party.

15. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

	Notes	Company	
		2001 $	2000 $
(a) Employee Entitlements			
The aggregate employee entitlement liability is composed of:			
Provision (current)	10	**9,608**	-
		9,608	-

(b) Employee Incentive Scheme

At the Annual General Meeting held on 22 November 2000, shareholders approved the establishment of an Employee Share Incentive Scheme designed to reward executives, employees and/or consultants for their contributions to the Company. It is also proposed as a method of retaining key personnel for the growth and development of the Company's intellectual property rights. The options cannot be transferred and will not be quoted on the Australian Stock Exchange. At 30 June 2001 there were nil Directors, nil executives, nil staff and one consultant participating in the scheme.

Notes to Financial Statements continued

30 June 2001

15. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS continued

Information with respect to the number of options granted under the employee share incentive scheme is as follows:

	2001		2000	
	Number of options	**Exercise price**	Number of options	Number of price
Beginning of the financial year	**-**	**-**	-	-
Issued during the year	**10,000**	**$0.50**	-	-
End of the financial year	**10,000**	**$0.50**	-	-

16. CONTINGENT LIABILITIES

Prana Biotechnology Limited is developing a pipeline of drugs for the diagnosis and treatment of Alzheimer's Disease and other neurodegenerative disorders. Prana sponsored scientists, led by Professor Ashley Bush, have reported the use of one such molecule, PBT1, for the reversal of the plaques associated with Alzheimer's disease in transgenic mice.

Prana is involved in a patent dispute, limited to only one of its molecules. In particular, company called P.N. Gerolymatos S.A. has been granted patents in the United States of America in relation to certain applications of the lead compound PBT1 currently in use in Prana's Phase II human clinical trials. In addition, a corresponding Australian application in the name of P.N. Gerolymatos S.A. has been accepted, but is the subject of an opposition by Prana Biotechnology Limited. The results of these proceedings are yet to be determined. Prana is confident of its just entitlement to any necessary rights to all patents required to commercialise its discoveries. Prana has retained William Lee, Managing Partner of Hale & Dorr, to protect its position.

Apart from this matter, the Company is not involved in any legal or arbitration proceedings and, so far as Directors are aware, no such proceedings are pending or threatened against the Company.

17. SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years except from matters listed below:

Since the end of the financial year the Company announced that it had been granted a $1.74 million START grant from the Australian Industry Research and Development Board to expand the company's core intellectual property for drug treatment of neuro-degenerative diseases.

During August 2001 Prana announced the securing of a partnership with Neuroscience Victoria to commercialise new projects devoted to neuroscience research. The partnership includes a major funding award which is part of the $160 million National Major Research Facilities funding package. The Neuroscience Victoria led consortium comprises the Howard Florey Institute, the Mental Health Research Institute, University of Melbourne, Monash University and Prana as the commercialising entity. Prana is the only non-research institute member of the consortium.

	2001 Cents	2000 Cents
18. EARNINGS PER SHARE		
Basic earnings per share	**(7.8)**	(3.5)
Weighted average number of ordinary shares on issue during the financial years used in the calculation of basic earnings per share	53,090,491	37,342,158

The options in place do not have the effect to dilute the earnings per share.

30 June 2001

	Company	
	2001	2000
	$	$
19. REMUNERATION OF DIRECTORS		
Directors' remuneration		
Income paid or payable, or otherwise made available, in respect of the financial year, to all Directors of the Company directly or indirectly, from the entity of which they are Directors or any related party	**200,000**	130,415
The number of Directors of the Company whose income (including superannuation contributions) falls within the following income bands is:	**No.**	No.
$ 0 to $ 9,999	**-**	1
$ 10,000 to $ 19,999	**-**	2
$ 20,000 to $ 29,999	**2**	1
$ 50,000 to $ 59,999	**1**	-
$ 70,000 to $ 79,999	**-**	1
$ 100,000 to $ 109,999	**1**	-

	Company	
	2001	2000
	$	$
20. REMUNERATION OF EXECUTIVES		
Remuneration received or due and receivable by executive officers of the Company whose remuneration is $100,000 or more, from the Company or any related party, in connection with the management of the affairs of the Company whether as an executive officer or otherwise	**100,000**	-
	No.	No.
The number of executives of the Company whose remuneration falls within the following band is: $100,000 - $109,999	**1**	-
21. AUDITORS' REMUNERATION		
Amounts received or due and receivable for:		
- an audit or review of the financial report of the entity	**17,463**	15,638
- other services in relation to the entity	**4,250**	12,500
	21,713	28,138

Notes to Financial Statements continued

30 June 2001	Notes	Company 2001 $	Company 2000 $
22. RELATED PARTY DISCLOSURES			
Directors			
The Directors of the Company during the financial year were:			
G. P. Kempler C. L. Masters G. W. Mihaly B. D. Meltzer			
Director-related entity transactions			
Services Kendle Pty Ltd, a Director-related company to G. Mihaly, provided continuous analysis and reviews of the Company's commercialisation and intellectual property management as well as clinical trial management and monitoring. Fees paid to Kendle Pty Ltd during the year were:		**246,496**	64,785
Amount owing to Kendle Pty Ltd (included in trade creditors)	9	**33,400**	26,621
Aroma Science Pty Ltd, a Director-related company to G. Kempler, provided office, computer administration and meeting facilities. Fees paid to Aroma Science Pty Ltd during the year were:		**30,000**	12,500
The operations of the Company prior to the March 2000 listing on the Australian Stock Exchange were funded by two Director-related entities Baywick Pty Ltd (G Kempler) and Jagan Nominees Pty Ltd (B Liberman). These loans were repaid in the 2000 fiscal year in the amount of:		**-**	2,038,748

Equity Instruments of Directors

Interests in the equity instruments of the Company held by Directors of the reporting entity and their Director-related entities:

	Ordinary Shares Fully Paid		Options over Ordinary Shares	
	2001 Number	2000 Number	**2001 Number**	2000 Number
(a) Interests at balance date	**15,409,000**	15,409,000	**10,326,000**	10,326,000
(b) Movements in Directors' equity holdings	**-**	-	**-**	-

23. SEGMENT INFORMATION

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

Notes to Financial Statements continued

30 June 2001

24. FINANCIAL INSTRUMENTS

The Company is subject to a number of financial risks that arise as a result of its activities.

(a) Significant Account Policies

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

(b) Interest rate risk

The Company has cash on deposit which is professionally managed by external parties to optimise the impact of interest rate fluctuations pursuant to conservative investment guidelines. The Company has $1,300,000 in a 6 month term deposit at a fixed interest rate of 5.46%, $1,326,303 in a 4 month term deposit at a fixed interest rate of 4.9% and $4,228,571 in a cheque account at a variable interest rate of 4.10% at 30 June 2001. The average interest rate is 4.51% and apart from usual variances in general rates of interest the Company is not exposed to any significant interest rate risk.

Receivables and payables are non-interest bearing.

(c) Net fair values

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

(d) Credit risk

Financial assets, which potentially expose the Company to concentrations of credit risk, consist primarily of cash and receivables. The Company's cash and cash equivalents are placed with high credit quality financial institutions and receivables are presented net of any allowances for estimated doubtful receivables. Accordingly, the Directors believe the Company has no significant concentration of credit risk.

Directors' Declaration

In accordance with a resolution of the Directors of Prana Biotechnology Limited made pursuant to s.295(5) of the Corporations Act 2001:

a) The Directors' declare that the attached financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:

   i) giving a true and fair view of the Company's financial position as at 30 June 2001 and of its performance for the year ended on that date; and

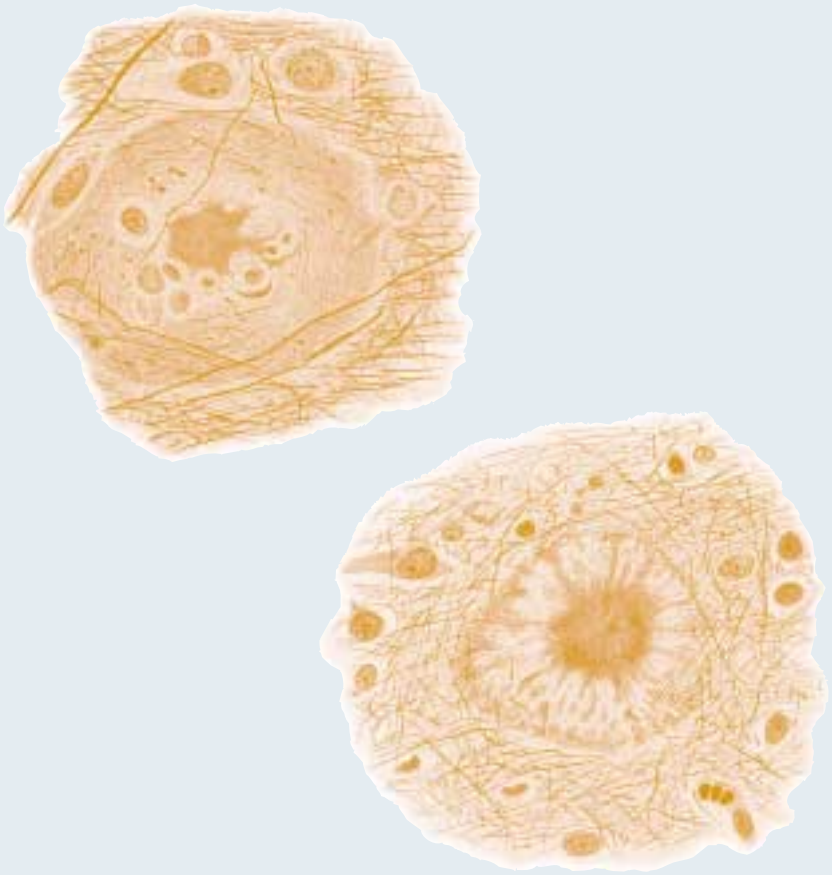
   ii) complying with Accounting Standards and

b) In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Geoffrey Kempler
Director

Melbourne, 28 September 2001



Deloitte Touche Tohmatsu
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Melbourne VIC 3000
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Deloitte Touche Tohmatsu

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PRANA BIOTECHNOLOGY LIMITED

Scope

We have audited the financial report of Prana Biotechnology Limited for the financial year ended 30 June 2001 as set out on pages 12 to 27. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards Australia and other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the Company's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Prana Biotechnology Limited is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2001 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards and the Corporations Regulations; and

(b) other mandatory professional reporting requirements.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

C J Biermann
Partner
Chartered Accountants

28 September 2001

Shareholder Information

27 September 2001

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary Shares

• 57,260,266 fully paid ordinary shares are held by 1,323 individual shareholders. This includes 34,500,000 fully paid ordinary shares held by 8 shareholders which are restricted (escrowed) from quotation until 28 March 2002. All ordinary shares carry one vote per share.

Options

7,995,000 options exercisable on or before 1 March 2003 at a price of $0.50 per option are held by 452 individual optionholders.

17,250,000 options * exercisable between 1 March 2002 and 1 December 2004 at a price of $0.50 per option - vendors and promoters.

3,000,000 Incentive options * exercisable between 1 March 2002 and 1 December 2004 at a price of $0.50 per option - Directors and Consultants.

* These options are held by 14 optionholders which are restricted (escrowed) from quotation until 28 March 2002.

400,000 options exercisable on or before 20 March 2004 at a price of $0.50 per option.

10,000 employees and consultant's incentive options exercisable on or before 30 June 2005 at a price of $0.50.

Options do not carry a right to vote. Voting rights will be attached to the unissued shares when the options have been exercised.

DISTRIBUTION OF HOLDERS IN EACH CLASS OF EQUITY SECURITIES

			Options exercisable			
		Fully paid Ordinary Shares	1 March 2003 Quoted	Between 1 March 2002 & 1 December 2004 Unquoted	On or before 20 March 2004 Unquoted	On or before 30 June 2005 Unquoted
1 -	1,000	234	5	-	-	-
1,001 -	5,000	635	235	-	-	-
5,001 -	10,000	223	92	-	-	1
10,001 -	100,000	201	104	-	2	-
100,001	and over	30	16	14	2	-
		1,323	452	14	4	1
Holdings less than a marketable parcel		561				

Shareholder Information continued

27 September 2001.

TWENTY LARGEST HOLDERS OF QUOTED SECURITIES

Shareholder	Fully paid ordinary shares Number	%
1 Jagen Nominees Pty Ltd	14,051,000	24.54
2. Baywick Pty Ltd	13,765,000	24.04
3. NRB Developments Pty Ltd	2,970,000	5.19
4. Westpac Custodian Nominees Limited	2,549,448	4.45
5. Merrill Lynch (Australia) Nominees Pty Ltd	1,912,822	3.34
6. Neurotransmission Pty Ltd	1,650,000	2.88
7. Mr Rudolph Tanzi	1,650,000	2.88
8. Citicorp Nominees Pty Limited	1,428,300	2.49
9. Bluscan Pty Ltd	908,667	1.59
10. Intersuisse (Nominees) Pty Ltd	715,768	1.25
11. National Nominees Ltd	712,869	1.24
12. Queensland Investment Corporation	575,147	1.00
13. Cogent Nominees Pty Ltd	527,668	0.92
14. Bass Equities Fund No 1 Pty Ltd	520,000	0.91
15. Lampam Pty Ltd	516,000	0.90
16. Woonda Nominees Pty Ltd	508,000	0.89
17. CSFB Third Nominees Pty Ltd	500,000	0.87
18. Darontack Pty Ltd	500,000	0.87
19. ANZ Nominees Ltd	429,973	0.75
20. Commonwealth Custodial Services Ltd	333,333	0.58
	46,723,995	81.58

Optionholder	Options exercisable 1 March 2003 Number	%
1. Bass Equities Fund No.1 Pty Ltd	410,000	5.13
2. Cogent Nominees Pty Limited (SMP A/C)	351,838	4.40
3. Jagen Nominees Pty Ltd	348,000	4.35
4. Bluscan Pty Ltd	310,000	3.88
5. Tenth Kusim Pty Ltd	240,000	3.00
6. Ms Julie Efron	218,750	2.74
7. Baywick Pty Ltd	200,000	2.50
8. Winns Australia Pty Ltd	200,000	2.50
9. Ms Eva Fay Migdal	184,715	2.31
10. First Port of Call Pty Ltd	170,600	2.13
11. Annlew Investments Pty Ltd (Super Fund A/C)	150,000	1.88
12. Dr George Muchnicki (Super fund A/C)	133,000	1.66
13. Cornelius Australia Pty Ltd	118,400	1.48
14. AMP Life Limited	117,948	1.48
15. Umbiram Pty Ltd	110,000	1.38
16. Mr Moshe & Mr Ron Goldberg	100,500	1.26
17. Bodie Investments Pty Ltd	100,000	1.25
18. Ms Eva Migdal	100,000	1.25
19. Hornet Computer Systems Pty Ltd	90,000	1.13
20. AMN Nominees Pty Ltd	87,500	1.09
	3,741,251	46.80

UNQUOTED EQUITY SECURITIES HOLDINGS GREATER THAN 20%

Optionholder	Options exercisable between 1 March 2002 and on or before 1 December 2004 Number	%
1. Baywick Pty Ltd	6,682,500	32.35
2. Jagen Nominees Pty Ltd	6,682,500	32.35

Total number of unquoted options	20,660,000
Total number of optionholders	19

SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders who have notified the Company in accordance with Section 671B of the Corporations Act 2001 are:

SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders in the Company and the number of fully paid ordinary shares in which each has an interest are as follows:

Substantial Shareholders	Number of shares
1. Jagen Nominees Pty Ltd	14,051,000
2. Baywick Pty Ltd	13,765,000
3. NRB Developments Pty Ltd	2,970,000

OTHER

The Company has used the cash and assets since listing in March 2000 in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

Shareholder Information continued

Shareholder Enquiries

Shareholders with enquiries about their shareholdings should contact the Share Registry, Computershare Registry Services Pty Ltd by telephone on (03) 9615 5970 or by facsimile on (03) 9611 5710.

Change of Address

Shareholders should notify the Share Registry in writing immediately upon any change in their registered address. Sponsored holders ("CHESS") should notify their stockbroker of such change.

Change of Name

Shareholders who change their name should notify the Share Registry and attach a copy of a relevant marriage certificate, deed poll or other relevant documentation.

Removal from the Annual Report Mailing List

Shareholders who do not wish to receive the Annual Report should advise the share Registry in writing. These shareholders will continue to receive all other shareholder information.

Consolidation of Shareholdings

You may have received more than one annual report. If so, please check carefully the name and address printed on the Notice of Meeting in each report.
If these are identical, you may wish to combine the holdings into a single holding by writing to the Share Registry quoting each of the shareholder reference numbers.

Tax File Numbers

It is important that Australian resident shareholders, including children, have their tax file number or exemption details noted by the Share Registry.

CHESS

(Clearing House Electronic Subregister System)
Shareholders wishing to move to uncertificated holdings under the Australian Stock Exchange CHESS system should contact their stockbroker.

Uncertificated Share Register

Shareholding statements are issued within five business days after the end of the month in which transactions alter the balance of your holding.

Website

Shareholders wishing to access specific information about their holding can visit the Share Registry's website at www.computershare.com

Corporate Directory

Directors

Geoffrey P. Kempler	Executive Chairman
Colin L. Masters	Executive Director
Brian D. Meltzer	Non-Executive Director
George W. Mihaly	Non-Executive Director

Secretary

Richard Revelins

Principal Office

Level 1, 100 Dorcas Street
South Melbourne VIC 3205 Australia
Tel: 61 3 9690 8537
Fax: 61 3 9690 8587

Registered Office

Suite 2, 1233 High Street
Armadale VIC 3143 Australia
Tel: 61 3 9824 8166
Fax: 61 3 9824 8161

Website

www.pranabio.com

Auditors

Deloitte Touche Tohmastsu
Chartered Accountants
505 Bourke Street
Melbourne VIC 3000 Australia

Solicitors

Oakley Thompson & Co.
Level 17, 500 Collins Street
Melbourne VIC 3000 Australia

Share Registry

Computershare Investor Services Pty Ltd
Level 12, 565 Bourke Street
Melbourne VIC 3000 Australia

ADR Trustee

The Bank of New York
101 Barclay Street
New York, N.Y. 10286 USA

Securities Quoted

Australian Stock Exchange
Code - PBT (shares)
- PBTO (options)
NASDAQ (National Association of Securities Dealers Automated Quotation)
Code - PRNAY (ADR listing)

PRANA
BIOTECHNOLOGY
Limited