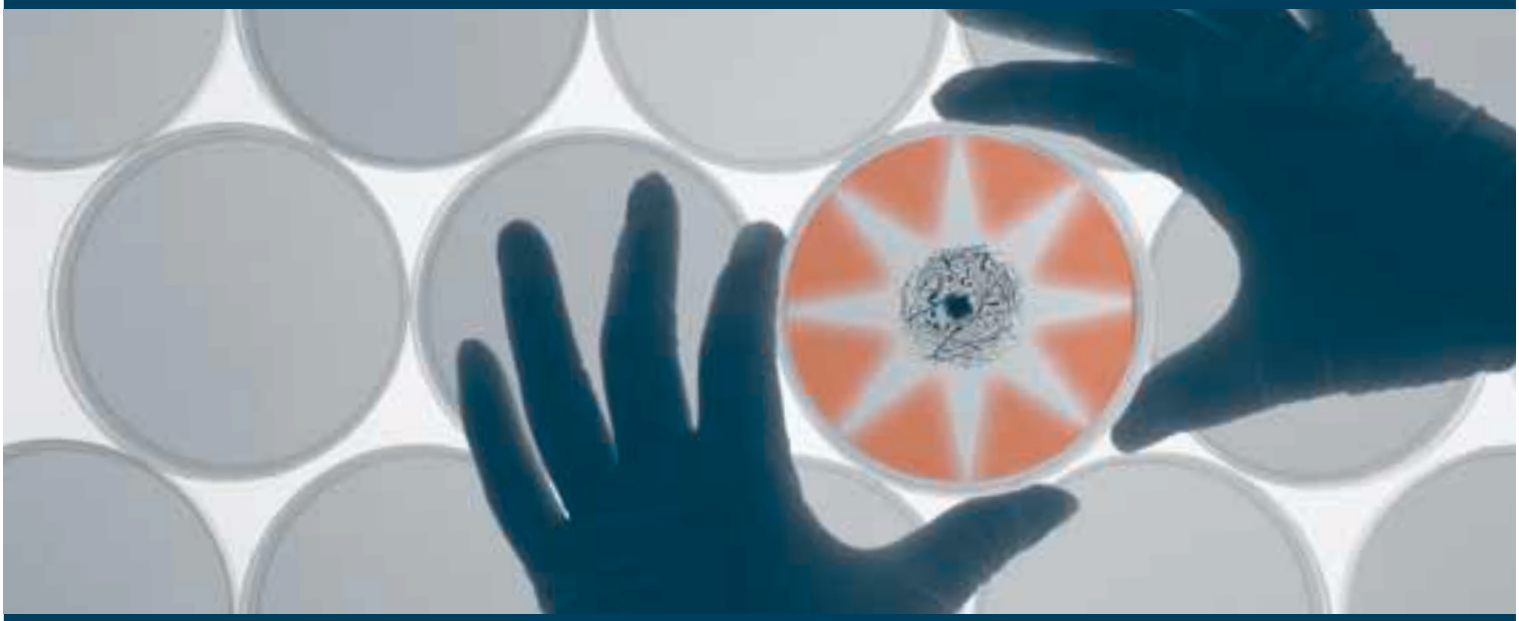
PRANA
BIOTECHNOLOGY
Limited

ANNUAL REPORT **2003**



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.

Chairman's Letter

Dear Shareholder,

I am pleased to present to you the 2003 Annual Report.

Prana is in its strongest position ever to be a major player in the multi-billion dollar market for a treatment for Alzheimer's Disease and other neurodegenerative disorders such as Parkinsons Disease.

In last years Annual Report we reported on the success of our Phase II human "proof of concept" clinical trial using Clioquinol, code named PBT-1. These exciting results were presented by Professor Colin Masters, Chairman of Prana's Scientific Advisory Board, at international symposia in Geneva and Stockholm. Since then we have commenced preliminary discussions with a number of pharmaceutical companies who have approached us expressing interest in our compounds. In particular, they are most interested in our pipeline of metal-protein attenuating compounds (MPAC's); compounds that are emerging from our rational drug design program. We have selected the best of these, code named PBT-2, to enter formal drug development, with the hope of entering into human clinical trials at the end of next year. PBT-2 has out performed PBT-1 in both pre-clinical in-vitro (laboratory) and in-vivo (animal) testing.

The level of inquiry presently being undertaken by pharmaceutical companies in relation to our MPAC's provides the Board with confidence that our ongoing investment in our medicinal chemistry program has been a wise strategy. Our recent announcement regarding its progress to clinical development has contributed strongly to the value of our intellectual property portfolio, as reflected in our growing family of patents. In simple terms we are now planning new human trials around a lead compound and a range of complementary compounds which:

a) are based on success of the proof of principle trials of PBT-1
b) are superior in laboratory and animal models to PBT-1;
c) are new compounds created by Prana, with Patent rights wholly owned by Prana;
d) do not have any known toxicity.

During March this year Prana announced a commercial collaboration with international pharmaceutical group Schering A.G. and Neuroscience Victoria. The commercial arrangements are subject to confidentiality but will provide up to $7.3 million for funding discovery research on new drug targets, especially in the area of diagnostics. It is important to note that this collaboration relates to new targets which are outside Prana's core MPAC compounds, thus preserving the value of our core intellectual property. The company was very pleased to announce this agreement as it represents Prana's first commercial collaboration with a global pharmaceutical company, as well as significant research funding directed to a non-core area of Prana's intellectual property portfolio. Furthermore, under the agreement Prana will participate directly in any commercial benefit from this collaboration through milestone payments and royalties.

Prana's management team is focussed on actively supporting the development and protection of the company's assets. The Directors are highly confident of the company's ongoing success and role in helping sufferers of age-related diseases such as Alzheimer's Disease, Parkinsons Disease and other neurodegenerative disorders.

Sincerely,

Geoffrey Kempler
Executive Chairman

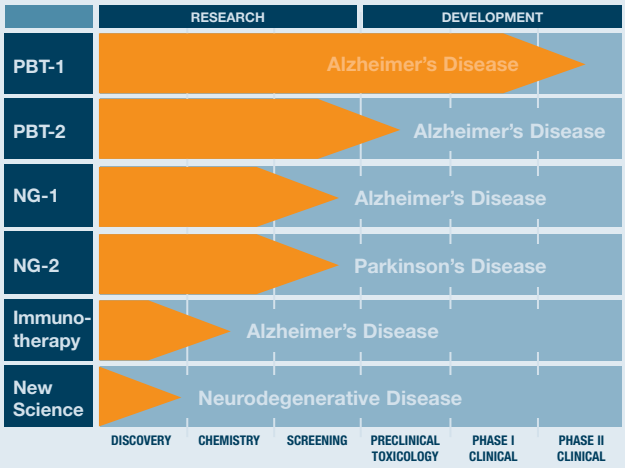
Review of Operations

Prana's Operations is managed by the Chief Operating Officer Dr Ross Murdoch. Dr Murdoch has almost 15 years of experience in the local and international pharmaceutical industry and has extensive experience in all the scientific, operational and commercial aspects of drug research and development. Ms Dianne Angus is responsible for the management of Prana's Intellectual Property and licensing. Ms Angus has over 10 years directing technology evaluation and acquisition and product licensing in the commercial biotechnology sector. Working together over the past 12 months they have moved Prana from solely a primary research company to one focussed on formalised drug creation and development.

Status Update (July 2002 – June 2003):

Drug Development

- PBT-1: Double blind proof-of-concept clinical trial and extension clinical trial completed. Publication submitted to key International peer review journal.
- PBT-2: Proprietary lead molecule selected and formal development initiated. Clinical trial targeted for 2004.
- Design and synthesis has been initiated for the "next generation" compounds for Alzheimer's Disease (NG-1) and Parkinson's Disease (NG-2).
- Immunotherapy: Awarded an AusIndustry BIF grant. Research Program initiated.
- Chemistry and Discovery program: Over 300 MPACs (metal-protein attenuating compounds) now designed, synthesised and tested in preclinical models. AusIndustry Start Grant milestones met 6 months ahead of schedule. Research effort enhanced through collaborations with Schering A.G. and extension of University of Melbourne/MHRI agreement.



Intellectual Property

- Prana successfully defended an opposition to it's European patent covering the use of "zinc binding agents for the treatment of Alzheimer's Disease".
- 3 Patent applications entered International phase prosecution.
- Patent applications submitted for 6 new MPAC chemical classes.

Licensing

- Research collaboration worth up to $7.3 million plus milestones and royalties signed with Schering A.G. and Neuroscience Victoria (NSV).
- MPAC technology: potential partners identified and preliminary discussions initiated.

Management

- Dr Ross Murdoch employed as full time Chief Operating Officer and head of R&D in May 2002.
- Ms Dianne Angus employed as Vice President of IP and Licensing in August 2002.

Publications

- Over 24 key publications and articles submitted for inclusion in key International peer reviewed journals.
- The publication associated with the PBT-1 clinical trial submitted and awaiting publication.

Background

Prana Biotechnology Limited ("Prana") was listed on the Australian Stock Exchange in March 2000 and on NASDAQ in September 2002. The Company's platform technology is focussed on developing treatments for neurodegenerative diseases, having been developed with the financial support of various grants and private equity. The primary application of Prana's platform technology remains Alzheimer's Disease, however very positive recent research findings has encouraged the company to apply its technology to other age-related degenerative disorders where the pathology of the disease is based on the interrelationship between certain metals and particular proteins (especially Parkinson's Disease).

Prana scientists discovered that the toxicity seen with many neurological diseases is associated with the interaction of key metals and disease specific target proteins. Prana's chemistry program is directed to the development of new chemical entities termed "MPACs" (metal-protein attenuating compounds) designed to reduce this toxic metal-protein interaction. The body of evidence supporting the development of MPACs for the treatment of Alzheimer's Disease, Parkinson's Disease and other major neurological and non-neurological diseases, continues to grow. This effort has seen Prana discover, optimise and patent MPAC molecules designed to attenuate the interaction of the protein beta-amyloid with copper and zinc for Alzheimer's Disease and to attenuate the interaction of the protein alpha-synuclein with the endogenous metal iron for Parkinson's Disease. Prana has adopted an aggressive intellectual property strategy through which it seeks to protect its platform technology and drug assets through broad "composition of matter" patents designed to limit opportunities for competition.

Research Institutions

Prana's research alliances involve several world class, internationally recognised, core institutional research facilities:

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

MPAC Platform Technology

Prana's MPAC "platform technology" addresses the causes of a broad spectrum of age related diseases based on the interrelationship of specific metals, present in all cells, with particular aggregated proteins. The most advanced of Prana's therapeutics is for the treatment of Alzheimer's Disease; however research both within Prana and by outside leaders in the field of research indicates that the platform technology may also be applicable for:

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

Prana's MPAC "platform technology" although primarily focussed on neurodegenerative disease has also attracted attention of groups outside of neurodegeneration such as oncology and cardiovascular disease. The applicability of Prana's technology in these areas remains to be validated.

Management Activities

To support the ongoing research and development and the further expansion of the company, Prana employed two new full time senior managers in 2002-03. Dr Ross Murdoch was employed full-time in July 2002 (part-time from May 2002) as Chief Operating Officer and Head of Research and Development and Ms Dianne Angus was employed in August 2002 as Vice President: Intellectual Property and Licensing. These appointments operationalized a fundamental change in Prana's approach to building value within the company. Over the past 12 months Prana has moved its focus and investment from primary research alone, to more formalised drug creation and development. Under Dr Murdoch, Prana expanded and accelerated its chemistry and drug development effort, which has resulted in the creation of almost 300 novel MPAC molecules and the progression of Prana's first proprietary MPAC (PBT-2) into formal development for Alzheimer's Disease. This work, supported by an AusIndustry Start Grant was expected to take until the end of 2003, however was achieved in July 2003, almost 6 months ahead of schedule. It is expected that this MPAC (PBT-2) will be ready for clinical trials in late 2004. Further proprietary molecules from different classes are undergoing

optimisation for Alzheimer's Disease and other neurological diseases. To ensure that all Prana's proprietary assets are protected, Ms Angus has implemented an aggressive patent strategy to protect both Prana's proprietary drugs and drug screening technology. This has expanded Prana's patent portfolio to cover 19 patent families and over 50 patent applications and 9 Granted Patents.

Rational Drug Design

Prana continues to utilise rational drug design techniques to design its proprietary "MPAC NCEs (New Chemical Entities)". To date Prana's medicinal chemistry team has focussed on Alzheimer's Disease treatments, developing over 300 MPACs across several different chemical classes which target the interaction of specific metals and β-Amyloid protein. All of these have now undergone extensive laboratory testing utilising both public and proprietary screening techniques and the most promising (now called PBT-2) has been progressed into formal development, with human testing expected to start in late 2004. Work to date indicates that PBT-2 has superior attributes to that of PBT-1 in in-vitro tests and in-vivo testing in transgenic animal models of Alzheimer's Disease. In line with best practice in drug development, further proprietary "follow-up" compounds from different chemical classes are also under investigation for progression to formal development for the treatment of Alzheimer's Disease in early 2004. The design of MPACs for other diseases (specifically Parkinson's Disease) is now also integrated into Prana's drug discovery pipeline.

Clinical Trials

Based on the effectiveness of Prana's prototype compound PBT-1 in laboratory models, a Phase II human clinical trial (coded PBT1-011) to evaluate PBT-1 in patients with Alzheimer's disease commenced in August 2000 and concluded in early 2002. The double-blind placebo-controlled clinical trial was conducted at Prana's sponsored facilities at the Mental Health Research Institute and the Royal Melbourne Hospital. Prescribed dosages of PBT-1 were administered to 18 of the 36 study patients, with the remaining 18 receiving a placebo. All subjects perform various prescribed cognitive tests and underwent blood tests to determine if treatment with PBT-1 has a demonstrable effect as compared to those subjects receiving the placebo. The statistical analysis has been completed and the clinical report written and submitted to a leading international peer-reviewed specialty medical journal. Publication is expected in late 2003/early 2004. The trial demonstrated that in certain patient groups PBT-1 had clinically significant positive effects on cognition and on the levels of the protein and metals involved in Alzheimer's Disease.

All patients that completed the clinical trial were invited to take part in an extension study (coded PBT1-011ADEX). This open-label extension study provided further evidence that PBT-1 is well tolerated in Alzheimer's Disease patients when taken for as long as 84 weeks and provided evidence that it may be useful in not only the later stages of the disease (as demonstrated in PBT1-011) but also in the earlier stages of the disease. The positive results from both PBT1-011 and PBT1-011ADEX trials has raised broad interest within the research community and several international public research bodies have initiated discussion with Prana about the possibility of their assistance in conducting further clinical trials in 2004. The further steps in the clinical development of PBT-1 are being designed. Currently there is no treatment or prevention for Alzheimer's Disease nor any successful treatment for any of the neurodegenerative diseases in Prana's therapeutic field.

It is estimated that a successful drug for the treatment of Alzheimer's Disease could command annual global sales in excess of US$5 billion. Over the final months of 2002-03 several key scientific groups produced data that cast doubt on the feasibility of several competing approaches to the treatment of Alzheimer's Disease. Evidence has emerged which has shifted scientific thinking about the desirability and feasibility of developing a vaccine for β-Amyloid and/or inhibitors of certain of the enzymes responsible for its production. Prana and its Scientific Advisory Board believe that its technology is now positioned very competitively and that the company has the opportunity to develop one of the first truly effective, disease modifying therapeutic medicines to treat Alzheimer's Disease.

Collaborations and Grants

In July 2001, 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. Prana achieved the aims of the grant early through its accelerated rational drug design program and will conclude the grant in July 2003. This grant allowed substantial expansion and acceleration of Prana's business strategy.

In March 2003, Prana announced a substantial expansion of its existing University of Melbourne agreement to lengthen the collaboration by two years to 2006. This is designed to intensify research into new drug targets enabling Prana to increase its research base leading to the development of assets available for partnership and from which returns to shareholders can be gained.

In March 2003, Prana announced a research collaboration with Schering A.G., the international Pharmaceutical Company headquartered in Germany. Schering A.G. through Neurosciences Victoria (NSV) agreed to provide up to $7.3 million to fund and license discovery research within Prana on new drug targets, especially in the area of diagnostics. The agreement also includes additional milestone payments and royalties from discoveries.

In May 2003, Prana announced receiving a Biotechnology Innovation Fund (BIF) Grant from the Industry Research & Development (IR&D) Board of AusIndustry to support a project to develop the company's proprietary position around an immunotherapy for Alzheimer's Diseases. This grant will provide 50% of the $0.46 million funding required to develop the project to "proof of principle" by the end of 2004.

Recent Key Publications

Prana scientists have submitted over 24 key publications and articles for inclusion in key international peer reviewed journals and texts. A list of the key publications is available on the Prana website – www.pranabio.com.

Intellectual Property Report

Invention	Status	Comments
Cation - APP Modulators for use in Alzheimer's Disease, entitled, "*A method for assaying and treating Alzheimer's Disease*". Prana	Five patents granted, two in Australia and one in Europe, Japan and in US. An application in US application is under examination and a Canadian patent is pending examination.	The invention includes claims directed to the use of specified modulators of cation interaction with APP and the use of these agents in the treatment of Alzheimer's Disease. Prana's defence to an European opposition was successful. Granted European claims include the use of zinc binding agents for oral administration in the treatment of Alzheimer's Disease.
Metal binding domain inhibitors of β-amyloid, entitled, "*Beta amyloid peptide inhibitors*". Prana/University of Melbourne	This International (PCT) application has entered national phase in Europe, Canada, Japan, US and Australia. Currently pending examination.	The invention encompasses claims to agents capable of inhibiting binding of specified metal ions to the N-terminus of β-amyloid and the use of these agents in the treatment of amyloid related conditions including Alzheimer's Disease.
A screen for β-amyloid formation and inhibitors, entitled, "*An in vitro system for determining the formation of a β-amyloid*". General Hospital Corporation	One patent granted in the US. Examination is pending for a further US application and an application in Canada and Japan.	The invention is directed to an assay for the formation of β-amyloid in a biological sample and inhibitors of β-amyloid formation.
A differential screen for 40/42 β-amyloid, entitled, "*A diagnostic assay for Alzheimer's Disease*". General Hospital Corporation	One patent granted in the US and a further US application is under examination. Examination is pending in Canada.	The invention is directed to an antibody based diagnostic assay for the detection and quantification of β-amyloid species.
Known metal binding agents for treatment of Amyloidosis, entitled, "*Identification of agents for use in the treatment of Alzheimer's Disease*". General Hospital Corporation	Patent accepted in Australia and in Japan. Examination is pending in the US, Europe and Canada. A divisional application has been filed in Australia.	The invention is directed to the use of specified metal binding agents to reduce β-amyloid mediated neurotoxicity and assays to identify agents capable of modifying neurotoxic properties of β-amyloid. The accepted case in Australia is under opposition and a defence case will be prepared.
Clioquinol for treatment of Alzheimer's Disease, entitled, "*Use of Clioquinol for the therapy of Alzheimer's Disease*". General Hospital Corporation/Prana	A US continuation application is currently under examination.	The invention includes claims directed to the use of clioquinol for the treatment of Alzheimer's Disease and clioquinol pharmaceutical compositions.

Invention	Status	Comments
Clioquinol and known metal binding agents for use in Amyloidosis, entitled, "*Agents for use in the treatment of Alzheimer's Disease*". General Hospital Corporation	One patent granted in the US and a further US continuation application is under examination. An Australian application has been accepted. Examination is pending in Europe, Canada and Japan.	The invention is directed to compositions containing clioquinol and known metal binding agents and their use in the treatment of amyloid related diseases.
Screen for agents which alter β-amyloid neurotoxic properties, entitled, "*Method for Screening drugs useful for treating Alzheimer's Disease*". General Hospital Corporation	A continuation-in-part application has been allowed in the US. Examination is pending in Europe Canada, Japan and Australia.	The invention is primarily directed to specified assays that identify agents capable of modifying neurotoxic properties of β-amyloid.
Immunotherapy, entitled, "*Neurotoxic Oligomers*". General Hospital Corporation/Prana	The International (PCT) Application has entered national phase in Australia, Canada, Europe, Japan, NZ, China and the US.	The invention is directed to an immunotherapy strategy using tyrosine cross-linked protein aggregates. The immunotherapeutic approach may be used in the treatment of Alzheimer's Disease and other amyloid related conditions.
Cataracts, entitled, "*Methods for the Identification of Agents that Inhibit or Promote Cataracts and Uses thereof*". General Hospital Corporation	The International (PCT) Application has entered national phase in Australia, Europe, Japan and the US.	The invention is directed to assays for the detection of agents useful in the treatment of cataract and a method of treatment utilizing specified chelators.
APP Copper Binding Domain agonists, entitled, "*Methods of screening for inhibitors of Alzheimer's disease*". Prana/University of Melbourne	This case has entered national phase in the US.	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.
8-OHq role in cognition, entitled, "*Treatment of Neurodegenerative Conditions*". Prana	Filed as a provisional application in the US.	The invention encompasses the utility of the 8-hydroxyquinoline MPAC class in the treatment of neurodegenerative cognitive changes.
8-OHq MPAC class, entitled, "*8-Hydroxyquinoline derivatives*" Prana	International (PCT) Application pending national phase entry.	The invention is directed to chemical structures of the 8-hydroxyquinoline MPAC class and their utility in the treatment of neurological conditions.
MPAC classes 1, 2, 3, 4, 5 & 6. Prana	Six Australian provisional applications.	Six separate inventions directed to newly identified MPAC chemical classes and their utility in the treatment of neurological conditions.

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 Kempler – Executive Chairman
- Colin Masters – Executive Director
- Brian Meltzer – Non-Executive Director
- George 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 market activities. Operating activities are principally undertaken by the Executive Chairman, Mr Kempler who is predominately 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. Dr Mihaly provides expertise for planning and interpretation of pre-clinical and clinical development of Prana's new products. Mr Meltzer is predominately 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:

- Geoffrey Kempler – Executive Chairman
- Brian Meltzer – Non-Executive Director
- Richard Revelins – Company Secretary

Directors' Report

Your Directors submit their report for the year ended 30 June 2003.

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.

Geoffrey Paul Kempler B.Sc. Grad. Dip. App. Soc. Psych.
Executive Chairman
Mr Kempler, aged 48, 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 products.

As Executive Chairman Mr Kempler has overall management responsibility and is 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 56, 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.

Brian Derek Meltzer B. Com., M Ec.
Non-Executive Director
Mr Meltzer, aged 49, 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, 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 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 also a member of the Audit Risk and Compliance Committee.

Dr George William Mihaly B. Pharm, M.Sc., Ph.D. FAICD
Non-Executive Director
Dr Mihaly, aged 50, 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.

Geoffrey Paul Kempler | Colin Louis Masters | Brian Derek Meltzer | George William Mihaly

Interests in the shares and options of the Company and related body corporate

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

	Ordinary shares	Options over ordinary shares
Geoffrey Kempler	17,055,000	9,167,500
Colin Masters	18,000	1,000,000
Brian Meltzer	160,000	300,000
George Mihaly	60,000	300,000

Earnings per Share

	Cents
Basic earnings/(loss) per share	(7.50)

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 6 employees at 30 June 2003 (2002: 4 employees)

Review and Results of Operations

The net loss for the year after income tax was $4,584,838 (2002: $5,448,467 loss).

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.

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 21,232,167 unissued ordinary shares under options as follows:

- 20,000,000 options exercisable on or before 1 December 2004 at $0.50 (PBTAK);
- 200,000 options exercisable on or before 20 March 2004 at $0.50 (PBTAM);
- 827,167 options exercisable on or before 30 June 2005 at $0.50 (PBTAO);
- 200,000 options exercisable on or before 1 October 2005 at $0.50 (PBTAQ); and
- 5,000 options exercisable on or before 30 June 2005 at $1.50 (PBTAI), escrowed until 1 March 2004.

Shares issued as a result of the exercise of options

7,427,584 ordinary shares were issued during the year as a result of the exercise of options.

Indemnification and Insurance of Directors, Officers and Auditors

During the financial year the Company did enter 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 an 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

Consistent with best practice the Directors' sought outside expertise from Mercer Human Resources. The remuneration below was determined in accordance with their independent advice.

	Annual Emoluments					
	Base fee $	Bonus $	Other $	Super $	Total $	Options $
Geoffrey Kempler	261,468	–	–	23,532	285,000	–
Colin Masters	100,000	–	–	–	100,000	–
Brian Meltzer	43,200	–	57,600	–	100,800	–
George Mihaly	39,633	–	69,120	3,567	112,320	–

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

Geoffrey Kempler and Ross Murdoch are the only Executive Officers of the Company. Geoffrey Kempler's emolument is disclosed in the table above. Ross Murdoch received $201,442 as his base fee, $18,130 in superannuation and bonuses by way of involvement in the employee option plan.

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

The following options were 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.

Director and/or Executive	No of Options Granted	Issuing Entity	No of Ord. Shares under Option	Value of Options
Ross Murdoch	115,000	Prana Biotechnology Limited	115,000	$20,766

The value of options was calculated using the Black Scholes mode. The issue has not been recognised as an expense in the financial report.

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 member	Meetings attended
G Kempler	11	11	2	2
C Masters	11	10	–	–
B Meltzer	11	11	2	2
G Mihaly	11	11	–	–

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

Geoffrey Kempler
Director

Melbourne, 30 September 2003

Statement of Financial Performance

Year ended 30 June 2003

	Notes	Company 2003 $	Company 2002 $
Revenues from Ordinary Activities	2(a)	1,816,478	793,970
Personnel expenses	2(b)	(1,328,709)	(980,198)
Research & Development expenses	2(b)	(1,717,770)	(1,906,751)
Intellectual Property expenses	2(b)	(992,186)	(1,594,766)
Administration & Finance expenses		(282,850)	(260,582)
Amortisation expense	2(b)	(1,100,002)	(1,100,004)
Computer expenses		(29,460)	(5,637)
Insurance expenses		(62,403)	(41,158)
Office expenses		(141,388)	(65,674)
PR & Marketing expenses		(198,832)	(71,690)
Travelling Expenses		(295,257)	(78,483)
Depreciation expenses	2(b)	(85,971)	(60,591)
Other expenses from ordinary activities		(166,488)	(76,903)
Other expenses from ordinary activities		(455,587)	(273,553)
(Loss) From ordinary activities before income tax expense		(4,584,838)	(5,448,467)
Income tax expense relating to ordinary activities	3	–	–
Loss from ordinary activities after income tax expense		(4,584,838)	(5,448,467)
Net (Loss)		(4,584,838)	(5,448,467)
Total changes in equity other than those resulting from transactions with owners as owners		(4,584,838)	(5,448,467)
Basic Earnings Per Share – (cents per share)	16	(7.5)	(9.5)
Diluted Earnings Per Share – (cents per share)	16	(7.5)	(9.5)

The accompanying notes form part of these financial statements.

Statement of Financial Position

Year ended 30 June 2003

	Notes	Company 2003 $	Company 2002 $
Current assets			
Cash assets	4	3,463,783	3,585,014
Receivables	5	143,823	107,936
Other	6	52,362	60,367
Total current assets		3,659,968	3,753,317
Non-current assets			
Plant & Equipment	7	141,611	139,653
Intangible assets	8	12,588,347	13,688,349
Total non-current assets		12,729,958	13,828,002
Total assets		16,389,926	17,581,319
Current liabilities			
Payables	9	541,217	912,333
Provisions	10	23,831	–
Total current liabilities		565,048	912,333
Non-current liabilities			
Provisions	10	1,175	–
Total non-current liabilities		1,175	–
Total liabilities		566,223	912,333
Net assets		15,823,703	16,668,986
Equity			
Contributed equity	11	16,741,023	13,001,468
Reserves	12	14,661,942	14,661,942
Accumulated losses	13	(15,579,262)	(10,994,424)
Total equity		15,823,703	16,668,986

The accompanying notes form part of these financial statements.

Statement of Cash Flows

Year ended 30 June 2003

	Notes	Company 2003 $	Company 2002 $
Cash flows from operating activities			
Payments to suppliers and employees		(5,293,087)	(4,885,444)
Interest received		106,835	242,215
Grants received		836,335	843,714
NASDAQ Reimbursements received		253,054	–
Neuroscience Victoria monies received		506,250	–
Net cash flows used in operating activities	14 (a)	(3,590,613)	(3,799,515)
Cash flows from investing activities			
Payments for purchase of plant and equipment		(87,929)	(50,689)
Net cash flows used in investing activities		(87,929)	(50,689)
Cash flows from financing activities			
Proceeds from issue of shares		3,713,792	580,345
Payment of share issue costs		(144,000)	–
Net cash flows from financing activities		3,569,792	580,345
Net increase/(decrease) in cash held		(108,750)	(3,269,859)
Opening cash brought forward		3,585,014	6,854,873
Exchange rate adjustments on the balance of cash held in foreign currencies		(12,481)	–
Closing cash carried forward	14 (b)	3,463,783	3,585,014

The accompanying notes form part of these financial statements.

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, Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

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) Accounts Payable

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

(b) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

(c) Capital Gains Tax

No provision has been made for capital gains tax which may arise in the event of sale of revalued assets as no decision has been made to sell any of these assets.

(d) Comparative Amounts

In December 2002 the revenue and expenses general ledgers for the company were reorganised and management reports were prepared under new classifications. The 2002 figures in the Statement of Financial Performance have been reclassified to match the current management reporting framework. There has been no impact on net profit or loss for the period arising from the reclassification.

(e) Depreciation

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation

- Furniture & Fittings 7.5%
- Computer Equipment 33%
- Plant and Equipment 20% – 33%

(f) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, long service leave and other employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of other employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

(g) 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 as 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 statement of financial position classification of the related debt or equity instruments.

(h) Foreign 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 that date.

Exchange differences are recognised in net profit or loss in the period in which they arise.

(i) 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.

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

(j) Income Tax
Tax-effect accounting principles are adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the deferred tax assets and deferred tax liabilities, as applicable.

(k) Leased Assets
Leased assets classified as finance leases are recognised as assets. The amount initially brought to account is the present value of minimum lease payments.

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

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

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

Operating lease payments are recognised as an expense on a basis which reflects the pattern in which economic benefits from the leased asset are consumed.

(l) Provisions
Provisions are recognised when the company has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

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 recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised 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 cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

(m) Recoverable Amount of Non-Current Assets
Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have been discounted to their present value.

(n) Research and Development Costs
Research and development costs are recognised as an expense when incurred, except to the extent that such costs, together with unamortised deferred costs in relation to that project, are expected, beyond any reasonable doubt, to be recoverable.

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

(p) Revenue Recognition
Revenue for Grants is recognised on an accrual basis in Grant Revenue in accordance with the terms of the grant agreements. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield of the financial assets.

(q) Going Concern
As at 30 June 2003, the company had cash assets of $3,463,783, recorded a net loss of $4,865,207 and a net cash outflow from operating activities of $3,590,613. Notwithstanding the net loss and negative cash from operations, the directors consider that the going concern basis of accounting is appropriate for the following reasons:

- the most recently prepared cash flow forecasts prepared by management and reviewed by the directors indicate that the company will have sufficient cash to meet their operating requirements until at least the date of signing the directors' declaration for the year ending 30 June 2004;
- on 4 September 2003, the company announced to the market that it had raised $5 million before allowing for associated costs through the issue of 7.15 million new shares via private placement to institutions and eligible sophisticated investors who are clients of Peregrine Corporate Limited;
- the company has 20,125,000 share options on issue with an exercise price of $0.50 which expire 1 December 2004. As the exercise price is lower than the company's current and recent share price (being $0.56 at 30 June 2003) the directors are confident that these options will be exercised, resulting in expected cash inflows of $10,062,500 (included within the company's cash flow forecasts);
- the company expects to place further shares with strategic investors within the next 6-12 months. The directors are confident that a share placement will be achieved if required, based on strong interest from investors and the company's track record in successfully placing shares with US and Australian investors.

	Company 2003 $	Company 2002 $
2. Loss from Ordinary Activities		
(a) Revenues from operating activities		
Interest – other persons/corporations	111,686	226,720
Research grant	945,250	567,250
Reimbursements of NASDAQ Listing Costs	253,054	–
Neurosciences Victoria – funding for research activities	506,250	–
Other	238	–
Total revenues from ordinary activities	1,816,478	793,970
(b) Expenses from operating activities		
Loss from ordinary activities before income tax has been determined after including the following expenses:		
Depreciation of non-current assets		
– Plant and equipment	73,407	58,330
– Computer equipment	12,028	2,261
– Furniture & Equipment	536	-
Total depreciation	85,971	60,591
Amortisation of non-current assets		
Core intellectual property	1,100,002	1,100,004
Total amortisation	1,100,002	1,100,004
Intellectual Property expenses		
– Legal Fees – Overseas	768,238	771,565
– Legal Fees – Local	223,948	823,201
Total Intellectual Property expenses	992,186	1,594,766
Personnel expenses		
– Employees	830,000	348,727
– Consultants	498,709	631,471
Total Personnel expenses	1,328,709	980,198
Foreign Exchange Loss	12,481	–
Research and Development expenses		
– Kendle Pty Ltd	478,877	607,245
– MHRI	280,661	–
– University of Melbourne	727,332	994,506
– Other	230,900	305,000
Total research and development expenses	1,717,770	1,906,751

	Company 2003 $	2002 $
3. Income Tax Expense		
(a) The prima facie tax payable on loss from ordinary activities before income tax is reconciled to the income tax provided in the accounts as follows:		
Prima facie tax benefit on operating loss before income tax at 30%	(1,375,451)	(1,634,540)
Tax Effect of Permanent Differences		
– Amortisation of intangibles	330,001	330,001
– Entertainment Costs	2,656	3,664
– Patent Costs	297,656	165,864
Future tax benefits not brought to account	745,139	1,135,011
Income Tax Expense	–	–
(b) Future income tax benefit at 30 June 2003 not brought to account is:		
Tax losses – revenue	3,005,526	2,269,938
Timing differences	9,551	7,500
	3,015,077	2,277,438

The future income tax benefits will only be obtained if:

(i) the company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised,

(ii) the company continues to comply with the conditions for deductibility imposed by tax legislation, and

(iii) no changes in tax legislation adversely affect the company in realising the benefit from the deductions for the losses.

The company has no franking credits available at year end.

4. Cash Assets		
Cash at bank	2,045,118	385,014
Term deposits	1,200,000	3,200,000
US dollar bank accounts	218,665	–
	3,463,783	3,585,014
5. Receivables (Current)		
Sundry debtors	18,223	–
Other receivables	113,764	21,510
Goods and services tax	11,836	86,426
	143,823	107,936
6. Other Current Assets		
Prepayments	52,362	60,367
	52,362	60,367

	Company 2003 $	2002 $
7. Plant & Equipment		
Plant and Equipment, at cost	320,083	267,273
Less Accumulated depreciation	(215,725)	(142,318)
Total Plant & Equipment	104,358	124,955
Computer Equipment, at cost	42,420	16,959
Less Accumulated depreciation	(14,289)	(2,261)
Total Computer Equipment	28,131	14,698
Furniture & Fittings, at cost	9,658	–
Less Accumulated depreciation	(536)	–
Total Furniture & Fittings	9,122	–

Reconciliations

Reconciliations of the carrying amounts of each class of plant and equipment at the beginning and end of the current financial year are set out below:

2003	Plant & Equipment $	Computer Equipment $	Furniture & Fittings $	Total $
Carrying amount at 1 July 2002	124,955	14,698	–	139,653
Additions	52,810	25,461	9,658	87,929
Disposals	–	–	–	–
Depreciation Expense	(73,407)	(12,028)	(536)	(85,971)
Carrying amount at 30 June 2003	104,358	28,131	9,122	141,611

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in note 2 to the financial statements.

	Company 2003 $	2002 $
8. Intangible Assets		
Core Intellectual property – at cost	16,500,000	16,500,000
Less Accumulated amortisation	(3,911,653)	(2,811,651)
	12,588,347	13,688,349
Aggregate amortisation allocated during the year is recognised as an expense and disclosed in note 2 to the financial statements.		
9. Payables		
Trade creditors	151,755	518,375
Other creditors/accrued expenses	340,002	324,040
Amounts payable to Director-related entity	49,460	69,918
	541,217	912,333
10. Provisions		
Employee Benefits		
The aggregate employee benefit liability recognised and included in the financial statements is as follows:		
Provision for employee benefits:		
Current		
– Annual Leave	23,831	–
Non-Current		
– Long Service Leave	1,175	–
	25,006	–
Number of Employees at 30 June 2003:	6	4
11. Contributed Equity		
(a) Issued and paid up capital		
Ordinary shares fully paid	16,733,023	12,993,468
Options	8,000	8,000
	16,741,023	13,001,468

	2003		2002	
	Number of shares	$	Number of shares	$
(b) Movements in shares on issue				
Beginning of the financial year	58,612,750	12,993,468	57,260,266	12,268,892
Issued during the year				
– exercise of options (i)	7,427,584	3,713,792	1,160,690	580,346
– less underwriting costs	–	(144,000)	–	–
– issues to consultants (ii)	146,969	169,763	191,794	144,230
End of the financial year	66,187,303	16,733,023	58,612,750	12,993,468

(i) 2002-2003	Details	Number	Exercise Price $	$
11. Contributed Equity (continued)				
8 July 2002	Exercise of Options (PBTO)	4,000	0.50	2,000
10 July 2002	Exercise of Options (PBTAO)	13,274	0.50	6,637
18 September 2002	Exercise of Options (PBTO)	32,000	0.50	16,000
30 September 2002	Exercise of Options (PBTO)	25,000	0.50	12,500
15 October 2002	Exercise of Options (PBTO)	20,081	0.50	10,040
20 November 2002	Exercise of Options (PBTO)	113,000	0.50	56,500
22 November 2002	Exercise of Options (PBTO)	33,072	0.50	16,536
25 November 2002	Exercise of Options (PBTO)	7,000	0.50	3,500
12 December 2002	Exercise of Options (PBTAK)	50,000	0.50	25,000
8 January 2003	Exercise of Options (PBTAK)	50,000	0.50	25,000
2 January 2003	Exercise of Options (PBTO)	2,620	0.50	1,310
30 January 2003	Exercise of Options (PBTO)	9,700	0.50	4,850
14 February 2003	Exercise of Options (PBTO)	499,403	0.50	249,702
20 February 2003	Exercise of Options (PBTO)	483,746	0.50	241,873
28 February 2003	Exercise of Options (PBTO)	2,530,483	0.50	1,265,242
5 March 2003	Exercise of Options (PBTO)	3,107,891	0.50	1,553,945
15 March 2003	Exercise of Options (PBTAK)	25,000	0.50	12,500
3 April 2003	Exercise of Options (PBTO)	421,314	0.50	210,657
		7,427,584		3,713,792

(ii) 2002-2003	Details	Number	Issue Price $	$
12 July 2002	Issue to consultants	13,550	$2.02	27,371
4 December 2002	Issue to consultants	15,318	$1.74	26,653
30 January 2003	Issue to consultants	118,101	$0.98	115,739
		146,969		169,763

(i) 2001-2002	Details	Number	Exercise Price $	$
4 February 2002	Exercise of Options	134,000	0.50	67,000
12 February 2002	Exercise of Options	2,000	0.50	1,000
22 February 2002	Exercise of Options	76,000	0.50	38,000
27 February 2002	Exercise of Options	40,000	0.50	20,000
6 March 2002	Exercise of Options	90,000	0.50	45,000
12 March 2002	Exercise of Options	82,690	0.50	41,346
12 March 2002	Exercise of Options	190,000	0.50	95,000
14 March 2002	Exercise of Options	10,000	0.50	5,000
20 March 2002	Exercise of Options	12,000	0.50	6,000
21 March 2002	Exercise of Options	100,000	0.50	50,000
25 March 2002	Exercise of Options	3,000	0.50	1,500
9 April 2002	Exercise of Options	8,000	0.50	4,000
9 April 2002	Exercise of Options	24,500	0.50	12,250
10 April 2002	Exercise of Options	2,500	0.50	1,250
11 April 2002	Exercise of Options	2,500	0.50	1,250
11 April 2002	Exercise of Options	100,000	0.50	50,000
10 May 2002	Exercise of Options	100,000	0.50	50,000
23 May 2002	Exercise of Options	180,000	0.50	90,000
16 June 2002	Exercise of Options	3,500	0.50	1,750
		1,160,690		580,346

(ii) 2001-2002	Details	Number	Issue Price $	$
11. Contributed Equity (continued)				
8 March 2002	Issue to consultants	164,835	0.70	115,384
8 March 2002	Issue to consultants	26,959	1.07	28,846
		191,794		144,230

	2003		2002	
	Number of options	$	Number of options	$
(c) Movements in options on issue				
Beginning of the financial year	27,894,310	8,000	28,655,000	8,000
– Issued during the year (i)	613,274	–	400,000	–
– Exercised during the year (refer above)	(7,427,584)	–	(1,160,690)	–
– Issued to consultants (ii)	5,000	–	–	–
End of the financial year	21,085,000	8,000	27,894,310	8,000

(i) 2002-2003	Details	Number	Issue Price $	Exercise Price $
10 July 2002	Issued during the year (PBTAO)	113,274	–	0.50
31 October 2002	Issued during the year (PBTAO)	100,000	–	0.50
31 October 2002	Issued during the year (PBTAQ)	200,000	–	0.50
6 June 2003	Issued during the year (PBTAO)	145,000	–	0.50
1 March 2002	Issued during the year (PBTO)	55,000	–	0.50
		613,274		

(ii) 2002-2003	Details	Number	Issue Price $	Exercise Price $
6 June 2003	Issue to consultants	5,000	–	0.50
		5,000		

(i) 2001-2002	Details	Number	Issue Price $	Exercise Price $
23 January 2002	Issued during the year	200,000	–	0.50
7 March 2002	Issued during the year	200,000	–	0.50
		400,000		

(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 holder to one vote, either in person or by proxy, at a meeting of the Company.

Options

Optionholders do not have the right to receive dividends and are not entitled to vote at a meeting of the Company.

	Company 2003 $	Company 2002 $
12. Reserves		
Asset Revaluation Reserve	14,661,942	14,661,942
The asset revaluation reserve arose as a result of the revaluation of intangibles during the year ended 30 June 1999. Following the adoption in the year ended 30 June 2001 of AASB 1041 'Revaluation of Non-Current Assets'; the company has reverted to the cost basis of accounting for intangibles and no further revaluations have been made.		
13. Accumulated Losses		
Balance at beginning of year	(10,994,424)	(5,545,957)
Net loss for the period	(4,584,838)	(5,448,467)
Balance at end of year	(15,579,262)	(10,994,424)
14. Statement of Cash Flows		
(a) Reconciliation of Cash Flows from Operating Activities with Operating Loss after Income Tax		
Operating Loss after Income Tax	(4,584,838)	(5,448,467)
Non Cash Movements		
– Amortisation	1,100,002	1,100,004
– Depreciation	85,971	60,591
– Non-cash share issue in consideration of operating expenses	169,763	144,230
– Foreign Exchange Losses	12,481	–
Changes in assets and liabilities		
– Increase/(decrease) in payables	(371,116)	29,644
– (Increase)/decrease in receivables	(35,887)	218,117
– (Increase)/decrease in prepayments	8,005	105,974
– Increase/(decrease) in provision for employee entitlements	25,006	(9,608)
Cash Flows (used in) Operating Activities	(3,590,613)	(3,799,515)
(b) Reconciliation of cash		
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the Statement of Financial Position as follows:		
– cash on hand $A	2,045,118	385,014
– cash on hand $US	218,665	–
– cash at call (term deposits)	1,200,000	3,200,000
	3,463,783	3,585,014

(c) Non-cash Financing and Investing Activities

See note 11b for details regarding issues of shares to consultants in lieu of payment for services.

15. Subsequent Events

On 4 September 2003, the company announced to the market that it had raised $5 million before allowing for associated costs through the issue of 7.15 million new shares via private placement to institutions and eligible sophisticated investors who are clients of Peregrine Corporate Limited. The subscription price is 70 cents per share. Funds raised will be predominantly applied towards accelerating the Company's development objectives, specifically the commencement of toxicology and clinical trials relating to Prana's proprietary suite of metal protein attenuating compounds and for working capital purposes.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operation of the company, the results of those operations, or the state of affairs of the company in subsequent financial year.

	2003 Cents Per Share	2002 Cents Per Share
16. Earnings Per Share		
Basic earnings/(loss) per share	(7.50)	(9.50)
Diluted earnings/(loss) per share	(7.50)	(9.50)
The following reflects the income and share data used in the calculations of basic and diluted earnings/loss per share. Net loss used in calculation of basic & diluted EPS.	(4,584,838)	(5,448,467)
Weighted average number of ordinary shares on issue during the financial year used in the calculation of basic earnings/(loss) per share	61,131,313	57,623,389
Options are considered to be potential ordinary shares and are therefore excluded from the weighted average number of ordinary shares used in the calculation of basic earnings per share. Where dilutive, potential ordinary shares are included in the calculation of diluted earnings per share.		
The options on issue do not have the effect to dilute the earnings per share. Therefore they have been excluded from the calculation of diluted earnings per share.		

	Company	
17. Remuneration of Directors	**$**	**$**
The directors of Prana Biotechnology Limited during the year were:		
Geoffrey Kempler		
Colin Masters		
George Mihaly		
Brian Meltzer		
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, by the company or any related party:	598,120	348,204
The number of Directors of the company whose income (including superannuation contributions) falls within the following income bands is:	**No.**	**No.**
$20,000 to $29,999	–	2
$50,000 to $59,999	–	1
$100,000 to $109,999	2	–
$110,000 to $119,999	1	–
$240,000 to $249,999	–	1
$250,000 to $259,999	1	–
The remuneration was determined in accordance with independent advice from Mercer Human Services.		
18. 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 a related party, in connection with the management of the affairs of the company whether as an executive officer or otherwise.	525,338	248,204
The number of executives of the company whose remuneration falls within the following bands:	**No.**	**No.**
$240,000 to $249,999	–	1
$250,000 to $259,999	1	–
$260,000 to $269,999	1	–
19. Auditors' Remuneration		
Amounts received or due and receivable by the auditors of the company for:		
– audit or review of the financial report	71,562	67,078
– other services	85,416	69,275
	156,978	136,353

	Company 2003 $	2002 $
20. Related Party Disclosures		
Directors		
The Directors of the Company during the financial year were:		
Geoffrey Kempler		
Colin Masters		
George Mihaly		
Brian Meltzer		
Director-related entity transactions		
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 (on normal commercial terms and conditions). Fees paid to Kendle Pty Ltd during the year were:	475,289	537,327
Amount owing to Kendle Pty Ltd (included in Trade Creditors & Accruals)	48,968	69,918
Aroma Science Pty Ltd, a Director-related company to G Kempler, provides office, computer administration and meeting facilities (on normal commercial terms and conditions). Fees paid to Aroma Science Pty Ltd during the year were:	114,247	30,000
Amount owing to Aroma Science Pty Ltd (included in Trade Creditors & Accruals)	492	–

Equity instruments held by Directors at balance date

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

	Ordinary Shares Fully Paid 2003 Number	2002 Number	Option Over Ordinary Shares 2003 Number	2002 Number
Geoffrey Kempler	17,055,000	16,815,000	9,167,500	9,407,500
Colin Masters	18,000	12,000	1,000,000	1,006,000
George Mihaly	60,000	100,000	–	360,000
Brian Meltzer	160,000	26,000	300,000	334,000
	17,293,000	16,953,000	10,467,500	11,107,500

All equity dealings with Directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

No shares or options have been issued to the directors or their related parties during the period ending 30 June 2003 as part of remuneration. All changes in holdings are as a result of market transactions.

On 1 March 2003, options previously issued to directors, with an exercise price of $0.50, expired. Before this expiration, G Kempler exercised 240,000 options, C Masters exercised 5,000 options, B Meltzer exercised 60,000 options and G Mihaly exercised 34,000 options.

21. Expenditure Commitments

Under the terms of a Research Funding and Intellectual Property assignment 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.

In accordance with the terms of the research funding agreement between Neurosciences Victoria and Prana, at 30 June 2003 Prana is obliged to spend $455,625 on research and development activities at the University of Melbourne in the three months to 30 September 2003.

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 within 3 months' notice from either Prana or the other party.

	Company 2003 $	2002 $
Expenditure Commitments		
Less than one year	616,875	624,254
One to five years	–	223,956
	616,875	848,210

22. Segment Information

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

23. Financial Instruments

(a) Interest rate risk

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

2003	Floating Interest Rate	Fixed Interest Maturing in 1 yr or less	Fixed Interest Maturing in 1-5 yrs	Non-Interest Bearing	Total	Average Interest Rate
Financial Assets	$	$	$	$	$	
Cash	2,263,783	1,200,000	–	–	3,463,783	3.31%
Receivables	–	–	–	143,823	143,823	–
	2,263,783	1,200,000	–	143,823	3,607,606	
Financial Liabilities						
Payables	–	–	–	541,217	541,217	–
Provisions	–	–	–	25,006	25,006	–
	–	–	–	566,223	566,223	
2002						
Financial Assets	$	$	$	$	$	
Cash	385,014	3,200,000	–	–	3,585,014	4.45%
Receivables	–	–	–	107,936	107,936	–
	385,014	3,200,000	–	107,936	3,692,950	
Financial Liabilities						
Payables	–	–	–	912,333	912,333	–
	–	–	–	912,333	912,333	

23. Financial Instruments (continued)

(b) Credit risk

Credit risk represents the accounting loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets is the carrying amount net of any provision for doubtful debts.

(c) Net Fair Values of Financial Assets and Liabilities

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their fair value.

(d) Significant Accounting Policies

Details of the significant accounting polices 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.

24. 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 2003 there were 1 executive, 1 employee and 4 consultants participating in the scheme. To date, all options issued, have been issued with an $0.50 exercise price.

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

	Company 2003 $	2002 $
Expenditure Commitments		
Beginning of the financial year (i)	210,000	10,000
Issued during the year (ii)	358,274	200,000
Exercised during the year (iii)	(13,274)	–
End of the financial year (iv)	555,000	210,000

Details	Number	Grant Date	Expiry/Exercise Date	Exercise Price $
(i) Balance at the Beginning of Financial Year 2003				
Issued 27 June 2001	10,000	–	30 June 2005	$0.50
Issued 7 March 2002	200,000	1/3 May 2001 1/3 May 2002 1/3 May 2003	30 June 2005	$0.50
	210,000			
(ii) Issued during the Year (2002)				
Issued 7 March 2002	200,000	1/3 May 2001 1/3 May 2002 1/3 May 2003	30 June 2005	$0.50
(ii) Issued during the Year (2003)				
Issued 10 July 2002	13,274	July 02	30 June 2005	$0.50
Issued 10 July 2002	100,000	1/3 May 2001 1/3 May 2002 1/3 May 2003	30 June 2005	$0.50
Issued 31 October 2002	100,000	–	30 June 2005	$0.50
Issued 6 June 2003	50,000	–	30 June 2005	$0.50
Issued 6 June 2003	50,000	31 May 2004	30 June 2005	$0.50
Issued 6 June 2003	25,000	25 Dec 2004	30 June 2005	$0.50
Issued 6 June 2003	20,000	1 Aug 2003	30 June 2005	$0.50
	358,274			

Details	Number	Grant Date	Expiry/Exercise Date	Exercise Price $
24. Employee Incentive Scheme (continued)				
(iii) Exercised during the Year (2002)				
Nil				
(iii) Exercised during the Year (2003)				
Exercised 10 July 2002	13,274	July 02	30 June 2005	$0.50
(iv) Balance at the end of the Financial Year 2002				
PBTAO	210,000	Various	30 June 2005	$0.50
(iv) Balance at the end of the Financial Year 2002				
PBTAO	555,000	Various	30 June 2005	$0.50

The difference between the total market value of options issued during a financial year at the date of issue, and the total amount received from executives and employees is not recognised in the financial statements except for the purposes of determining director and executive remuneration in respect of that financial year as detailed in notes 17 and 18 to the financial statements and the directors report.

25. Contingent Liabilities

Prana is involved in a patent dispute, limited to only one of its molecules PBT-1. In particular, with a company called P.N. Gerolymatos S.A. 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. Recently Prana announced that a new molecule, PBT-2 has entered into formal development. PBT-2 is viewed by Prana as providing a significantly superior commercial opportunity and, therefore, the significance of the dispute with P.N. Gerolymatos is greatly reduced.

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.

26. Company Details

Prana Biotechnology Limited is a listed public company, incorporated and operating in Australia.
The registered office of the company is Suite 2, 1233 High Street, Armadale, Victoria, 3143, Telephone (03) 9824 8166.
The principal place of business is Level 1, 100 Dorcas Street, South Melbourne, Victoria, 3205, Telephone (03) 9690 7892.

Directors Declaration

The directors declare that:

a) the attached financial statements and notes thereto comply with Accounting Standards;

b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the company;

c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and

d) 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.

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors

Geoffrey Kempler

Director

Melbourne, 30 September 2003

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ABN 74 490 121 060
505 Bourke Street
Melbourne VIC 3000
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Melbourne VIC 3001 Australia

DX 111
Telephone (03) 9208 7000
Facsimile (03) 9208 7001

Deloitte Touche Tohmatsu

Independent Audit Report

To the members of Prana Biotechnology Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Prana Biotechnology Limited, for the financial year ended 30 June 2003 as set out on pages 13 to 36.

The directors of the company are responsible for the preparation, and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We have conducted an independent audit of the financial report in order to express am 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. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia 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.

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 made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

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 2003 and of its performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu

C J Biermann
Partner
Chartered Accountants

Melbourne, 30 September 2003

Shareholder Information

As at 25 September 2003

Number of Holders of Equity Securities

Ordinary Shares

- 73,485,924 fully paid ordinary shares are held by 2,136 individual shareholders.
- All ordinary shares carry one vote per share.

Options

- 5,000 options exercisable at $1.50 on or before 30 June 2005 are held by 1 individual shareholders
- 827,167 options exercisable at $0.50 on or before 30 June 2005 are held by 7 individual shareholders
- 200,000 options exercisable at $0.50 on or before 1 October 2005 are held by 1 individual shareholders
- 20,000,000 options exercisable at $0.50 on or before 1 December 2004 are held by 18 individual shareholders
- 200,000 options exercisable at $0.50 on or before 20 March 2004 are held by 1 individual shareholders
- 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

	Fully paid Ordinary Shares
1 – 1,000	466
1,001 – 5,000	903
5,001 – 10,000	362
10,001 – 100,000	358
100,001 – and over	47
	2,136

Number of holders of less than a marketable parcel: 153

Twenty Largest Holders of Quoted Securities

		Fully paid ordinary shares	
Shareholder		Number	%
1	Jagen Nominees Pty Ltd	14,203,161	19.33
2	Baywick Pty Ltd	13,965,000	19.01
3	Citicorp Nominees Pty Ltd	4,754,375	6.47
4	Merrill Lynch (Australia) Nominees Pty Ltd	4,478,184	6.09
5	ANZ Nominees Ltd	3,414,036	4.65
6	NRB Developments Pty Ltd	2,970,000	4.04
7	Westpac Custodian Nominees Ltd	1,606,327	2.19
8	J P Morgan Nominees Australia Ltd	1,360,472	1.85
9	Bluscan Pty Ltd	1,264,621	1.72
10	Neurotransmission Pty Ltd	975,000	1.33
11	Saltbush Nominees Pty Ltd	863,278	1.18
12	National Nominees Limited	799,938	1.09
13	Elinora Investments Pty Ltd	600,000	0.82
14	Cogent Nominees Pty Ltd	525,790	0.72
15	Blue Sky Japan Limited	400,000	0.54
16	Tenth Kusim Pty Ltd	334,475	0.46
17	Osborne Investments Ltd	320,000	0.44
18	All State Finance Pty Ltd	300,000	0.41
19	Arlington Group PLC <Swan Alley Nominees Ltd A/C>	300,000	0.41
20	Arandi Investments Pty Ltd	300,000	0.41
		53,734,657	73.16

Unquoted Equity Securities Holdings Greater Than 20%

	Options exercisable between 1 March 2002 and on or before 1 December 2004	
Optionholder	Number	%
1 Baywick Pty Ltd	6,682,500	31.47
2 Jagen Nominees Pty Ltd	6,682,500	31.47
Total number of unquoted options	21,232,167	
Total number of optionholders	28	

Substantial Shareholders

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

Substantial Shareholder	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.

Corporate Information

Shareholder Enquiries

Shareholders with enquiries about their shareholdings should contact the Share Registry, Computershare Investor Services Pty Ltd. Phone (03) 9615 5970 Fax (03) 9611 5710

Change of Address, Change of Name, Consolidation of Shareholdings

Shareholders should contact the Share Registry to obtain details of the procedure required for any of these changes.

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.

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 at the end of each month that there is a transaction that alters 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

Prana Biotechnology Limited
ABN 37 080 699 065

Directors
Geoffrey Kempler – Executive Chairman
Colin Masters – Executive Director
Brian Meltzer – Non-Executive Director
George Mihaly – Non-Executive Director

Secretary
Richard Revelins

Principal Office
Level 1, 100 Dorcas Street
South Melbourne Victoria 3205
Telephone (613) 9690 7892
Facsimile (613) 9690 8587

Registered Office
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Armadale Victoria 3143
Telephone (613) 9824 8166
Facsimile (613) 9824 8161

Auditors
Deloitte Touche Tohmatsu
Chartered Accountants
505 Bourke Street
Melbourne Victoria 3000

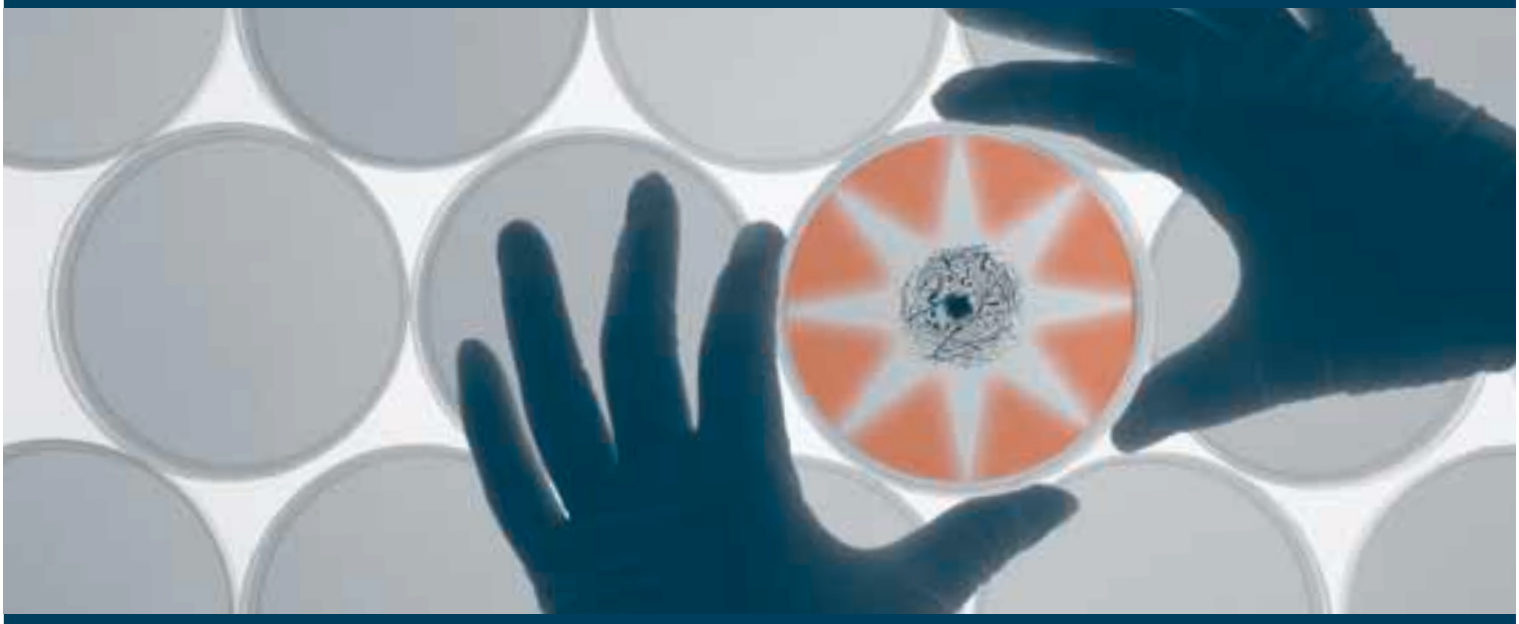
Solicitors
Oakley Thompson & Co
Level 17, 500 Collins Street
Melbourne Victoria 3000

Share Registry
Computershare Investor Services Pty Ltd
Level 12, 565 Bourke Street
Melbourne Victoria 3000 Australia

Securities Quoted
Australian Stock Exchange
Code: PBT (shares), PBTO (options)

NASDAQ (North American Dealers Automated Quotation) Code: PRAN

Website
www.pranabio.com



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