ANNUAL REPORT 2008

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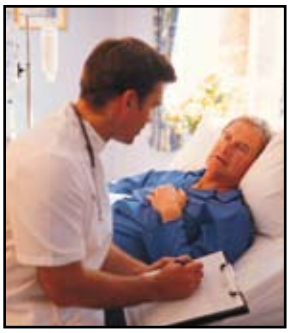
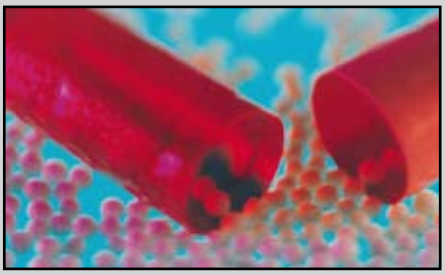


PRANA
BIOTECHNOLOGY
Limited



ANNUAL REPORT 2008

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.

Prana's mission is:

To develop therapeutic drugs designed to treat the underlying causes of degeneration of the brain as the aging process progresses.

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CHAIRMAN'S LETTER

Dear Fellow Shareholders

I am delighted to report on the progress of the Company over the past year. It has proven to be a very productive year and the fruits of many years of focused effort by our scientists, managers and staff has been reflected in a number of important value-adding announcements and events.

A specific goal of the Company has been to produce a drug to treat Alzheimer's Disease. It is our hope and expectation that, in PBT2, we have that drug and will meaningfully improve the lives of patients. Increasingly, PBT2 is attracting the attention of scientists, pharmaceutical companies and investors around the world. In July Prana was very strongly represented at the International Conference on Alzheimer's Disease (ICAD) held in Chicago. ICAD is the largest and highest profile academic and industry event in Alzheimer's Disease, held every 2 years. Our lead drug for Alzheimer's Disease, PBT2, was highlighted in the prestigious Hot Topics segment of the conference.

In the same week, the results of a clinical trial of PBT2 on patients with Alzheimer's Disease were published in *The Lancet Neurology* journal. PBT2 was able to affect patients in at least two important ways – the drug reduced the level of the Alzheimer's Disease biomarker protein (Abeta 42) in patient's spinal fluid, and the patients receiving PBT2 improved their performance in measures of Executive Function, an important aspect of cognition. Executive Function loss is clinically observed in Alzheimer's Disease patients, even at the very early stages of the disease. Patients on the trial who received a placebo rather than the real drug did not show either of these affects.

PBT2's success has come at a very interesting, and in some ways challenging, time in the global effort to market a drug to treat Alzheimer's Disease by stopping or very significantly slowing its progression. Current drugs on the market do not do this, they merely treat the existing symptoms for a limited period of time. A great deal of time, money and effort has been spent through the global effort of a great many companies attempting to reduce Abeta 42. PBT2 is a drug specifically designed to stop the actual toxicity of Abeta. The drug achieves this by targeting metals in the brain, such as copper and zinc, which react with Abeta to make it toxic. The clinical trial results on patients are very encouraging and larger longer trials are now being planned.

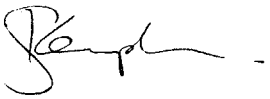
Another very important milestone achieved in July was the publication in *Neuron* of the laboratory research behind PBT2. A great deal of our enthusiasm around the potential of PBT2 has been generated by these published findings on how the drug works and on the efficacy of PBT2 in extensive Alzheimer's Disease animal trials.

Previously the Company has commented on the potential of its drug to benefit patients with other diseases such as Parkinson's Disease, Huntington's Disease and some types of cancer. All the programs are progressing well and we anticipate new drug candidates entering in the development pipeline in the coming year. In each disease we target, our opportunity arises from our specialized knowledge of the role of metals in the development and progression of the disease.

We will continue to keep you updated with announcements and I encourage you to visit our website at www.pranabio.com to learn more about your Company.

I expect the year ahead to be as productive as the year just passed. Plans are under way for PBT2 to be back in the clinic to be tested in more advanced clinical trials and, with the success to date of PBT2 in Alzheimer's Disease, we now expect our other programs to accelerate. I would like to extend my thanks and appreciation to the very dedicated and hard working team of Prana scientists, managers, staff and consultants, as well as to my fellow directors on the Board.

Yours Sincerely



Geoffrey Kempler
Chairman and CEO

REVIEW OF OPERATIONS

KEY EVENTS SUMMARY

- August 2007, The State Government of Victoria awards Professor Colin Masters, the Victoria Prize, the State's most prestigious scientific award in recognition of his many years of research into the underlying causes of Alzheimer's Disease. The work of Professor Master's, a current Prana Scientific Advisory Board member and former Director of the company for 7 years, underpins the therapeutic strategy for Prana's Metal Protein Attenuating Compounds (MPACs) as potential disease modifiers.
- November 2007, Prana announced the successful private placement of approximately A$8 million from institutional and professional investors for ongoing development support for Prana's lead MPAC, PBT2 in Alzheimer's Disease.
- November 2007, the Data Safety Monitoring Board (DSMB), the independent advisory panel overseeing the safety data emerging from the Phase IIa PBT2 clinical trial ('PBT2-201-EURO'), submitted their final report to the company. Of the 75% of patients reviewed, the DSMB noted that there were no treatment-related serious adverse events or withdrawals from the clinical trial and the trial was safe to continue.
- In December 2007 the final patient was dosed in the Phase IIa trial and in January 2008 Prana announced the completion of its Phase IIa PBT2 trial in patients with early Alzheimer's Disease.
- February 2008, Prana announced key findings from the Phase IIa PBT2 trial. The trial was double blinded and conducted in multiple sites in Sweden and Australia with 78 patients randomized to receive either a PBT2 50mg or PBT2 250mg or placebo capsule once a day for 12 weeks. The results demonstrated that the safety and tolerability profile of PBT2 was indistinguishable from placebo. Importantly, the level of the protein, Abeta 42 in the cerebrospinal fluid that surrounds the brain and spinal cord was significantly reduced by approximately 13% within the 12 week trial at the 250mg dose. Abeta 42 is considered by the field to be a key biomarker for Alzheimer's Disease. In addition, improvement was observed with two components of the four Executive Function tests of the Neuropsychological Test Battery, indicating that PBT2 was beneficially affecting Executive Function in the patients on the 250mg dose.
- May 2008, Prana announced that several promising candidates' agents for the treatment of Parkinson's Disease had been identified from its MPAC library. In particular, one compound demonstrated that it was able to protect the cells of the substantia nigra in the mouse brain from a toxin which is commonly used to mimic the destruction of these cells that occurs in Parkinson's Disease. In addition, this compound was able to increase motor function in treated animals. This development marks the discovery of the first non Alzheimer's Disease candidate lead compound arising from Prana's MPAC chemical library.
- May 2008, Prana announced that results on compounds from its second metal based discovery platform were being published in the Proceedings of the National Academy of Sciences journal. The anti-amyloid, metallo compounds target Alzheimers' Disease by physically blocking the metal binding site on Abeta as a way of preventing Abeta from becoming toxic and from forming amyloid aggregates and fibrils.
- May 2008, Prana announced the successful private placement of approximately A$7 million by existing Australian and US based investors for ongoing development of Prana's emerging pipeline in Alzheimer's, Parkinson's' and Huntington's Disease.
- July 2008, the key pre clinical research findings for Prana's lead MPAC, PBT2, are published in Neuron, a prestigious scientific journal in an article entitled, "Rapid restoration of cognition in Alzheimer's transgenic mice with 8-hydroxyquinoline analogs". The article reports on PBT2's ability to substantially reduce Abeta levels in the transgenic mouse brain, preventing the formation of aggregates of Abeta and to rapidly improve cognition in the same transgenic mice.
- July 2008, Prana announced that Dr. Jeffrey Cummings, the Chairman of Prana's Research and Development Advisory Board had been invited to present the Phase IIa PBT2 clinical trial in the "Hot Topics" session at the International Conference on Alzheimer's Disease (ICAD), to be held in Chicago later that month.
- July 2008, Prana announced the results of its Phase IIa clinical trial of PBT2 on Alzheimer's Disease patients, published in The Lancet Neurology, a highly prestigious scientific journal. The article reports on PBT2's improved executive function, an important aspect of cognitive performance, in patients with early stage Alzheimer's Disease. Further, PBT2 reduced the levels of Abeta in the spinal fluid of patients. Abeta is a key protein associated with Alzheimer's Disease.

DRUG DEVELOPMENT AND RESEARCH

PBT2 Clinical Development

Prana's PBT2 Phase IIa trial in early Alzheimer's Disease patients was completed in January 2008. The 'PBT2-201-Euro' trial was a double blinded, multi centre placebo-controlled study, based in Sweden and Australia in which 78 Alzheimer's Disease patients – male and female subjects 55 years or older – randomly received twelve weeks treatment with a daily oral 50mg PBT2, 250mg PBT2 or placebo capsule. In February 2008, the company reported on the top line findings from the study. The primary safety and tolerability endpoints of the study were achieved with no significant findings or trends observed in any of the comprehensive safety parameters measured. In summary, the safety and tolerability profile of either dose of PBT2 was indistinguishable from placebo.

Significant results were obtained for the secondary study endpoints – changes in biomarkers, with a significant decrease in the Abeta 42 biomarker in the cerebrospinal fluid (CSF) of patients treated with 250mg PBT2 over the 12 weeks. No significant change or trend in biomarkers was observed in the plasma. The effect of PBT2 on the additional secondary study endpoints – cognition was assessed using a Neuropsychological

REVIEW OF OPERATIONS

Test Battery (NTB) and the ADAS-cog. The NTB assesses both memory and executive function performance and although there was no overall significant change in the composite NTB scores over 12 weeks, two of the four executive functions tests – the 'Category Fluency Test' and the 'Trail Making Test part B' were significantly improved over the twelve weeks. No significant change was observed as measured by the ADAS- cog, which primarily measures memory performance.

During 2007 and 2008, the Company has continued its manufacturing activities for PBT2 to support the supply Prana's future plans for PBT2 in later stage development in Alzheimer's Disease and potential secondary therapeutic indications for PBT2 in Prana's development pipeline. At the time of the preparation of this report, the process development for high speed encapsulation of PBT2 product has been successfully completed.

PBT2 Research and Animal Modeling

Over the 2007/2008 fiscal year, Prana continued *in vitro* and *in vivo* modeling of the effects of PBT2 on Abeta levels in the brain, examined the effect of PBT2 on synaptic function and the downstream effect of PBT2 on cognition as measured in transgenic Alzheimer's Disease mice. The ability of PBT2 to lower the levels of soluble and insoluble levels of Abeta in the brains of transgenic Alzheimer's Disease mice has been previously reported. Over the year further work has been done to establish that the Abeta lowering effect of PBT2 can be observed within hours of oral administration, as measured by tracking the reduction of Abeta levels in secretions from the brains of conscious, freely-moving Alzheimer's Disease transgenic mice.

Experiments have also been completed demonstrating that PBT2 can protect neuronal synapses from Abeta impaired neuronal transmission. This was assessed by measuring the Long Term Potentiation (LTP) at the neuronal synapse, where post PBT2 administration, normal neural transmission or signaling was restored to synapses that had reduced LTP as a consequence of Abeta impairment. Further cognitive studies have been conducted using the Morris Water Maze in Alzheimer's Disease transgenic mice, establishing the ability of PBT2 to rapidly and potently improve in cognition.

More recent work on PBT2 is underway examining the ability of PBT2 to promote the degradation of Abeta in the brain. It is though that PBT2 can deliver depleted metals to neurons, which in turn facilitates the production of metal dependent enzymes which breakdown Abeta.

In July 2008, a substantial body of Prana's pre-clinical research data including the above mentioned Abeta lowering effects, synaptic function tests and cognitive modeling was published in the scientific journal, *Neuron*.

MPAC Pipeline Development

The MPAC chemical library has continued to expand and evolve to support Prana's discovery objectives of identifying novel MPACs for Prana's pipeline in Alzheimer's Disease and other neurological indications.

The PBT3 series is being developed as a series of follow up compounds in Alzheimer's Disease behind PBT2. The PBT3 series comprises a different chemical scaffold to the 8-hydroxyquinoline chemical class, offering prospective differentiation in drug pharmacology and efficacy. Although several promising PBT3 candidate compounds were previously identified, at the time of the preparation of this report, no lead PBT3 series compound for Alzheimer's Disease has been nominated. Further chemical discovery work is underway.

Beyond Alzheimer's Disease, Prana has pursued alternative applications for its MPAC platform in Huntington's Disease, Parkinson's Disease, Age related Macular Degeneration and selected cancers. The PBT4 series is being developed as candidate lead compounds from the MPAC platform for use in one or more of these new pipeline indications. As for the PBT3 series, this series comprises a different chemical scaffold to the 8-hydroxyquinoline chemical class. In May 2008, Prana announced the identification of its first prospective lead compounds from its MPAC PBT4 series for use in the treatment of Parkinson's Disease. Of the Parkinson's Disease MPACs profiled to date, several have shown the ability to protect the substantia nigra cells in the mouse brain from two types of toxins used to mimic the destruction of these cells, which leads to motor loss in Parkinsonian patients.

Prana has also identified several MPAC compounds from its library which have demonstrated significant toxicity against brain cancer with one compound in particular, remaining untoxic to normal neurons. The Company will undertake further animal modeling and screening of these compounds during 2008.

Alzheimer's Disease Immunotherapy

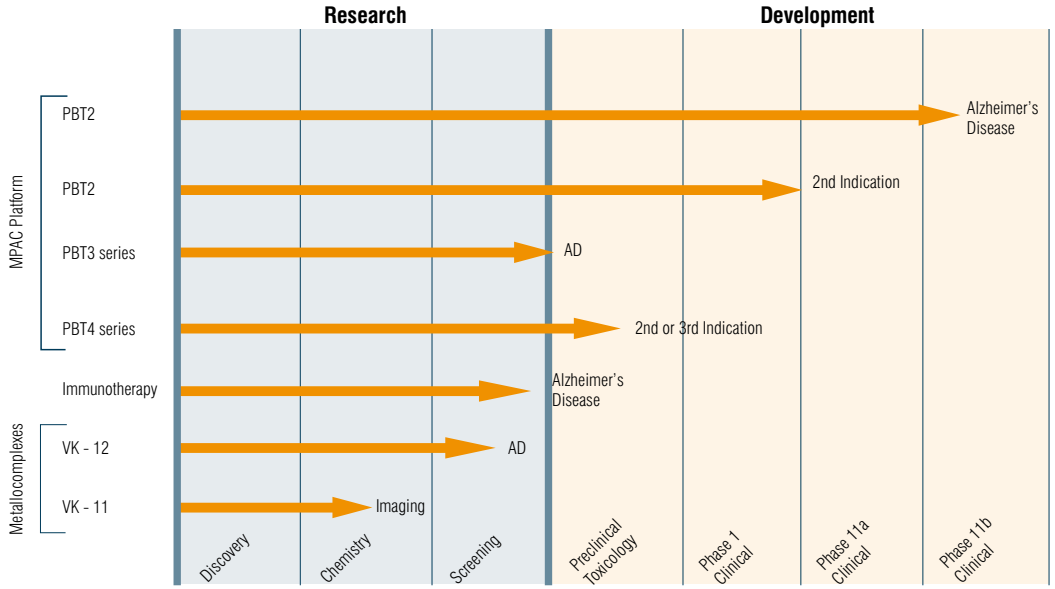
The science behind the MPAC platform also suggests that the oxidatively modified forms of the Abeta oligomers found in the Alzheimer's Disease brain, could be immunological targets for vaccine development. Prana is attempting to validate this selective immunological strategy and plans to conduct a mouse passive vaccine trial with a selective monoclonal antibody which targets a proprietary pathological Abeta target epitope but not the normal, endogenous Abeta. Currently, Prana has identified a monoclonal antibody which demonstrates specific recognition for the toxic forms of aggregated Abeta whilst not recognizing normal endogenous monomers of Abeta. The company plans to conduct proof of concept mouse studies by the end of 2008.

Amyloid Targeting Metallo-complexes

New chemical entities have been generated by Prana scientists that can bind to, and block the metal binding site of Abeta, preventing Abeta from forming toxic aggregates and fibrils. These anti-amyloid 'metallo-compounds' represent a second and complimentary drug discovery platform to the MPAC platform. Both originate from Prana's understanding how subtle changes in brain metal levels influence the production of toxic Abeta species in the brain. In May 2008, Prana announced that the scientific journal, Proceedings of the National Academy of Sciences published several of the key attributes of the metallo-compounds, including, the ability to stop free radical production by Abeta and the restoration of normal neural transmission or signaling between neurons that had been reduced as a consequence of Abeta impairment. Currently, further chemistry and screening is underway to identify prospective lead compounds for Alzheimer's Disease and as novel Alzheimer's Disease brain imaging agents.

REVIEW OF OPERATIONS

Prana Asset Pipeline



INTELLECTUAL PROPERTY DEVELOPMENTS:

Prana continues to adopt an aggressive intellectual property strategy to improve protection of its platform technology and drug assets, with emphasis upon broad 'composition of matter' claims that are also designed to limit opportunities for competition.

- Three national phase patent cases protect Prana's core MPAC technology. The first case is directed to the 8-hydroxyquinoline chemical class which covers PBT2 and other lead 8- hydroxyquinoline compounds. The second case is directed to several 'Follow up' next generation MPAC chemical classes which comprise alternative MPAC scaffolds to the 8- hydroxyquinoline chemical scaffold. An additional third case is directed to specific sub- classes of the 'Follow up' compounds. These patent cases include claims to the MPAC compositions of matter and the uses of these compounds in numerous neurological disorders. All three cases are making successful progress in their examination through a significant number of international patent offices. In particular:-
  - The 8-hydroxyquinoline case is currently under examination in the United States, Europe, China, Russia and India. Applications have been granted in New Zealand, South Africa and Singapore.
  - The 'Follow up' case is currently under examination in the United States, China, Russia and India. Applications have been granted in New Zealand, South Africa and Singapore.
  - The Third case has applications granted in New Zealand and Singapore.
- A patent application directed to PBT1 (clioquinol) for Huntington's Disease is being examined in the United States, Europe, China and Australia.
- Two International (PCT) patent applications are progressing to national phase examination and cover the use of MPACs for the disease indications Age related Macular Degeneration and brain cancer.
- Patent applications relating to various enabling technologies and assays for detecting anti-amyloid compounds exclusively licensed from MGH continue to be successfully examined, with numerous applications proceeding to grant in a variety of jurisdictions, including Canada, Japan and the USA.
- A USA provisional application is presently being prepared to cover an immunotherapy treatment for Alzheimer's Disease, following submission of the requisite biological deposit at ECACC, the European depository.
- Two Australian provisional patent applications have been filed to cover novel metallo-complex compounds that are designed to treat Alzheimer's Disease by prevention of the interaction between ionic metals and the key protein – Abeta.

This document contains some statements which are by their very nature forward looking or predictive. Such forwarding looking statements are by neccessity at least partly based on assumptions about the results of future operations which are planned by the Company and other factors affecting the industry in which the Company conducts its business and markets generally. Such forward looking statements are not facts but rather represent only expectations, estimates and/or forecasts about the future and thereby need to be read bearing in mind the risks and uncertainties concerning future events generally.

There are no guarantees about subjects dealt with in forward looking statements. Indeed, actual outcomes may differ substantially from that predicted due to a range of variable factors.

INTELLECTUAL PROPERTY REPORT

Invention	Status	Comments
"A method for assaying and treating Alzheimer's Disease" Filed: 12 November 1992 Applicant: The University of Melbourne Assigned to Prana Biotechnology Limited	Patents granted in Australia, Europe, Japan and the United States. A patent in Canada is allowed.	The invention includes claims directed to the use of specified modulators in the treatment of Alzheimer's Disease. Granted European claims include the use of zinc binding agents for oral administration in the treatment of Alzheimer's Disease.
"Beta amyloid peptide inhibitors" Filed: 21 July 2000 Applicant: Biomolecular Research Institute and University of Melbourne Assigned to Prana Biotechnology Limited	Patents in Europe, Canada, and the United States are undergoing examination. A patent has been granted in Australia and examination has been requested in Japan.	The invention encompasses claims to agents capable of inhibiting binding of specified metal ions to the N-terminus of beta-amyloid and the use of these agents in the treatment of amyloid related conditions including Alzheimer's Disease.
"An *in vitro* system for determining the formation of Aβ Amyloid" Filed: 19 October 1994 Applicant: The General Hospital Corporation Licensed to Prana Biotechnology Limited	Patents have been granted in the United States and Japan. A patent is allowed in Canada.	The invention is directed to an assay for the formation of beta-amyloid in a biological sample and inhibitors of that formation.
"A diagnostic assay for Alzheimer's Disease" Filed: 19 October 1994 Applicant: The General Hospital Corporation Licensed to Prana Biotechnology Limited	Two patents have been granted in the United States and one patent granted in Canada.	The invention is directed to an antibody based diagnostic assay for the detection and quantification of beta-amyloid species.
"Identification of agents for use in the treatment of Alzheimer's Disease" Filed: 11 March 1998 Applicant: The General Hospital Corporation Licensed to Prana Biotechnology Limited	Patents have been granted in Australia and United States. Applications are under examination in Japan and Europe. A patent is allowed in Canada.	The invention is directed to the use of specified metal binding agents to reduce beta-amyloid mediated neurotoxicity and assays to identify agents capable of modifying neurotoxic properties of beta-amyloid.
"Agents for use in the treatment of Alzheimer's Disease" Filed: 11 March 1999 Applicant: The General Hospital Corporation Licensed to Prana Biotechnology Limited	Patents have been granted in Australia, the United States and Canada. Patent has been allowed in Europe and is entering national phases. Examination has been requested in Japan. A divisonal application has been filed in Canada.	The invention is directed to compositions containing clioquinol and known metal binding agents and their use in the treatment of amyloid related diseases.
"Method for Screening drugs useful for treating Alzheimer's Disease" Filed: 29 April 1999 Applicant: The General Hospital Corporation Licensed to Prana Biotechnology Limited	A continuation-in-part patent has been granted in the United States and a further USA divisional patent application is under examination.	The invention is primarily directed to specified assays that identify agents capable of modifying the neurotoxic properties of beta-amyloid.
"Neurotoxic Oligomers" Filed: 28 June 2000 Applicants: Prana Biotechnology Limited and The General Hospital Corporation	A patent has been granted in Australia and New Zealand. An application is under examination in the United States and China. Examination has been requested Canada and Japan. An application in Europe is pending examination.	The invention is directed to an immunotherapy strategy using tyrosine cross-linked protein aggregates. The approach may be used in the treatment of Alzheimer's Disease and other amyloid related conditions.
"Methods for the Identification of Agents that Inhibit or Promote Cataracts and Uses thereof" Filed: 18 August 2000 Applicant: The General Hospital Corporation. Licensed to Prana Biotechnology Limited	Applications in the United States, Canada and Europe are under examination. Application in Japan has had examination requested. A patent has been granted in Australia and divisional patent granted in the United States.	The invention is directed to assays for the detection of agents useful in the treatment of age-related cataracts and a method of treatment utilizing specified metal chelators.
"Methods of screening for inhibitors of Alzheimer's Disease" Filed: 12 December 2000 Applicant: The General Hospital Corporation Licensed to Prana Biotechnology Limited	Application is under examination in the United States.	The invention encompasses claims to the identification of agents functioning as copper agonists and the use the agents in the treatment of amyloid related conditions including Alzheimer's Disease.

INTELLECTUAL PROPERTY REPORT

Invention	Status	Comments
"Treatment of Neurodegenerative Conditions" Filed: 3 April 2003 Applicant: Prana Biotechnology Limited	Applications in the United States, Europe and Australia await request for examination. An application in China is being examined. An application in Hong Kong has been recorded.	The invention encompasses the utility of the 8-hydroxyquinoline MPAC class in the treatment of neurodegenerative cognitive changes, particularly Huntington's Disease.
"8-hydroxyquinoline derivatives" Filed: 16 July 2003 Applicant: Prana Biotechnology Limited	International (PCT) application has entered national phase in the United States, Europe, China, Japan, Australia, Canada and eight other global jurisdictions. Patants in New Zealand and South Africa have been granted.	The invention is directed to chemical structures of the 8-hydroxyquinoline MPAC class and their utility in the treatment of neurological conditions.
"Neurologically-Active Compounds" Filed: 3 October 2003 Applicant: Prana Biotechnology Limited	International (PCT) application has entered national phase in the United States, Europe, China, Japan, Australia, Canada and eight other global jurisdictions. Application in South Africa has been allowed.	The invention is directed to alternative MPAC chemical structures and their utility in the treatment of neurological conditions.
"Heterocyclic Compounds" Filed: 4 January 2007 Applicant: Prana Biotechnology Limited	A PCT application has been filed.	The invention is directed to chemical structures of the 8-substituted quinoline MPAC class and their utility in the treatment of neurological conditions.
"Neurologically- Active Compounds" Filed: 1 April 2005 Applicant: Prana Biotechnology Limited	International (PCT) application designating, United States, Europe, China, Japan, Australia, Canada and eight other global jurisdictions.	The invention is directed to 'F4' MPAC chemical structures and their utility in the treatment of neurological conditions.
"Use of Phanquinone for the treatment of Alzheimer's Disease". Filed: 19 October 2000 Applicant: Prana Biotechnology Limited	Patent has been granted in the United States. An application in Japan is under examination.	This invention is directed to the use of Phanquinone for the treatment of Alzheimer's Disease.
"Use of Phanquinone for the treatment of memory impairment". Filed: 3 April 2003 Applicant: Prana Biotechnology Limited	Patent has been granted in the United States. An application in Japan is under examination.	This invention is directed to the use of Phanquinone for the treatment of Age Related Memory Impairment.
"Use of Clioquinol for the treatment of Alzheimer's Disease". Filed: 13 February 1998 Applicant: Prana Biotechnology Limited	Patent has been granted in the United States. An application in Japan is under examination.	This invention is directed to the use of clioquinol for the treatment of Alzheimer's Disease.
"Pharmaceutical compositions of Clioquinol with B12 for therapeutic use". Filed: 13 February 1998 Applicant: Prana Biotechnology Limited	Patent has been granted in the United States. An application in Japan is under examination.	This invention is directed to clioquinol pharmaceutical compositions comprising B12.
"Use of Clioquinol for the treatment of Parkinson's Disease". Filed: 13 February 1998 Applicant: Prana Biotechnology Limited	Patent in the United States has been granted. An application in Japan is under examination.	This invention is directed to the use of clioquinol for the treatment of Parkinson's Disease.
"Method of treatment and prophylaxis and agents useful for same" Filed: 13 April 2007 Applicant: Prana Biotechnology Limited	A complete international PCT application has been filed.	This invention is directed to MPAC compounds for the treatment of age related macular degeneration.
"A method of prophylaxis or treatment and agents for same". Filed: 22 June 2007 Applicant: Prana Biotechnology Limited	A complete international PCT application has been filed.	This invention is directed to MPAC compounds for treating selected cancers.

CORPORATE GOVERNANCE REPORT

A review of the Company's 'Corporate Governance Framework' is performed on a periodic basis to ensure that it is relevant and effective in light of the changing legal and regulatory requirements. The Board of Directors ('the Board') continues to adopt a set of Corporate Governance Practices and a Code of Conduct appropriate for the size, complexity and operations of the Company and its subsidiaries.

Unless otherwise stated all Policies and Charters meet the ASX Corporate Governance Council's Best Practice Recommendations and have been in effect for the full reporting period. All Charters and Policies are available from the Company or on its website at www.pranabio.com

ROLE OF THE BOARD AND MANAGEMENT

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

The Board's responsibilities are detailed in its Board Charter and cover the following broad categories:

1 Leadership of the organisation

2 Strategy formulation

3 Overseeing planning activities

4 Shareholder liaison

5 Monitoring, compliance and risk management

6 Company finances

7 Human resources

8 Ensuring the health, safety and well-being of Directors, Officers, Employees and Contractors

9 Delegation of authority

10 Remuneration policy

11 Nomination policy

STRUCTURE AND COMPOSITION OF THE BOARD

The Board has been formed so that it has an effective mix of personnel, committed to adequately discharging their responsibilities and duties and being of value to the Company.

The names of the Directors, their independence under the ASX Corporate Governance Council's Best Practice Recommendations, qualifications and experience are stated in the Directors' Profiles on pages 11 to 12 along with the term of office held by each.

The Board believes that the interests of all Shareholders are best served by:

> Directors having the appropriate skills, experience and contacts within the Company's industry;

> the Company striving to have a balance between the overall number of Directors and the number of Directors being independent as defined in the ASX Corporate Governance Guidelines;

> some significant parties within whom the Company has contractual arrangements being represented on the Board during the early years of the development of the Company; and

> some major Shareholders being represented on the Board.

A majority of Directors of the Company are classified as being 'Independent'. However, due to the stage in the Company's development, the Board believes that the most appropriate person for the position of Chairman is an Executive Officer of the Company. The Executive Officer's overall expertise is crucial to the Company's development and negates any perceived lack of independence. The Chairman of the Board is also the Chief Executive Officer (CEO) of the Company.

However, where any Director has material personal interest in a matter and, in accordance with the Corporations Act 2001, the Director will not be permitted to be present during discussion or to vote on the matter. The enforcement of this requirement aims to ensure that the interest of Shareholders, as a whole, is pursued and that their interest or the Director's independence is not jeopardised.

Directors collectively or individually have the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities. All advice obtained is made available to the full Board.

The Company has a Nomination Committee whose current members and their qualifications, are detailed in the Directors' Profiles on pages 11 to 12. Details of attendance of the members of the Nomination Committee are contained on page 20.

ETHICAL AND RESPONSIBLE DECISION-MAKING

As part of its commitment to recognising the legitimate interests of Stakeholders, the Company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate Stakeholders.

The Company has a share trading policy that regulates the dealings by Directors, Officers and Employees, in shares, options and other securities issued by the Company. The policy has been formulated to ensure that Directors, Officers, Employees and Consultants who work on a regular basis for the Company are aware of the legal restrictions on trading in Company securities while in possession of unpublished price-sensitive information.

CORPORATE GOVERNANCE REPORT

INTEGRITY IN FINANCIAL REPORTING

In accordance with the Board's policy, the CEO and Chief Financial Officer ("CFO") have made attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing this Annual Report.

The Company has a duly constituted Audit, Risk and Compliance Committee, consisting of three Independent Non-Executive Directors. The current members of the Committee, as at the date of this report, and their qualifications are detailed in the Directors' Profiles on pages 11 to 12.

The Committee holds a minimum of four meetings a year. Details of attendance of the members of the Audit, Risk & Compliance Committee are contained on page 20.

TIMELY AND BALANCED DISCLOSURE

The Board has designated the Company Secretary as the person responsible for overseeing and co-ordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with ASX Listing Rules the Company immediately notifies the ASX of information concerning the Company:

1 that a reasonable person would or may expect to have a material effect on the price or value of the Company's securities; and

2 that would, or would be likely to influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

RIGHTS OF SHAREHOLDERS

The Company respects the rights of its shareholders, and to facilitate the effective exercise of the rights, the Company is committed to:

1 communicating effectively with Shareholders through ongoing releases to the market via ASX information and General Meetings of the Company;

2 giving Shareholders ready access to balanced and understandable information about the Company and Corporate Proposals;

3 making it easy for Shareholders to participate in General Meetings of the Company; and

4 requesting the External Auditor to attend the Annual General Meeting and be available to answer Shareholder's questions about the conduct of the audit, and the preparation and content of the Auditor's Report.

Any Shareholder wishing to make inquiries of the Company is advised to contact the registered office. All public announcements made by the Company can be obtained from the ASX's website www.asx.com.au

RECOGNISE AND MANAGE RISK

The Audit, Risk & Compliance Committee has established a policy for risk oversight and management within the Company. This is periodically reviewed and updated.

The CEO and CFO have given a statement to the Board that:

a) in accordance with 'Best Practice Recommendation 4.1', that the Financial Statements are founded on a sound system of risk management and internal compliance and control which implements the Policies adopted by the Board; and

b) the Company's 'Risk Management and Internal Compliance and Control System', in so far as it relates to financial risk, is operating effectively in all material aspects.

ENCOURAGE ENHANCED PERFORMANCE

A 'Performance Evaluation Policy' has been established to evaluate the performance of the Board, individual Directors and Key Management Personnel of the Company. The Board is responsible for conducting evaluations on a periodic basis in line with these policy guidelines. During the reporting period the board and individual performance evaluations were conducted on an informal basis. This provided feedback and evaluation for future development.

During the year, all Directors have full access to all Company records and receive Financial and Operational Reports at each Board Meeting.

An induction program has been established for new Directors.

REMUNERATE FAIRLY AND RESPONSIBLY

The Company has adopted a Remuneration Committee to administer the Company's remuneration policy. The Committee is responsible for:

* setting the remuneration and conditions of service for all Executive and Non-Executive Directors, Officers and Employees of the Company;

* approving the design of Executive & Employee incentive plans (including equity-based plans) and proposed payments or awards under such plans;

* reviewing performance hurdles associated with incentive plans;

* making recommendations to the Board on the remuneration of Non-Executive Directors within the aggregate approved by shareholders at General Meetings from time to time;

* consulting appropriately qualified Consultants for advice on remuneration and other conditions of service as deemed necessary;

* succession planning for the CEO and Senior Executive Officers; and

* performance assessment of the CEO and Senior Executives Officers.

The Company also has a Share Plan Committee created to administer the Share Plans adopted at the 2004 AGM. The Committee is a sub-committee of the Remuneration Committee.

The Company is committed to remunerating its Senior Executives in a manner that is market-competitive and consistent with 'Best Practice' as well as supporting the interests of Shareholders. Senior Executives may receive a remuneration package based on fixed and variable components, determined by their position and experience. Shares and/or options may also be granted based on an individual's performance, with those granted to Directors subject to Shareholder approval.

Non-Executive Directors are remunerated out of the maximum aggregate amount approved by Shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors may be entitled to statutory superannuation, but no other retirement benefits. Non-Executive Directors do not receive performance based bonuses and do not participate in equity schemes of the Company without prior Shareholder approval.

Current remuneration is disclosed in the Remuneration Report contained in the Directors' Report on pages 12 to 19 and in Note 5 on pages 36 to 38.

The current members of the Remuneration Committee, as at the date of this report, and their qualifications are detailed in the Directors' Profiles on pages 11 to 12. Details of attendance of the members of the Remuneration Committee are contained on page 20.

LEGITIMATE INTERESTS OF STAKEHOLDERS

The Board acknowledges the legitimate interests of various stakeholders such as employees, clients, customers, government authorities, creditors and the community as a whole. As a good corporate citizen, it encourages compliance and commitment to appropriate corporate practices that are fair and ethical via its 'Code of Conduct Policy'.

DIRECTORS' REPORT

The Directors of Prana Biotechnology Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2008. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

DIRECTORS

The following persons were Directors of Prana Biotechnology Limited during the whole of the financial year and up to the date of this report, unless stated otherwise:

Mr Geoffrey Kempler	Executive Chairman and Chief Executive Officer
Prof. Colin Masters	Executive Director (Resigned 2 July 2007)
Mr Brian Meltzer	Non-Executive Independent Director
Dr George Mihaly	Non-Executive Independent Director
Mr Peter Marks	Non-Executive Independent Director

COMPANY SECRETARY

Mr Richard Revelins has served as the Company's Company Secretary since 7 February 2000. Mr Revelins was appointed Chief Financial Officer of the Company in June 2004. Mr Revelins is an Executive Director and principal of Peregrine Corporate Ltd, an Australian based investment bank. Mr Revelins has held senior positions in international merchant banks and is currently a Director of a number of companies listed on the Australian Stock Exchange, including Mintails Limited (appointed 21 July 2000) and Mining Projects Group Ltd (appointed 29 August 1991).

PRINCIPAL ACTIVITIES

The consolidated entity's principal activities during the course of the year 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 principal activities during the financial year.

REVIEW AND RESULTS OF OPERATIONS

The consolidated net loss of the consolidated entity after providing for income tax amounted to $13,560,678 (2007: $11,142,320 loss). For further detail, refer to the Review of Operations set out on page 2.

DIVIDENDS PAID OR RECOMMENDED

The Directors did not pay any dividends during the financial year. The Directors do not recommend the payment of a dividend in respect of the 2008 financial year.

SHARE OPTIONS GRANTED TO DIRECTORS AND KEY MANAGEMENT PERSONNEL

During or since the end of the 30 June 2008 financial year an aggregate of 2,050,000 share options were granted by Prana Biotechnology Limited to the following Directors of the Company:

Director	No of Options Granted	No of Ordinary Shares Under Options Granted
Mr Geoffrey Kempler	1,000,000	1,000,000
Mr Brian Meltzer	350,000	350,000
Dr George Mihaly	350,000	350,000
Mr Peter Marks	350,000	350,000
	2,050,000	2,050,000

During or since the end of the 30 June 2008 financial year an aggregate of 850,000 share options were granted by Prana Biotechnology Limited to the following Key Management Personnel of the Company:

Key Management Personnel	No of Options Granted	No of Ordinary Shares Under Options Granted
Mr Richard Revelins	350,000	350,000
Ms Dianne Angus	500,000	500,000
	850,000	850,000

EARNINGS PER SHARE

Basic loss per share 7.76 cents (2007: 7.92 cents).

CORPORATE STRUCTURE

Prana Biotechnology Limited is a Company limited by shares that was incorporated in and is domiciled in Australia. Prana Biotechnology Limited has 2 subsidiaries:

* Prana Biotechnology Inc, a company limited by shares that was incorporated in and is domiciled in the United States; and
* Prana Biotechnology UK Ltd, a company limited by shares that was incorporated in and is domiciled in the United Kingdom.

EMPLOYEES

The Company had 13 employees at 30 June 2008 (2007: 9 employees).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the consolidated entity during the financial year under review not otherwise disclosed in this Annual Report.

AFTER BALANCE DATE EVENTS

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

DIRECTORS' REPORT

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The likely developments in the consolidated entity's operations, to the extent that such matters can be commented upon, are covered in the Review of Operations on page 2 of 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 consolidated entity. Accordingly, this information has not been included in this report.

ENVIRONMENTAL ISSUES

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

INFORMATION ON DIRECTORS

The names and particulars of Directors of the Company in office at any time during or since the end of the financial year are:

Mr Geoffrey Kempler - Executive Chairman and Chief Executive Officer
Appointed to the Board - 11 November 1997
Last Elected by shareholders - 17 November 2004
Qualifications - B.Sc. Grad. Dip. App. Soc. Psych

Experience - Mr Kempler has served as Chairman of our Board of Directors since November 1997, between November 1997 and August 2004 he served as our Chief Executive Officer, and in June 2005 he again assumed the position of Chief Executive Officer. Mr Kempler is one of the founders of our Company. Mr Kempler is a qualified psychologist. Mr Kempler, who has extensive experience in investment and business development, has managed our operations to date and has been responsible for the implementation of our strategic plan and the commercialisation of our technology.
Interest in Shares and Options - 17,055,000 ordinary shares and 3,000,000 options over ordinary shares
Committees - Nil
Current or Former Directorships held in other listed entities within the last 3 years - Nil

Prof. Colin Masters - Executive Director
Appointed to the Board - 9 December 1999
Last Elected by shareholders - 30 November 2006
Resigned from the Board - 2 July 2007
Qualifications - B.Med.Sci (Honours), M.B., B.S., F.R.C. Path (U.K), F.R.C. Path (Aust.), F.A.A.

Experience - Prof. Masters graduated with a degree in Medicine from the University of Western Australia in 1970. Since such time, Prof. Masters has held many senior scientific research positions predominately in the area of Alzheimer's Disease research and is currently a Professor at the University of Melbourne, Executive Director of the Mental Health Research Institute and Consultant at the Royal Melbourne Hospital. Prof. Masters is primarily responsible for the implementation of the research strategy of our company.
Interest in Shares and Options - 86,333 ordinary shares
Committees - Nil
Current or Former Directorships held in other listed entities within the last 3 years - Nil

Mr Brian Meltzer - Non-Executive Independent Director
Appointed to the Board - 9 December 1999
Last Elected by shareholders- 30 November 2005
Qualifications - B. Com., M Ec.

Experience - Mr Meltzer has over 25 years experience in finance, including 12 years at AIDC Ltd and over 10 years at Babcock & Brown. Mr. Meltzer is a Director of Momentum Ventures Limited, licensed by the government as an Innovation Investment Fund with venture capital investments including biotechnology. Mr Meltzer is a Non-Executive Director on the boards of a number of private companies. He is also a Director on the boards of the Australian-Israel Chamber of Commerce and the Paraplegic and Quadriplegic Association of Victorian (Paraquad).
Interest in Shares and Options - 326,666 ordinary shares and 950,000 options over ordinary shares
Committees - Chairman of the Audit, Risk and Compliance Committee, Remuneration Committee and Nomination Committee
Current or Former Directorships held in other listed entities within the last 3 years - Nil

Dr George Mihaly - Non-Executive Independent Director
Appointed to the Board - 9 December 1999
Last Elected by shareholders - 20 December 2007
Qualifications - B. Pharm, M.Sc., Ph.D. FAICD

Experience - Dr Mihaly has had an extensive and successful career spanning the research and commercial facets of the pharmaceutical industry. During the period from mid-1994 to early 2000, Dr Mihaly was the founding executive Chairman and Managing Director of Synermedica Pty Ltd, one of Australia's leading independent consultant research organisations to the pharmaceutical industry. Synermedica merged with the global CRO, Kendle International Inc, in April 2000 and Dr Mihaly continued as Managing Director of the merged entity in Australia (now called Kendle Pty Ltd) until December 2004. Over the course of the last 24 years in academia and industry, Dr Mihaly has amassed extensive experience in both the science and logistics of setting up, monitoring, managing and evaluating results from phase I, II, III and IV clinical trials.
Interest in Shares and Options - 226,666 ordinary shares and 950,000 options over ordinary shares
Committees - Member of the Audit, Risk and Compliance Committee, Remuneration Committee and Nomination Committee.
Current or Former Directorships held in other listed entities within the last 3 years - Prima Biomed Ltd (appointed 24 January 2005, resigned 22 December 2006)

DIRECTORS' REPORT

Mr Peter Marks - Non-Executive Independent Director
Appointed to the Board - 29 July 2005
Last Elected by shareholders - 30 November 2005
Qualifications - BEc LLB Grad. Dip. Comm. Law MBA

Experience - Mr Marks also serves as Executive Chairman of KarmelSonix Ltd, a medical devices company listed on the ASX that is focused on developing and commercialising a range of devices in the respiratory and medicine space. From September 1998 until March 2001, Mr Marks was employed by KPMG Corporate Finance Ltd (Australia), where he rose to Director and was responsible for heading up the equity capital markets group in Melbourne. From January 1992 until July 1994, Mr Marks served as Head of the Melbourne Companies Department at the Australian Stock Exchange and was founding Director of Momentum Funds Management Pty Ltd, an Australian venture capital firm. From December 1990 until December 1991, Mr Marks served as Director of Corporate Finance at Burdett Buckeridge & Young Ltd in their Melbourne offices, from August 1988 until November 1990, he held senior corporate finance positions at Barings Securities Ltd, and from July 1985 until July 1988, he served as an Associate Director of McIntosh Securities, now Merrill Lynch Australia.
In his roles with these various financial institutions, Mr Marks was responsible for advising a substantial number of listed and unlisted companies on issues ranging from corporate and company structure, to valuations, business strategies, acquisitions and international opportunities. Mr Marks is currently a Director of Peregrine Corporate Ltd, an Australian based investment bank and Watermark Global Plc, an AIM listed company commercialising metal diffusion technologies.
Interest in Shares and Options - 43,111 ordinary shares and 950,000 options over ordinary shares
Committees - Member of the Audit, Risk and Compliance Committee
Current or Former Directorships held in other listed entities within the last 3 years - Watermark Global Plc (appointed November 2005)
Karmelsonix Ltd (appointed 21 November 2006)
Select Vaccines Ltd (appointed 31 December 2000, resigned 9 August 2006)
Premier Bionics Ltd (appointed 18 December 2001, resigned 10 May 2007)

REMUNERATION REPORT

The information in this report has been audited as required by section 308(3C) of the Corporations Act 2001.The Directors of Prana Biotechnology Limited during the year were:

Mr Geoffrey Kempler	Executive Chairman and Chief Executive Officer
Prof. Colin Masters	Executive Director (Resigned 2 July 2007)
Mr Brian Meltzer	Non-Executive Independent Director
Dr George Mihaly	Non-Executive Independent Director
Mr Peter Marks	Non-Executive Independent Director

The Key Management Personnel of Prana Biotechnology Limited and the Group during the year were:

Mr Richard Revelins	Company Secretary and Chief Financial Officer
Ms Dianne Angus	Chief Operating Officer

These were the only executives of Prana Biotechnology Limited and the Group during the financial year ended 30 June 2008.

A. Principles used to determine the nature and amount of remuneration

Remuneration Policy

Remuneration of all Executive and Non-Executive Directors, Officers and Employees of the Company is determined by the Board following recommendation by the Remuneration Committee.

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

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

REMUNERATION POLICY VERSUS COMPANY FINANCIAL PERFORMANCE

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

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

The Company envisages its performance in terms of earnings will remain negative whilst the Company continues in the research and/or trial phase. Shareholder wealth reflects this speculative and volatile market sector. This pattern is indicative of the Company's performance over the past 4 years.

PERFORMANCE BASED REMUNERATION

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

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

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

For details of performance based remuneration refer to Employment Contracts of Directors and Key Management Personnel on page 18.

B. Details of Remuneration

The remuneration for each Director and each of the Key Management Personnel of Prana Biotechnology Limited and the Group during the year was as follows:

	Short-term employee benefits			Post-Employment Benefits	Share-based Payments	
	Cash salary and fees	Cash bonus	Non-monetary benefits	Superannuation Contribution	Equity	Total
2008	**$**	**$**	**$**	**$**	**$**	**$**
Directors						
Mr Geoffrey Kempler [1, 2, 3 & 6]	351,273	50,000	-	35,127	741,072	1,177,472
Prof. Colin Masters [7]	-	-	-	-	-	-
Mr Brian Meltzer [1]	91,743	-	-	8,257	247,321	347,321
Dr George Mihaly [1]	75,000	-	-	-	247,321	322,321
Mr Peter Marks [1]	75,000	-	-	-	231,790	306,790
	593,016	50,000	-	43,384	1,467,504	2,153,904
Key Management Personnel						
Mr Richard Revelins [1]	80,000	-	-	-	219,428	299,428
Ms Dianne Angus [4, 5 & 6]	280,191	-	-	25,217	115,000	420,408
	360,191	-	-	25,217	334,428	719,836

[1] This includes equity issued as per the AGM's held on 20 December 2007, 30 November 2006, 30 November 2005 and 30 November 2004. As per Australian accounting standards the options issued to Directors were valued at grant date and are being expensed over the anticipated life of the options. As a result, the value does not reflect the current market price of the Company's shares. The Board believes that if the options issued in 2005 and 2006 were valued in today's market, they would have minimal intrinsic value given the market condition attached to the options that the share price must reach $1.00 and $0.80 respectively for five consecutive trading days. See the 2007 remuneration table on page 14 for valuations of the options approved at the 30 November 2006, 30 November 2005 and 30 November 2004 AGM's. The value of the options approved at the 20 December 2007 AGM were calculated using the Black-Scholes Model applying the following inputs:

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

[2] On 6 June 2008, Mr Kempler received a salary increase to $298,964 plus 10% superannuation for Executive Chairman duties and $67,765 plus 10% superannuation for CEO duties. Total package of $366,729 plus 10% superannuation. This is an increase from $351,273 plus 10% superannuation.

[3] During the year Mr Kempler received a cash bonus of $50,000 in accordance with his employment contract in relation to a successful capital raising of approximately A$7m (before costs) in October 2007.

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

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

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

[6] In accordance with employment contracts, long service leave has been accrued in respect of the Geoffrey Kempler and Dianne Angus. At 30 June 2008, $42,467 had been accrued to date. No amounts have been paid in the 30 June 2008 financial year.

[7] Prof Masters resigned from the Company on 2 July 2008 and did not received any salary in this period.

	Short-term employee benefits			Post-Employment Benefits	Share-based Payments	
	Cash salary and fees	Cash bonus	Non-monetary benefits	Superannuation Contribution	Equity	Total
2007	**$**	**$**	**$**	**$**	**$**	**$**
Directors						
Mr Geoffrey Kempler [1, 2 & 6]	341,515	-	-	34,151	178,030	553,696
Prof. Colin Masters [1]	115,000	-	-	-	126,358	241,358
Mr Brian Meltzer [1]	96,330	-	-	8,670	53,408	158,408
Dr George Mihaly [1]	110,000	-	-	-	53,408	163,408
Mr Peter Marks [1]	75,000	-	-	-	37,907	112,907
	737,845	-	-	42,821	449,111	1,229,777
Key Management Personnel						
Mr Richard Revelins [1]	80,000	-	-	-	25,613	105,613
Dr Ross Murdoch [4]	303,014	-	-	24,445	97,144	424,603
Ms Dianne Angus [3, 5 & 6]	258,750	-	-	23,288	565,655	847,693
	641,764	-	-	47,733	688,412	1,377,909

[1] This includes equity issued as per the AGM's held on 30 November 2006, 30 November 2005 and 30 November 2004. As per Australian accounting standards the options issued to Directors were valued at grant date and are being expensed over the anticipated life of the options. As a result, the value does not reflect the current market price of the Company's shares. The Board believes that if the options were valued in today's market, they would have minimal intrinsic value given the market condition attached to the options that the share price must reach $1.00 and $0.80 respectively for five consecutive trading days.

The option price of options approved at the 17 November 2004 AGM was calculated using the Barrier Pricing Model applying the following inputs:

Grant Date: 17 November 2004	Barrier: $1.00
Pricing Model: American	Days to Expiry: 208
Option Type: Call	Volatility: 70%
Barrier Type: Up and In	Risk-free Interest Rate: 5.05%
Strike Price: $0.00	Expected Dividends: $0.00
Spot Price: $0.56	Option Price: $0.51

The option price of options approved at the 30 November 2005 AGM was calculated using the Barrier Pricing Model applying the following inputs:

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

The option price of options approved at the 30 November 2006 AGM was calculated using the Barrier Pricing Model applying the following inputs:

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

[2] On 1 February 2007, Mr Kempler received a salary increase to $286,364 plus 10% supaerannuation for Executive Chairman duties and $64,909 plus 10% superannuation for CEO duties. Total package of $351,273 plus 10% superannuation. This is an increase from $333,636 plus 10%.

[3] Ms Angus received a salary increase during the year to $268,125 plus 9% superannuation. Ms Angus contracted working days increase from 4 to 5 days per week.

[4] Dr Murdoch received 120,000 ordinary shares valued at the market share price at date of grant, of $0.38 per ordinary share. Dr Murdoch also received options. The option price was calculated using the Barrier Pricing Model applying the following inputs:

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

[5] Ms Angus received two tranches of options. The option prices were calculated using the Barrier Pricing Model applying the following inputs:

Tranche 1

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

Tranche 2

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

[6] In accordance with employment contracts, long service leave has been accrued in respect of the Geoffrey Kempler and Dianne Angus. At 30 June 2007, $24,254 had been accrued to date. No amounts have been paid in the 30 June 2007 financial year.

PERFORMANCE INCOME AS A PROPORTION OF TOTAL REMUNERATION

All Executives are eligible to receive incentives whether through employment contracts or by the recommendation of the Board. Their performance payments are based on a set monetary value, set number of shares or options or as a portion of base salary. Therefore there is no fixed proportion between incentive and non-incentive remuneration.

Non-Executive Directors are not entitled to receive bonuses and/or incentives. During the past year, Directors and the Company Secretary received equity as approved by shareholders at the 2007 AGM in recognition of future contributions to the growth and success of the Company. Employees have received equity as recommended by the Remuneration Committee.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed Remuneration		At Risk - LTI	
Directors	**2008**	**2007**	**2008**	**2007**
Mr Geoffrey Kempler	37%	68%	63%	32%
Prof. Colin Masters (resigned 2 July 2008)	N/A	48%	N/A	52%
Mr Brian Meltzer	29%	66%	71%	34%
Dr George Mihaly	23%	67%	77%	33%
Mr Peter Marks	24%	66%	76%	34%
Key Management Personnel				
Mr Richard Revelins	27%	76%	73%	24%
Dr Ross Murdoch (resigned 31 May 2007)	N/A	77%	N/A	23%
Ms Dianne Angus	73%	33%	27%	67%

At risk long term incentive (LTI) relates to remuneration provided in the form of share based payments. There are no short term incentives considered to be at risk in the current or prior year.

C. Share-based compensation

At the Annual General Meeting held on 17 November 2004, Shareholders approved the establishment of a new Employee and Consultant Plan designed to reward Executives, Employees and/or Consultants for their contributions to the consolidated entity. The plan is to be used as a method of retaining key personnel for the growth and development of the consolidated entity's intellectual property rights. Due to the consolidated entity's US presence, a US plan and an Australian plan were developed. At 30 June 2008 equity had been issued to 1 previous Director while a Director under the US plan and 5 Directors, 3 Key Management Personnel, 16 employees and 10 consultants under the Australian Plan.

The terms and conditions of each grant of options affecting Director and Key Management Personnel remuneration in the previous, this or future reporting periods are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise Price	Share Price Hurdle	Value per option at grant date
17 November 2004		30 June 2010	$0.000	$1.00	$0.51
30 November 2005		30 June 2010	$0.000	$1.00	$0.18
7 August 2006	7 September 2006	7 August 2014	$0.000	$0.40	$0.08
2 October 2006	6 October 2006	7 August 2014	$0.000	$0.40	$0.48
30 November 2006		31 July 2009	$0.000	$0.80	$0.38
12 June 2007	28 December 2007	7 August 2014	$0.000	$0.40	$0.34
5 December 2007	5 December 2007	31 October 2010	$0.000	$0.00	$0.23
20 December 2007	20 December 2007	31 October 2010	$0.300	$0.00	$0.50

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share as soon as practical after the receipt by the Company of the completed exercise form and full payment of such exercise price.

The exercise price of options will be equal to or less than the weigted average price at which the Company's shares are traded on the Australian Stock Exchange during the 5 days up to and including the grant date or such other exercise price that the Committee determines to be appropriate under the circumstances.

The plan rules contain a restriction on removing the 'at risk' aspect of the instruments granted to executives. Plan participants may not enter into any transaction designed to remove the 'at risk' aspect of an instrument before it vests.

Details of options over ordinary shares in the Company provided as remuneration to each Director of Prana Biotechnology Limited and each of the Key Management Personnel of the parent entity and Group are set out below.

	Number of options granted during the year		Number of options vested during the year	
	2008	**2007**	**2008**	**2007**
Directors				
Mr Geoffrey Kempler	1,000,000	1,000,000	1,000,000	-
Prof. Colin Masters (resigned 2 July 2007)	-	1,000,000	-	-
Mr Brian Meltzer	350,000	300,000	350,000	-
Dr George Mihaly	350,000	300,000	350,000	-
Mr Peter Marks	350,000	300,000	350,000	-
Key Management Personnel				
Mr Richard Revelins	350,000	300,000	350,000	-
Dr Ross Murdoch (resigned 31 May 2007)	-	625,000	-	625,000
Ms Dianne Angus	500,000	1,250,000	750,000	1,000,000

Details of ordinary shares provided as a result of exercise of remuneration options to each Director of Prana Biotechnology Limited and each Key Management Personnel of the parent entity and Group are set out below:

Name	**Date exercised**	**Number of ordinary shares issued on exercise of options**	**Amount paid per share**
Ms Dianne Angus	26 February 2008	250,000	$Nil
Dr Ross Murdoch (resigned 31 May 2007)	31 May 2007	625,000	$Nil

All options were exercisable at nil consideration.

D. Employment Contracts of Directors and Key Management Personnel

The following Directors and Key Management Personnel were under contract at 30 June 2008:

Directors	Duration	Notice Requirements	Termination
Mr Geoffrey Kempler Executive Chairman and Chief Executive Officer	Until termination by either party Signed 21 September 2007	For Good Reason Mr Kempler may terminate with 30 days notice	* Pay Geoffrey Kempler within ninety (90) days of the termination date $1,000,000 provided the Company has sufficient capital requirements to fulfil this clause * Accrued entitlements including all unreimbursed business expenses * Accelerate the vesting of any unvested options
		Without Good Reason Mr Kempler may terminate with 90 days notice	* Bonus pro-rated only if termination occurs in 1st year
		Without Cause the Company may terminate with 90 days notice	* Pay Geoffrey Kempler within ninety (90) days of the termination date $1,000,000 provided the Company has sufficient capital requirements to fulfil this clause * Accrued entitlements including all unreimbursed business expenses * Accelerate the vesting of any unvested options
		With Cause the Company may terminate with 30 days notice	* Bonus pro-rated only if termination occurs in 1st year
Key Management Personnel			
Ms Dianne Angus Chief Operating Officer	Until termination by either party Signed 2 October 2006 Letter Agreement signed 12 June 2007	For Good Reason Ms Angus may terminate with 30 days notice	* Pay remuneration entitlements 1 year from the time of termination (less any payout made for the notice period). The Company can elect to pay such sum as cash, equity in the Company or as a combination of both cash and equity * Accrued entitlements including all unreimbursed business expenses * Accelerate the vesting of any unvested options
		Without Good Reason Ms Angus may terminate with 120 days notice	* Permitted to keep and/or exercise options that have vested at the time of termination * Accrued entitlements including all unreimbursed business expenses
		Without Cause the Company may terminate with 120 days notice	* Pay remuneration entitlements 1 year from the time of termination (less any payout made for the notice period). The Company can elect to pay such sum as cash, equity in the Company or as a combination of both cash and equity * Accrued entitlements including all unreimbursed business expenses * Accelerate the vesting of any unvested options
		With Cause the Company may terminate without notice	* Accrued entitlements including all unreimbursed business expenses * Permitted to keep and/or exercise options that have vested at the time of termination

E. Additional information

Details of Remuneration: Cash Bonuses and Options

The following table provides the percentage of the available grant of share options that was paid or that vested in the financial year and the percentage that was forfeited.

During the year Mr Geoffrey Kempler received a $50,000 cash bonus. The bonus was in accordance with his employment contract in relation to a successful capital raising in October 2007, in which the Company raised approximately A$7m (before costs). No other cash bonuses have been paid or forfeited in the current or prior year.

	Year Granted	Vested	Forfeited	Financial years in which options may vest	Minimum total value of grant yet to vest	Total value of grant yet to vest
		%	%		$	$
Directors						
Mr Geoffrey Kempler	2005, 2007 & 2008	100	-	2008 - 2010	333,138	333,138
Mr Brian Meltzer	2005, 2007 & 2008	100	-	2008 - 2010	99,941	99,941
Dr George Mihaly	2005, 2007 & 2008	100	-	2008 - 2010	99,941	99,941
Mr Peter Marks	2006, 2007 & 2008	100	-	2008 - 2010	68,963	68,963
Key Management Personnel						
Mr Richard Revelins	2007 & 2008	100	-	2008 - 2009	44,307	44,307
Ms Dianne Angus	2007 & 2008	150	-	2008	-	-

Share based payment as a proportion of remuneration and value of options and warrants at grant date and exercise date.

	A	B	C	D	E
	Remuneration consisting of equity	Value at grant date	Value at exercise date	Value at lapse date	Total of columns B - D
Directors					
Mr Geoffrey Kempler	63%	1,394,570	-	-	1,394,570
Mr Brian Meltzer	71%	443,371	-	-	443,371
Dr George Mihaly	77%	443,371	-	-	443,371
Mr Peter Marks	76%	343,693	-	-	343,693
Key Management Personnel					
Mr Richard Revelins	73%	289,348	-	-	289,348
Ms Dianne Angus	27%	680,655	175,000	-	855,655

A = The percentage of the value of remuneration consisting of options based on the value of the grant date set out in column B.

B = The value at grant date calculated in accordance with AASB 2 Share based payment of options granted during the year as part of remuneration

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year

DIRECTORS' REPORT

MEETINGS OF DIRECTORS

The following table sets out the number of Directors' Meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director.

During the financial year 20 Board Meetings, 9 Audit, Risk and Compliance Committee Meetings, 3 Nomination Committee Meetings and 9 Remuneration Committee Meetings were held.

	Board Meetings		Committee Meetings					
			Audit, Risk & Compliance Committee		Nomination Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr Geoffrey Kempler	20	20	-	-	-	-	-	-
Mr Brian Meltzer	20	19	9	9	3	2	9	9
Dr George Mihaly	20	20	9	9	3	3	9	9
Mr Peter Marks	20	17	9	8	-	-	-	-

INDEMNIFYING DIRECTORS AND OFFICERS

During the financial year the Company maintained an insurance 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 any related body corporate against a liability incurred as such an Officer or Auditor.

SHARE OPTIONS/WARRANTS ON ISSUE AT 30 JUNE 2008

As at 30 June 2008 the unissued ordinary shares of Prana Biotechnology Limited under options/warrants were as follows:

Date of expiry	Exercise price ($)	Number under option/warrant	Exercise Hurdle
17 December 2008	AUD 0.29	400,000	
4 June 2009	USD 0.80	33,200,000[1]	
31 July 2009	AUD 0.00	2,200,000	These share options can only be exercised once the share price of the Company reaches AUD$0.80 for 5 consecutive trading days.
30 November 2009	AUD 0.45	4,352,893	
30 June 2010	AUD 0.00	2,677,500	These share options can only be exercised once the share price of the Company reaches AUD$1.00 for 5 consecutive trading days.
31 October 2010	AUD 0.00	877,592	
31 October 2010	AUD 0.37	5,395,112	
31 October 2010	AUD 0.37	2,400,000	
30 November 2010	AUD 0.43	5,395,112	
31 December 2011	AUD 0.00	382,756	These share options can only be exercised once the share price of the Company reaches AUD$0.50 for 5 consecutive trading days.
17 December 2012	USD 0.50	3,800,000[1]	
7 August 2014	AUD 0.00	1,250,000	These share options can only be exercised once the share price of the Company reaches AUD$0.40 for 5 consecutive trading days.
		62,330,965	

[1] These options/warrants are convertible to ADRs, 1 ADR = 10 ordinary shares. The number under option/warrant represents the ordinary share number. The exercise price represents the exercise price per ordinary share.

SHARES ISSUED AS A RESULT OF THE EXERCISE OF OPTIONS/WARRANTS

During the year ended 30 June 2008, the following ordinary shares of Prana Biotechnology Limited were issued as a result of the exercise of an option. Since 30 June 2008, 160,000 ordinary shares of Prana Biotechnology Limited were issued, at an exercise of $Nil per option, as a result of the exercise of options.

Exercise Date	Amount Paid ($) per Share	Number of Shares Issued
26 February 2008	$0.00	1,005,557
2 April 2008	$0.00	27,440
9 April 2008	$0.00	46,282
12 June 2008	$0.00	275,000
25 June 2008	$0.00	39,284
		1,393,563

There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2008 financial year. The amount paid per share is the same as the exercise price.

PROCEEDINGS ON BEHALF OF COMPANY

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

NON-AUDIT SERVICES

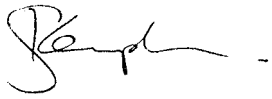
The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

During the year ended 30 June 2008 the Company did not engage the external auditor to provide non-audit services.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* for the year ended 30 June 2008 has been received and can be found on page 22.

Signed in accordance with a resolution of the Directors made pursuant to s298(2) of the *Corporations Act 2001*.



Mr Geoffrey Kempler
Director
Dated this 25th day of September 2008

AUDITOR'S INDEPEDENCE DECLARATION

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

Auditor's Independence Declaration

As lead auditor for the audit of Prana Biotechnology Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Prana Biotechnology Limited and the entities it controlled during the period.

Nadia Carlin

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
25 September 2008

Liability limited by a scheme approved under Professional Standards Legislation

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

		Consolidated Entity		Parent Entity	
	Note	**2008 $**	2007 $	**2008 $**	2007 $
Revenue from continuing operations	2	**490,943**	507,150	**490,943**	507,150
Other income	2	**170**	287	**170**	287
Intellectual property expenses	3	**(469,428)**	(600,232)	**(469,428)**	(600,232)
Auditor and accounting expenses	3	**(331,950)**	(260,117)	**(331,950)**	(260,117)
Research and development expenses	3	**(5,757,168)**	(4,492,193)	**(5,757,168)**	(4,492,193)
Personnel expenses	3	**(5,350,189)**	(4,554,731)	**(5,350,189)**	(4,554,731)
Depreciation expenses	3	**(25,349)**	(58,582)	**(25,349)**	(58,582)
Other expenses	3	**(975,404)**	(1,008,563)	**(974,008)**	(1,001,694)
Travel expenses	3	**(146,651)**	(309,997)	**(146,651)**	(309,997)
Public relations and marketing expenses	3	**(141,337)**	(215,455)	**(141,337)**	(215,455)
Impairment of inter-company loan	3	**-**	-	**(3,174)**	(3,727)
Foreign exchange loss	3	**(402,886)**	(757,578)	**(403,013)**	(757,774)
Gain/(Loss) on fair valuation of financial liabilities	3	**(451,429)**	607,691	**(451,429)**	607,691
Loss before income tax		**(13,560,678)**	(11,142,320)	**(13,562,583)**	(11,139,374)
Income tax expense	4	**-**	-	**-**	-
Loss for the year		**(13,560,678)**	(11,142,320)	**(13,562,583)**	(11,139,374)
Loss per share					
Basic loss per share (cents per share)	7a	**(7.76)**	(7.92)		
Diluted loss per share (cents per share)	7b	**(7.76)**	(7.92)		

The above income statements should be read in conjunction with the accompanying notes.

BALANCE SHEETS

AS AT 30 JUNE 2008

	Note	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	**11,219,035**	7,409,256	**11,219,035**	7,409,256
Trade and other receivables	9	**120,641**	96,499	**120,641**	96,499
Other assets	12	**254,325**	168,539	**254,325**	168,539
TOTAL CURRENT ASSETS		**11,594,001**	7,674,294	**11,594,001**	7,674,294
NON-CURRENT ASSETS					
Other financial assets	10	**-**	-	**1,415**	1,415
Plant and equipment	11	**69,148**	47,891	**69,148**	47,891
Other assets	12	**35,164**	-	**35,164**	-
TOTAL NON-CURRENT ASSETS		**104,312**	47,891	**105,727**	49,306
TOTAL ASSETS		**11,698,313**	7,722,185	**11,699,728**	7,723,600
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	13	**849,113**	1,661,609	**848,072**	1,658,663
Other financial liabilities	14	**772,430**	-	**772,430**	-
Provisions	15	**121,082**	77,465	**121,082**	77,465
TOTAL CURRENT LIABILITIES		**1,742,625**	1,739,074	**1,741,584**	1,736,128
NON-CURRENT LIABILITIES					
Other financial liabilities	14	**-**	321,001	**-**	321,001
Provisions	15	**89,361**	49,915	**89,361**	49,915
TOTAL NON-CURRENT LIABILITIES		**89,361**	370,916	**89,361**	370,916
TOTAL LIABILITIES		**1,831,986**	2,109,990	**1,830,945**	2,107,044
NET ASSETS		**9,866,327**	5,612,195	**9,868,783**	5,616,556
EQUITY					
Issued and unissued capital	16	**69,842,303**	53,988,412	**69,842,303**	53,988,412
Reserves	18	**6,067,740**	4,106,821	**6,067,740**	4,106,821
Accumulated losses	17	**(66,043,716)**	(52,483,038)	**(66,041,260)**	(52,478,677)
TOTAL EQUITY		**9,866,327**	5,612,195	**9,868,783**	5,616,556

The above balance sheets should be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Issued Capital	Share Based Payments Reserve	Accumulated Losses	Total
		$	$	$	$
Consolidated Entity					
Balance at 1 July 2006		46,274,127	2,867,249	(41,340,718)	7,800,658
Shares issued, net of costs	16	6,345,207	-	-	6,345,207
Options exercised	16	106,739	(106,739)	-	-
Options issued	18	1,262,339	1,349,261	-	2,611,600
Net (Loss) for the period	17	-	-	(11,142,320)	(11,142,320)
Options forfeited		-	(2,950)	-	(2,950)
Balance at 30 June 2007		53,988,412	4,106,821	(52,483,038)	5,612,195
Shares issued, net of costs	16	14,005,650	-	-	14,005,650
Options exercised	16 and 18	408,936	(408,936)	-	-
Options issued	16 and 18	1,439,305	2,512,988	-	3,952,293
Net (Loss) for the period	17	-	-	(13,560,678)	(13,560,678)
Options forfeited	18	-	(143,133)	-	(143,133)
Balance at 30 June 2008		69,842,303	6,067,740	(66,043,716)	9,866,327

	Note	Issued Capital	Share Based Payments Reserve	Accumulated Losses	Total
		$	$	$	$
Parent Entity					
Balance at 1 July 2006		46,274,127	2,867,249	(41,339,303)	7,802,073
Shares issued, net of costs	16	6,345,207	-	-	6,345,207
Options issued	18	1,262,339	1,349,261	-	2,611,600
Options exercised	18	106,739	(106,739)	-	-
Net (Loss) for the period	17	-	-	(11,139,374)	(11,139,374)
Transfers to/from currency reserves		-	(2,950)	-	(2,950)
Balance at 30 June 2007		53,988,412	4,106,821	(52,478,677)	5,616,556
Shares issued, net of costs	16	14,005,650	-	-	14,005,650
Options exercised	16 and 18	408,936	(408,936)	-	-
Options issued	16 and 18	1,439,305	2,512,988	-	3,952,293
Net (Loss) for the period	17	-	-	(13,562,583)	(13,562,583)
Options forfeited	18	-	(143,133)	-	(143,133)
Balance at 30 June 2008		69,842,303	6,067,740	(66,041,260)	9,868,783

The above statements of changes in equity should be read in conjunction with the accompany notes.

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

		Consolidated Entity		Parent Entity	
	Note	**2008 $**	2007 $	**2008 $**	2007 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		**(9,766,851)**	(9,726,197)	**(9,763,677)**	(9,722,470)
Interest received		**375,461**	526,447	**375,461**	526,447
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	22a	**(9,391,390)**	(9,199,750)	**(9,388,216)**	(9,196,023)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales of plant and equipment		**-**	300	**-**	300
Payments for purchases of plant and equipment		**(46,606)**	(4,559)	**(46,606)**	(4,559)
Loans to other entities		**-**	-	**(3,174)**	(3,727)
Payment for rental security deposits		**(35,164)**	-	**(35,164)**	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(81,770)**	(4,259)	**(84,944)**	(7,986)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of securities		**14,297,620**	7,783,486	**14,297,620**	7,783,486
Capital raising costs		**(580,372)**	(408,761)	**(580,372)**	(408,761)
NET CASH INFLOW FROM FINANCING ACTIVITIES		**13,717,248**	7,374,725	**13,717,248**	7,374,725
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**4,244,088**	(1,829,284)	**4,244,088**	(1,829,284)
Cash and cash equivalents at the beginning of the year		**7,409,256**	10,013,778	**7,409,256**	10,013,778
Effects of exchange rate changes on cash and cash equivalents		**(434,309)**	(775,238)	**(434,309)**	(775,238)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	8	**11,219,035**	7,409,256	**11,219,035**	7,409,256

The above cash flow statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of Prana Biotechnology Limited for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the Directors on 25 September 2008.

The principle accounting policies adopted in the preparation of the financial report are set out below. The financial report includes separate financial statements for Prana Biotechnology Limited ("the Company") as an individual entity and the consolidated entity consisting of Prana Biotechnology Limited and its subsidiaries ("the consolidated entity" or "the Group").

STATEMENT OF COMPLIANCE

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

BASIS OF PREPARATION

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

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

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2008 and the comparative information presented in these financial statements for the year ended 30 June 2007.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical accounting estimates and assumptions

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

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

Valuation of options with market vesting conditions

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

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

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

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

2) Based on the best estimate of the Group, the share price will reach the defined level:

> A$0.80 at 30 June 2009

> A$1.00 at 30 June 2010

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

Use of volatility period in valuing warrant liabilities.

Warrants and options over American Depository Receipts ("ADRs") recorded as financial liabilities under AASB 132 (see note 14) are measured at fair value using a Black-Scholes valuation model. At each reporting date the options and warrants are recorded at fair value with the corresponding difference being recorded in the income statement as a gain or loss.

In using the Black-Scholes model to fair value these options and warrants for financial year 2008, the Group has utilised a 2 year historical ADR price when calculating the volatility of the underlying ADRs. It is the judgement of the group that a 2 year period provides the most appropriate history of ADR price over which a reasonable volatility input can be calculated.

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Going Concern Basis

The consolidated entity is a development stage medical biotechnology company and as such expects to be utilising cash until its research activities have become marketable. As at 30 June 2008, the consolidated entity has accumulated losses of $66,043,716 and has incurred negative cash flows from operations of $9,391,390 in the year ended 30 June 2008. The consolidated entity has generated AU$7 million (before costs) and AU$7.25 million (before costs) from capital raising in October 2007 and May 2008 such that the cash position has increased from AU$7,409,256 at 30 June 2007 to AU$11,219,035 at 30 June 2008.

The Directors believe that the going concern basis of preparation is appropriate given the following reasons:

Since inception, the consolidated entity has been able to raise funds to pursue its research programs. To date, the consolidated entity has raised in excess of $80m through the issue of equity and warrants, before costs. The Directors believe that there is a reasonable expectation that they can raise additional funding to enable the consolidated entity to continue to pursue the current business objectives.

Having carefully assessed the consolidated entity's ability to effectively manage expenditure, the Directors believe that the consolidated entity will continue to operate as a going concern for at least the period to October 2009 and therefore that it is appropriate to prepare the financial statements on a going concern basis.

At this time, the Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the Balance Sheet at 30 June 2008. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

ACCOUNTING POLICIES

(a) Principles of Consolidation

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

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits/losses arising within the consolidated entity are eliminated in full. Investments in subsidiaries are accounting for at cost in the individual financial statements of Prana Biotechnology Limited.

(b) Income Tax

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

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

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

(c) Plant and Equipment

Plant and equipment is measured at historical cost less accumulated depreciation and impairment.

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

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:

Class of Fixed Asset	**Depreciation Rate**
Furniture & fittings	5-33%
Computer equipment	33%
Plant & equipment	10-33%
Leasehold improvements	33%

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

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

(d) 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.

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

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

(e) Financial Instruments

Loans and receivables

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

Warrants and Options

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

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

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of Assets

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

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

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

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

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

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

(g) Intangible assets

Research and development

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

* the technical feasibility of completing the intangible asset so that it will be available for use or sale;

* the intention to complete the intangible asset and use or sell it;

* the ability to use or sell the intangible asset;

* how the intangible asset will generate probable future economic benefits;

* the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

* the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets, capitalised development costs, are stated at cost less accumulated amortisation and impairment, and are amortised on a straight-line basis over their useful lives.

(h) Foreign Currency Transactions and Balances

Functional and Presentation Currency

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

Foreign currency transactions

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

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

Foreign operations

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

(i) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(j) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

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 cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

(k) Cash and Cash Equivalents

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

(l) Revenue

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. Revenue is made up of interest income which is recognised on a time proportion basis using the effective interest method.

(m) Other Income

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

Government grants

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

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

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

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

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

(o) Trade and Other Payables

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

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Share-Based Payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

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

(q) Loss Per Share

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

(r) Share Capital

Ordinary share capital is recognised as 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.

(s) Trade receivables

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

(t) Comparative figures

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

(u) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's assessment of the impact of these new standards and interpretations is only relevant to the below:

(i) AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 20). The Group does not believe AASB 8 will have a material impact on the Group's financial report.

(ii) Revised AASB 101 Presentation of Financial Statements introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosure.

(iii) AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations AASB 2008-1 was issued in February 2008 and will become applicable for annual reporting periods beginning on or after 1 January 2009. The revised standard clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for the Group's share-based payments.

(iv) Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 were issued in March 2008 and are operative for annual reporting periods beginning on or after 1 July 2009, but may applied earlier. The Group has not yet decided when it will apply the revised standards. However, the new rules generally apply only prospectively to transactions that occur after the application date of the standard. Their impact will therefore depend on whether the Group will enter into any business combinations or other transactions that affect the level of ownership held in the controlled entities in the year of initial application. For example, under the new rules:

- all payments (including contingent consideration) to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments subsequently remeasured at fair value through income;
- all transaction cost will be expensed;
- the Group will need to decide whether to continue calculating goodwill based only on the parent's share of net assets or whether to recognise goodwill also in relation to the non-controlling (minority) interest; and
- when control is lost, any continuing ownership interest in the entity will be remeasured to fair value and a gain or loss recognised in profit or loss.

(v) Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate were issued in May 2008 and will apply to financial reporting periods commencing on or after 1 January 2009. Amendments to the corresponding Australian Accounting Standards are expected to be issued shortly. After application of these revised rules, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

NOTE 2 REVENUE AND OTHER INCOME

	Consolidated Entity		Parent Entity	
	2008 $	2007 $	**2008 $**	2007 $
From continuing operations				
Other revenue				
- Interest	**490,943**	507,150	**490,943**	507,150
Total other revenue	**490,943**	507,150	**490,943**	507,150
Other income				
- Other	**170**	287	**170**	287
Total other income	**170**	287	**170**	287

	Note	Consolidated Entity		Parent Entity	
		2008 $	2007 $	**2008 $**	2007 $
NOTE 3 LOSS FOR THE YEAR					
Loss before income tax has been determined after:					
Expenses					
Intellectual property expenses		**469,428**	600,232	**469,428**	600,232
Auditor and accounting expenses		**331,950**	260,117	**331,950**	260,117
Research and development expenses		**5,757,168**	4,492,193	**5,757,168**	4,492,193
Personnel expenses					
- Employee expenses		**1,317,782**	1,308,920	**1,317,782**	1,308,920
- Equity payments to employees		**329,588**	753,484	**329,588**	753,484
- Consultant and director expenses		**1,398,849**	1,506,378	**1,398,849**	1,506,378
- Equity payments to consultants and directors		**2,152,234**	825,649	**2,152,234**	825,649
- Defined contribution superannuation expenses		**151,736**	160,300	**151,736**	160,300
Total Personnel expenses		**5,350,189**	4,554,731	**5,350,189**	4,554,731
Depreciation expenses		**25,349**	58,582	**25,349**	58,582
Other expenses					
- Corporate compliance		**218,435**	231,883	**217,374**	225,827
- Office expenses		**455,010**	494,782	**454,675**	493,969
- Computer expenses		**34,794**	22,328	**34,794**	22,328
- Insurance		**130,175**	147,909	**130,175**	147,909
- Office rental under operating lease		**136,990**	111,661	**136,990**	111,661
Total Other expenses		**975,404**	1,008,563	**974,008**	1,001,694
Travel expenses		**146,651**	309,997	**146,651**	309,997
Public relations and marketing expenses		**141,337**	215,455	**141,337**	215,455
Impairment of inter-company loan		**-**	-	**3,174**	3,727
Foreign exchange loss		**402,886**	757,578	**403,013**	757,774
Gain/(Loss) on fair valuation of financial liabilities	14	**451,429**	(607,691)	**451,429**	(607,691)
Total expenses		**14,051,791**	11,649,757	**14,053,696**	11,646,811

	Consolidated Entity		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
NOTE 4 INCOME TAX EXPENSE				
(a) Income tax expense				
No income tax expense has arisen in the current or prior years from either current or deferred taxation. The 30 June 2007 tax disclosure has been adjusted to reflect the tax returns lodged.				
(b) Numerical reconcillation of income tax expense to prima facie tax payable				
Loss from continuing operations before income tax expense	**(13,560,678)**	(11,142,320)	**(13,562,583)**	(11,139,374)
Tax at the Australian rate of 30%	**(4,068,203)**	(3,342,696)	**(4,068,775)**	(3,341,812)
Effect of overseas tax rates	**(286)**	442	**-**	-
	(4,068,489)	(3,342,254)	**(4,068,775)**	(3,341,812)
Tax effects of amounts which are not deductible (taxable) in calculating taxable income				
- entertainment	**1,542**	2,917	**1,542**	2,917
- other non deductible expenses	**(1,426)**	921	**(1,426)**	921
- share based payments	**744,547**	473,740	**744,547**	473,740
- research and development tax concession	**(552,400)**	(435,215)	**(552,400)**	(435,215)
- gain/(loss) on fair valuation of financial liabilities	**135,429**	(182,307)	**135,429**	(182,307)
	(3,740,798)	(3,482,198)	**(3,741,083)**	(3,481,756)
Tax effect of temporary differences and losses not previously brought to account	**3,740,798**	3,482,198	**3,741,083**	3,481,756
Income tax expense	**-**	-	**-**	-
(c) Amounts recognised directly in equity				
No current or deferred tax amounts have been recognised in equity in the current or prior year.				
(d) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	**87,987,589**	74,275,035	**87,987,589**	74,275,035
Potential tax benefit at 30%	**26,396,277**	22,282,511	**26,396,277**	22,282,511
(e) Unrecognised temporary differences				
Temporary differences for which no deferred tax asset has been recognised as recovery is not probable	**1,242,278**	219,242	**1,242,278**	219,242
Unrecognised deferred tax relating to the temporary differences	**372,683**	65,773	**372,683**	65,773

Potential future income tax benefits attributable to tax losses carried forward have not been brought to account at 30 June 2008 because the Directors do not believe that it is appropriate to regard realisation of the future income tax benefit as probable. Realisation of the benefit of tax losses would be subject to the Group satisfying the conditions for deductibility imposed by tax legislation and no subsequent changes in tax legislation adversely impacting the Group. The Group has made no assessment as to the satisfaction of deductibility conditions at 30 June 2008. Similarly, future benefits attributable to net temporary differences have not been brought to account as the Directors do not regard the realisation of such benefits as probable.

NOTE 5 KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Directors

The following persons were Directors of Prana Biotechnology Limited during the financial year :

Name	**Position**
Mr Geoffrey Kempler	Executive Chairman and Chief Executive Officer
Prof. Colin Masters	Executive Director (Resigned 2 July 2008)
Mr Brian Meltzer	Non-Executive Independent Director
Dr George Mihaly	Non-Executive Independent Director
Mr Peter Marks	Non-Executive Independent Director

(b) Other Key Management Personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly during the financial year:

Name	**Position**
Mr Richard Revelins	Company Secretary and Chief Financial Officer
Ms Dianne Angus	Chief Operating Officer

(c) Key Management Personnel Compensation

The aggregate compensation made to Key Management Personnel of the Company and the consolidated entity is set out below:

	Consolidated Entity		**Parent Entity**	
	2008 $	2007 $	**2008 $**	2007 $
Short-term employee benefits	**1,003,207**	1,379,609	**1,003,207**	1,379,609
Post-employment benefits	**68,601**	90,554	**68,601**	90,554
Long-term benefits	**-**	-	**-**	-
Termination benefits	**-**	-	**-**	-
Share-based payments	**1,801,932**	1,137,523	**1,801,932**	1,137,523
	2,873,740	2,607,686	**2,873,740**	2,607,686

Additional disclosures required per AASB 124 can be found in sections A to E of the Remuneration Report.

(d) Options and Rights Holdings

The number of options over ordinary shares in the Company held during the financial year by each Director of Prana Biotechnology Limited and other Key Management Personnel of the consolidated entity, including their personally related parties, are set out below:

2008	Balance at start of the year No.	Granted as Compensation No.	Options Exercised No.	Net Change Other* No.	Balance at end of the year No.	Vested and exercisable No.	Unvested No.
Directors							
Mr Geoffrey Kempler	2,000,000	1,000,000	-	-	3,000,000	1,000,000	2,000,000
Prof. Colin Masters	2,000,000	-	-	(2,000,000)	-	-	-
Mr Brian Meltzer	600,000	350,000	-	-	950,000	350,000	600,000
Dr George Mihaly	600,000	350,000	-	-	950,000	350,000	600,000
Mr Peter Marks	600,000	350,000	-	-	950,000	350,000	600,000
Other Key Management Personnel							
Mr Richard Revelins	800,000	350,000	-	(500,000)	650,000	350,000	300,000
Ms Dianne Angus	1,250,000	500,000	(250,000)	-	1,500,000	1,500,000	-
	7,850,000	2,900,000	(250,000)	(2,500,000)	8,000,000	3,900,000	4,100,000

2007	Balance at start of the year No.	Granted as Compensation No.	Options Exercised No.	Net Change Other* No.	Balance at end of the year No.	Vested and exercisable No.	Unvested No.
Directors							
Mr Geoffrey Kempler	1,000,000	1,000,000	-	-	2,000,000	-	2,000,000
Prof. Colin Masters	1,000,000	1,000,000	-	-	2,000,000	-	2,000,000
Mr Brian Meltzer	300,000	300,000	-	-	600,000	-	600,000
Dr George Mihaly	300,000	300,000	-	-	600,000	-	600,000
Mr Peter Marks	300,000	300,000	-	-	600,000	-	600,000
Other Key Management Personnel							
Mr Richard Revelins	500,000	300,000	-	-	800,000	300,000	500,000
Dr Ross Murdoch	-	625,000	(625,000)	-	-	-	-
Ms Dianne Angus	-	1,250,000	-	-	1,250,000	1,000,000	250,000
	3,400,000	5,075,000	(625,000)	-	7,850,000	1,300,000	6,550,000

All vested options are exercisable at the end of the year.

* Prof Masters 2,000,000 options were forfeited during the year as a result of his resignation and the terms and conditions of the 2004 Employee and Consultant Plan. Mr Revelins options expired on 17 December 2007 unexercised.

NOTE 5 KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

(e) Shareholdings

The number of shares in the Company held during the financial year by each Director of Prana Biotechnology Limited and other Key Management Personnel other than for remuneration, including their personally related parties, are set out below:

2008	Balance at the start of the year No.	Received as Compensation No.	Options Exercised No.	Net Change Other* No.	Balance at the end of the year No.
Directors					
Mr Geoffrey Kempler	17,055,000	-	-	-	17,055,000
Prof. Colin Masters	184,666	-	-	(98,333)	86,333
Mr Brian Meltzer	326,666	-	-	-	326,666
Dr George Mihaly	226,666	-	-	-	226,666
Mr Peter Marks	43,111	-	-	-	43,111
Other Key Management Personnel					
Mr Richard Revelins	20,308	-	-	-	20,308
Ms Dianne Angus	-	-	250,000	-	250,000
	17,856,417	-	250,000	(98,333)	18,008,084

2007	Balance at the start of the year No.	Received as Compensation No.	Options Exercised No.	Net Change Other* No.	Balance at the end of the year No.
Directors					
Mr Geoffrey Kempler	17,055,000	-	-	-	17,055,000
Prof. Colin Masters	184,666	-	-	-	184,666
Mr Brian Meltzer	326,666	-	-	-	326,666
Dr George Mihaly	226,666	-	-	-	226,666
Mr Peter Marks	43,111	-	-	-	43,111
Other Key Management Personnel					
Mr Richard Revelins	92,808	-	-	(72,500)	20,308
Dr Ross Murdoch	50,000	120,000	625,000	-	795,000
Ms Dianne Angus	-	-	-	-	-
	17,978,917	120,000	625,000	(72,500)	18,651,417

* Net change other refers to shares purchased or sold during the financial year.

(f) Loans to Key Management Personnel

There were no loans made to the Directors or other Key Management Personnel, including their personally related parties.

(g) Other transactions with Key Management Personnel

There were no further transactions with Key Management Personnel not disclosed above.

	Consolidated Entity		Parent Entity	
	2008 $	2007 $	**2008 $**	2007 $

NOTE 6 AUDITORS' REMUNERATION

(a) Audit services

PricewaterhouseCoopers Australian Firm

Audit and review of financial reports				
- current year	**198,000**	240,800	**198,000**	240,800
- related to the prior year	**21,920**	-	**21,920**	-
Total remuneration for audit services	**219,920**	240,800	**219,920**	240,800

No non-audit services have been provided by PricewaterhouseCoopers during the 2008 financial year.

(b) Other audit services

Deloitte Touche Tohmatsu

Audit and review of SEC reporting	**71,773**	110,975	**71,773**	110,975
Total remuneration for other audit services	**71,773**	110,975	**71,773**	110,975

Deloitte Touche Tohmatsu served as our principal independent registered public audit firm until November 30, 2006. The fees billed by Deloitte Touche Tohmatsu, as well as the other member firms of Deloitte Touche Tohmatsu and their respective affiliates are for audit-related services in connection with SEC reviews.

NOTE 7 LOSS PER SHARE

	2008 cents	2007 cents
(a) Basic loss per share	**(7.76)**	(7.92)
(b) Diluted loss per share	**(7.76)**	(7.92)
(c) Reconciliation of earnings to loss	**$**	$
Loss used to calculate basic loss per share	**(13,560,678)**	(11,142,320)
Loss used to calculate diluted loss per share	**(13,560,678)**	(11,142,320)
	No.	No.
(d) Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share.	**174,714,146**	140,754,495
Weighted average number of ordinary shares outstanding during the year used in calculating diluted loss per share	**174,714,146**	140,754,495

(e) Options that are considered to be potential ordinary shares are excluded from the weighted average number of ordinary shares used in the calculation of basic loss per share. Where dilutive, potential ordinary shares are included in the calculation of diluted loss per share. All the options on issue do not have the effect to dilute the loss per share. Therefore they have been excluded from the calculation of diluted loss per share.

	Consolidated Entity		Parent Entity	
	2008 $	2007 $	**2008 $**	2007 $
NOTE 8 CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	**468,619**	456,193	**468,619**	456,193
Deposits at call	**10,750,416**	6,953,063	**10,750,416**	6,953,063
	11,219,035	7,409,256	**11,219,035**	7,409,256
The floating interest rates on cash at bank and in hand and deposits was between 1.43% and 7.95% (2007: 3.33% and 6.15%). These deposits have an average maturity of 29 days.				
Reconciliation of cash Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to items in the Balance Sheet as follows:				
Cash and cash equivalents	**11,219,035**	7,409,256	**11,219,035**	7,409,256

	Consolidated Entity		Parent Entity	
	2008 $	2007 $	**2008 $**	2007 $
NOTE 9 TRADE AND OTHER RECEIVABLES				
Trade receivables Accrued income	**89,569**	26,498	**89,569**	26,498
Goods and services tax	**31,072**	70,001	**31,072**	70,001
Amounts receivable from: - wholly-owned subsidiaries	**-**	-	**3,174**	3,727
-write off of debts of wholly-owned subsidiaries	**-**	-	**(3,174)**	(3,727)
	120,641	96,499	**120,641**	96,499

NOTE 10 OTHER FINANCIAL ASSETS

Controlled Entities Consolidated	**Country of Incorporation**	**Percentage Owned (%)**		**$**	
		2008	2007	**2008**	2007
Parent Entity:					
Prana Biotechnology Limited	Australia				
Subsidiaries of Prana Biotechnology Limited:					
Prana Biotechnology Inc	United States of America	**100**	100	**1,415**	1,415
Prana Biotechnology UK Limited	United Kingdom	**100**	100	**-**	-

	Consolidated Entity		Parent Entity	
	2008 $	2007 $	**2008 $**	2007 $
NOTE 11 PLANT AND EQUIPMENT				
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	**369,730**	368,960	**369,730**	368,960
Accumulated depreciation	**(367,082)**	(362,720)	**(367,082)**	(362,720)
Net book value	**2,648**	6,240	**2,648**	6,240
Computer Equipment				
At cost	**157,259**	116,013	**157,259**	116,013
Accumulated depreciation	**(117,902)**	(101,750)	**(117,902)**	(101,750)
Net book value	**39,357**	14,263	**39,357**	14,263
Furniture and Fittings				
At cost	**43,326**	43,421	**38,611**	38,281
Accumulated depreciation	**(19,096)**	(16,138)	**(14,381)**	(10,998)
Net book value	**24,230**	27,283	**24,230**	27,283
Leasehold Improvements				
At cost	**75,659**	71,399	**75,659**	71,399
Accumulated depreciation	**(72,746)**	(71,294)	**(72,746)**	(71,294)
Net book value	**2,913**	105	**2,913**	105
Total net book value	**69,148**	47,891	**69,148**	47,891

Movements in Carrying Amounts

Movements in carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

	Plant and Equipment $	**Computer Equipment $**	**Furniture and Fittings $**	**Leasehold Improvements $**	**Total $**
2008					
Consolidated Entity:					
Balance at the beginning of year	6,240	14,263	27,283	105	47,891
Additions	770	41,247	330	4,260	46,607
Disposals	-	-	-	-	-
Depreciation expense	(4,362)	(16,153)	(3,383)	(1,452)	(25,351)
Net book value at the end of year	2,648	39,357	24,230	2,913	69,148
Parent Entity:					
Balance at the beginning of year	6,240	14,263	27,283	105	47,891
Additions	770	41,247	330	4,260	46,607
Disposals	-	-	-	-	-
Depreciation expense	(4,362)	(16,153)	(3,383)	(1,452)	(25,351)
Net book value at the end of year	2,648	39,357	24,230	2,913	69,148

NOTE 11 PLANT AND EQUIPMENT (CONTINUED)

Movements in Carrying Amounts

Movements in carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

	Plant and Equipment $	Computer Equipment $	Furniture and Fittings $	Leasehold Improvements $	Total $
2007					
Consolidated Entity:					
Balance at the beginning of year	17,821	32,922	30,351	21,281	102,375
Additions	-	4,559	-	-	4,559
Disposals	-	(461)	-	-	(461)
Depreciation expense	(11,581)	(22,757)	(3,068)	(21,176)	(58,582)
Net book value at the end of yea	6,240	14,263	27,283	105	47,891
Parent Entity:					
Balance at the beginning of year	17,821	32,922	30,351	21,281	102,375
Additions	-	4,559	-	-	4,559
Disposals	-	(461)	-	-	(461)
Depreciation expense	(11,581)	(22,757)	(3,068)	(21,176)	(58,582)
Net book value at the end of year	6,240	14,263	27,283	105	47,891

	Consolidated Entity		Parent Entity	
	2008 $	2007 $	**2008 $**	2007 $
NOTE 12 OTHER CURRENT ASSETS				
CURRENT				
Prepayments	**243,261**	122,903	**243,261**	122,903
Term Deposits	**11,064**	45,636	**11,064**	45,636
	254,325	168,539	**254,325**	168,539
NON-CURRENT				
Rental Deposits	**35,164**	-	**35,164**	-
	35,164	-	**35,164**	-

	Consolidated Entity		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
NOTE 13 TRADE AND OTHER PAYABLES				
Trade payables	**172,204**	459,989	**171,163**	457,043
Sundry payables and accrued expenses	**676,909**	1,201,620	**676,909**	1,201,620
	849,113	1,661,609	**848,072**	1,658,663

		Consolidated Entity		Parent Entity	
	No.	**2008**	2007	**2008**	2007
		$	$	**$**	$
NOTE 14 FINANCIAL LIABILITIES					
CURRENT					
Warrants over ADRs	3,000,000	**772,430**	-	**772,430**	-
NON-CURRENT					
Warrants over ADRs	3,000,000	**-**	321,001	**-**	321,001

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

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

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

Ar each reporting date the Financial Liability representing the warrants is required to be revalued to fair value with the movement in the fair value recorded in the Income Statement.

The Company has an obligation to issue its equity instruments, via ADR's, to the warrant holders should they decide to exercise their warrants and remit USD 8.00 per ADR. The holders of the warrants cannot force the Company to settle the contracts in cash. The classification of the warrants as liabilities, does not impact on the Company's future liquidity requirements or ability to continue as a going concern.

	Consolidated Entity		Parent Entity	
	2008 $	2007 $	**2008 $**	2007 $

NOTE 15 PROVISIONS

a) Aggregate Employee Benefits Liability

CURRENT				
Annual leave	**121,082**	77,465	**121,082**	77,465
NON-CURRENT				
Long service leave	**89,361**	49,915	**89,361**	49,915
	210,443	127,380	**210,443**	127,380
	No.	No.	**No.**	No.
b) Number of Employees at Year-end	**11**	9	**11**	9

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

NOTE 16 ISSUED AND UNISSUED CAPITAL

		Consolidated Entity		Parent Entity	
	Note	**2008 $**	2007 $	**2008 $**	2007 $
201,800,240 (2007: 151,517,978) fully paid ordinary shares	16a	**67,140,659**	52,726,073	**67,140,659**	52,726,073
14,279,133 (2007: 4,352,893) options over fully paid ordinary shares	16b	**2,701,644**	1,262,339	**2,701,644**	1,262,339
		69,842,303	53,988,412	**69,842,303**	53,988,412

(a) Ordinary Shares

		2008		2007	
		No.	**$**	No.	$
At the beginning of reporting period		**151,517,978**	**52,726,073**	128,144,260	46,274,127
Shares issued during the year	(i)	**48,888,699**	**14,586,026**	22,615,718	6,762,525
Exercise of options	(ii)	**1,393,563**	**408,936**	758,000	106,739
Transaction costs relating to share issues		**-**	**(580,376)**	-	(417,318)
At reporting date		**201,800,240**	**67,140,659**	151,517,978	52,726,073

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(i) 2008	Details	Number	Issue Price $	$
30 October 2007	Issued as part of a capital raising	29,778,699	0.24	7,047,624
24 December 2007	Issued to a consultant [1]	303,385	0.29	88,972
26 February 2008	Issued to a consultant [1]	500,000	0.26	130,000
26 February 2008	Issued to a consultant [1]	9,115	0.25	2,279
26 February 2008	Issued to a consultant [1]	55,000	0.35	19,044
20 March 2008	Issued to a consultant [1]	31,250	0.50	15,625
20 March 2008	Issued to a consultant [1]	55,000	0.35	19,044
27 May 2008	Issued as part of a capital raising	18,125,000	0.40	7,250,000
2 June 2008	Issued to a consultant [1]	31,250	0.43	13,438
		48,888,699		14,586,026
2007	**Details**	**Number**	**Issue Price $**	**$**
30 August 2006	Issued as part of a capital raising	250,000	0.17	43,125
29 November 2006	Issued as part of a capital raising	15,616,246	0.30	4,669,257
28 December 2006	Issued as part of a capital raising	6,148,222	0.29	1,808,764
3 May 2007	Issued to a consultant [1]	200,000	0.48	96,000
31 May 2007	Issued to a consultant [1]	281,250	0.35	99,779
31 May 2007	Issued to an employee [1]	120,000	0.38	45,600
		22,615,718		6,762,525

(ii) 2008	Details	Number	Exercise Price $	$
26 February 2008	Exercise of options	1,005,557	-	249,839
2 April 2008	Exercise of options	27,440	-	10,976
9 April 2008	Exercise of options	46,282	-	18,513
12 June 2008	Exercise of options	275,000	-	113,895
25 June 2008	Exercise of options	39,284	-	15,713
		1,393,563		408,936
2007	**Details**	**Number**	**Issue Price $**	**$**
13 October 2006	Exercise of options	80,000	-	33,200
1 December 2006	Exercise of options	15,000	-	6,225
16 April 2007	Exercise of options	38,000	-	15,770
31 May 2007	Exercise of options	625,000	-	51,544
		758,000		106,739

[1] Equity was issued for nil consideration and valued by the Company based on the market price per share on grant date.

NOTE 16 ISSUED AND UNISSUED CAPITAL (CONTINUED)

(b) Options	**Note**	**2008**		2007	
		No.	**$**	No.	$
At the beginning of reporting period		**4,352,893**	**1,262,339**	-	-
Options issued during the year	(i)	**9,926,240**	**1,439,305**	4,352,893	1,262,339
At reporting date		**14,279,133**	**2,701,644**	4,352,893	1,262,339

(i) 2008	**Details**	**Number**	**Fair Value $**	**$**
30 October 2007	Issued as part of a capital raising [1]	4,963,120	0.15	744,468
30 October 2007	Issued as part of a capital raising [2]	4,963,120	0.14	694,837
		9,926,240		1,439,305
2007	**Details**	**Number**	**Fair Value $**	**$**
29 November 2006	Issued as part of a capital raising [3]	3,123,248	0.29	905,743
28 December 2006	Issued as part of a capital raising [3]	1,229,645	0.29	356,596
		4,352,893		1,262,339

[1] Options exercisable at $0.37 on or before 31 October 2010

[2] Options exercisable at $0.43 on or before 30 November 2010

[3] Options exercisable at $0.446 on or before 30 November 2009

NOTE 17 ACCUMULATED LOSSES

	Consolidated Entity		**Parent Entity**	
	2008 $	2007 $	**2008 $**	2007 $
The movement in accumulated losses during the year were as follows:				
Balance 1 July	**(52,483,038)**	(41,340,718)	**(52,478,677)**	(41,339,303)
Loss for the year	**(13,560,678)**	(11,142,320)	**(13,562,583)**	(11,139,374)
Balance 30 June	**(66,043,716)**	(52,483,038)	**(66,041,260)**	(52,478,677)

	Note	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
NOTE 18 RESERVES					
Share based payment reserve					
11,051,832 (2007: 9,928,262) options over fully paid ordinary shares	18a	**4,098,743**	2,137,824	**4,098,743**	2,137,824
380,000 (2007: 380,000) options over ADRs	18b	**1,515,434**	1,515,434	**1,515,434**	1,515,434
320,000 (2007: 320,000) warrants over ADRs	18c	**453,563**	453,563	**453,563**	453,563
		6,067,740	4,106,821	**6,067,740**	4,106,821

(a) Options over fully paid ordinary shares		2008 No.	2008 $	2007 No.	2007 $
At the beginning of reporting period		**9,928,262**	**2,137,824**	5,752,500	898,252
Options issued during year	(i)	**5,617,133**	**1,949,511**	5,908,762	1,153,424
Exercise of options	(ii)	**(1,393,563)**	**(408,936)**	(758,000)	(106,739)
Expiration of options	(iii)	**(1,100,000)**	**-**	(825,000)	-
Forfeiture of options	(iv)	**(2,000,000)**	**(143,133)**	(150,000)	(2,950)
Expense recorded over vesting period of options		**-**	**563,477**	-	195,837
At reporting date		**11,051,832**	**4,098,743**	9,928,262	2,137,824

(i) Issued during 2008	**Details**	**Number**	**Option fair value $**	**$**
28 November 2007	Issued to a consultant [1]	400,000	0.11	44,000
23 October 2007	Issued to a consultant [2]	431,992	0.15	64,800
23 October 2007	Issued to a consultant [3]	431,992	0.14	60,476
14 March 2008	Issued to Directors [4 & 13]	2,050,000	0.50	1,025,000
14 March 2008	Issued to Company Secretary [4 & 13]	350,000	0.50	175,000
26 February 2008	Issued to employees [5]	1,131,307	0.23	260,201
26 February 2008	Issued to a consultants [5]	375,000	0.29	108,750
20 March 2008	Issued to a consultants [5]	286,842	0.48	137,684
2 April 2008	Issued to a consultant [5]	80,000	0.48	38,400
15 May 2008	Issued to a consultant [5]	80,000	0.44	35,200
		5,617,133		1,949,511

NOTE 18 RESERVES (CONTINUED)

(i) Issued during 2007	Details	Number	Option fair value $	$
13 October 2006	Issued to employees [6]	133,000	0.42	55,195
1 December 2006	Issued to Directors [7 & 13]	2,900,000	0.38	247,593
1 December 2006	Issued to Company Secretary [7 & 13]	300,000	0.38	25,613
1 December 2006	Issued to an employee [9 & 13]	312,500	0.08	25,772
16 April 2007	Issued to employees [8]	206,478	0.40	44,121
16 April 2007	Issued to an employee [9 & 13]	1,000,000	0.48	480,000
16 April 2007	Issued to a consultant [8]	39,284	0.40	8,557
16 April 2007	Issued to a consultant [9]	40,000	0.36	14,321
31 May 2007	Issued to an employee [9 & 13]	312,500	0.08	25,772
12 June 2007	Issued to a consultant [9]	40,000	0.38	15,140
12 June 2007	Issued to consultants [8]	375,000	0.34	125,685
19 June 2007	Issued to an employee [9 & 13]	250,000	0.34	85,655
		5,908,762		1,153,424

(ii) 2008	Details	Number	Exercise Price $	$
26 February 2008	Exercise of options [5]	(925,557)	-	(220,378)
26 February 2008	Exercise of options [9]	(80,000)	-	(29,461)
2 April 2008	Exercise of options [8]	(27,440)	-	(10,976)
9 April 2008	Exercise of options [8]	(46,282)	-	(18,513)
12 June 2008	Exercise of options [8]	(125,000)	-	(41,895)
12 June 2008	Exercise of options [5]	(150,000)		(72,000)
25 June 2008	Exercise of options [8]	(39,284)	-	(15,713)
		(1,393,563)		(408,936)

2007	Details	Number	Issue Price $	$
13 October 2006	Exercise of options [6]	(80,000)	-	(33,200)
1 December 2006	Exercise of options [6]	(15,000)	-	(6,225)
16 April 2007	Exercise of options [6]	(38,000)	-	(15,770)
31 May 2007	Exercise of options [9]	(625,000)	-	(51,544)
		(758,000)		(106,739)

(iii) 2008	Details	Number	$
17 December 2007	Expired 17 December 2007 [12]	(1,100,000)	-

2007	Details	Number	$
1 February 2007	Expired 1 February 2007 [11]	(825,000)	-

(iv) 2008	Details	Number	$
31 December 2007	Forfeiture - employees ceased employment [10]	(1,000,000)	(57,756)
31 December 2007	Forfeiture - employees ceased employment [7]	(1,000,000)	(85,377)
		(2,000,000)	(143,133)
2007	**Details**	**Number**	**$**
13 October 2006	Forfeitured - employee ceased employment [10]	(150,000)	(2,950)

[1] Options exercisable at $0.285 on or before 17 December 2008
[2] Options exercisable at $0.37 on or before 31 October 2010
[3] Options exercisable at $0.43 on or before 30 November 2010
[4] Options exercisable at $0.30 on or before 31 October 2010, escrowed for 1 year
[5] Options exercisable at $nil on or before 31 October 2010
[6] Options exercisable at $nil on or before 31 July 2008 with a share price hurdle of $0.40 for 5 consecutive trading days
[7] Options exercisable at $nil on or before 31 July 2009 with a share price hurdle of $0.80 for 5 consecutive trading days
[8] Options exercisable at $nil on or before 31 December 2011 with a share price hurdle of $0.50 for 5 consecutive trading days
[9] Options exercisable at $nil on or before 7 August 2014 with a share price hurdle of $0.40 for 5 consecutive trading days
[10] Options exercisable at $nil on or before 30 June 2010 with a share price hurdle of $1.00 for 5 consecutive trading days
[11] Options exercisable at $0.50 on or before 1 February 2007
[12] Options exercisable at $0.50 on or before 17 December 2007
[13] Refer to Remuneration Report for equity valuation

(b) Options over ADRs [1]

	2008		2007	
	No.	**$**	No.	$
At the beginning of reporting period	**380,000**	**1,515,434**	380,000	1,515,434
At reporting date	**380,000**	**1,515,434**	380,000	1,515,434

[1] Options exercisable at USD$5.00 on or before 17 December 2012. These options are convertible to ADRs, 1 ADR = 10 ordinary shares.

(c) Warrants over ADRs [1]

	2008		2007	
	No.	**$**	No.	$
At the beginning of reporting period	**320,000**	**453,563**	320,000	453,563
At reporting date	**320,000**	**453,563**	320,000	453,563

[1] Warrants exercisable at USD$8.00 on or before 4 June 2009. These warrants are convertible to ADRs, 1 ADR = 10 ordinary shares.

(d) Nature and purpose of reserve

The share based payments reserve is used to recognise the fair value of options and warrants issued to employees and consultants but not exercised.

NOTE 19 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company's former Chief Executive Officer, who also served as a Director, has threatened to initiate a claim against the Company arising from his alleged inability to freely transfer shares underlying certain unexercised ADR options previously granted to him pursuant to the Company's 2004 ADS Plan. The Company believes, based on the explicit terms of the 2004 ADS Plan and applicable law and regulations, his allegations to be without merit and it intends to vigorously defend any such claim if formally asserted.

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

NOTE 20 SEGMENT REPORTING

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

	Consolidated Entity		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
NOTE 21 COMMITMENTS				
(a) Operating Lease Commitments				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable — minimum lease payments				
- not later than 12 months	**98,812**	-	**98,812**	-
- between 12 months and 5 years	**33,917**	-	**33,917**	-
- greater than 5 years	**-**	-	**-**	-
	132,729	-	**132,729**	-

The property lease is a non-cancellable lease with a 18 month term, with rent payable monthly in advance. Last year the premises were leased on a month by month agreement. Within the lease agreement there is a contingent rental provision which allows the lease payments to be increased by 3.50% of the rental payments on an annual basis. An option exists to renew the lease at the end of the 18 month term for two further terms of 12 months.

(b) Research and Development Contracts				
- not later than 12 months	**894,566**	1,295,265	**894,566**	1,295,265
- between 12 months and 5 years	**-**	-	**-**	-
- greater than 5 years	**-**	-	**-**	-
	894,566	1,295,265	**894,566**	1,295,265

Details in relation to commitments under employee service agreements with Directors and Key Management Personnel are outlined in Section D of the Remuneration Report contained in the Directors' Report.

	Consolidated Entity		Parent Entity	
	2008 $	2007 $	**2008 $**	2007 $

NOTE 22 CASH FLOW INFORMATION

(a) Reconciliation of Cash Flow from Operations with Loss after Income Tax

Loss for the period	**(13,560,678)**	(11,142,320)	**(13,562,583)**	(11,139,374)
Add back depreciation expense	**25,349**	58,582	**25,349**	58,582
Add back (gain)/loss on fair value of financial liabilities	**451,429**	(607,691)	**451,429**	(607,691)
Add back share based payments expense	**4,097,562**	1,579,132	**4,097,562**	1,579,132
Loss on sale of plant & equipment	**-**	161	**-**	161
Add back provision for inter-company loan	**-**	-	**3,174**	3,727
(Increase)/Decrease in accounts receivable	**(24,142)**	97,662	**(24,142)**	97,662
Increase in other current assets	**(85,786)**	(57,707)	**(85,786)**	(57,707)
Increase/(Decrease) in provisions	**83,063**	(26,058)	**83,063**	(26,058)
Increase/(Decrease) in accounts payable	**(812,496)**	123,251	**(810,591)**	120,305
Add back foreign exchange	**434,309**	775,238	**434,309**	775,238
Cash flow from operations	**(9,391,390)**	(9,199,750)	**(9,388,216)**	(9,196,023)

(b) Non-cash Financing and Investing Activities

See notes 16 and 18 for equity issued for nil consideration.

NOTE 23 SHARE-BASED PAYMENTS

At the Annual General Meeting held on 17 November 2004, Shareholders approved the establishment of a new Employee and Consultant Plan designed to reward Executives, Employees and/or Consultants for their contributions to the consolidated entity. The plan is to be used as a method of retaining key personnel for the growth and development of the consolidated entity's intellectual property rights. Due to the consolidated entity's US presence, a US plan and an Australian plan were developed. At 30 June 2008 equity had been issued to 1 previous Director while a Director under the US plan and 5 Directors, 3 Key Management Personnel, 14 employees and 11 consultants under the Australian Plan.

2004 Australian Employee, Directors and Consultants Share and Option Plan - Shares

	Consolidated Entity		Parent Entity	
	2008 Number of Shares	2007 Number of Shares	**2008 Number of Shares**	2007 Number of Shares
Outstanding at the beginning of the year	**1,787,689**	428,439	**1,787,689**	428,439
Granted	**985,000**	601,250	**985,000**	601,250
Exercised Options	**1,393,563**	758,000	**1,393,563**	758,000
Outstanding at year-end	**4,166,252**	1,787,689	**4,166,252**	1,787,689

Shares issued to employees and consultants were valued at the market price per share at date of grant. See note 16 for further detail.
The weighted average fair value of the shares granted during the year was $0.29.
$288,401 was included under personnel expenses in the Income Statement in the year ended 30 June 2008.

NOTE 23 SHARE-BASED PAYMENTS (CONTINUED)

2004 Australian Employee, Directors and Consultants Share and Option Plan - Options

	Consolidated Entity				Parent Entity			
	2008		2007		2008		2007	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	9,928,262	0.06	4,927,500	0.11	9,928,262	0.06	4,927,500	0.11
Granted	4,753,149	0.38	5,908,762	0.36	4,753,149	0.38	5,908,762	0.36
Forfeited	(2,000,000)	-	(150,000)	-	(2,000,000)	-	(150,000)	-
Exercised	(1,393,563)	0.62	(758,000)	0.38	(1,393,563)	0.62	(758,000)	0.38
Expired	(1,100,000)	-	-	-	(1,100,000)	-	-	-
Outstanding at year-end	10,187,848	0.08	9,928,262	0.06	10,187,848	0.08	9,928,262	0.06
Exercisable at year-end	5,610,348	0.15	2,140,000	0.26	5,610,348	-	2,140,000	-

There were 1,393,563 options exercised during the year ended 30 June 2008. These options were exercised into ordinary shares with a weighted average share price of $0.62 at exercise date.

The options oustanding at 30 June 2008 had a weighted average exercise price of $0.08 and a weighted average remaining contractual life of 2.5 years. Exercise prices range from nil to $0.30 in respect of options outstanding at 30 June 2008.

The weighted average fair value of the options granted during the year was $0.38.

This price was calculated by using a Barrier Pricing model applying the following inputs:

Weighted average exercise price	$0.18
Weighted average life of the option	1 years
Underlying share price	$0.40
Expected share price volatility	234%
Risk free interest rate	6.63%

$2,237,421 is included under employee benefits expense in the Income Statement in the year ended 30 June 2008. There is a remaining balance to be expensed in future periods of $707,949.

2004 US ADR Option Plan - Options

	Consolidated Entity				Parent Entity			
	2008		2007		2008		2007	
	Number of Options	Weighted Average Exercise Price USD$	Number of Options	Weighted Average Exercise Price USD$	Number of Options	Weighted Average Exercise Price USD$	Number of Options	Weighted Average Exercise Price USD$
Outstanding at the beginning of the year	380,000	5	380,000	5	380,000	5	380,000	5
Granted	-	-	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-
Expired	-	-	-	-	-	-	-	-
Outstanding at year-end	380,000	5	380,000	5	380,000	5	380,000	5
Exercisable at year-end	380,000	5	380,000	5	380,000	5	380,000	5

There were no options exercised during the year ended 30 June 2008 under this plan.

There were no options granted during the year ended 30 June 2008 under this plan.

The options oustanding at 30 June 2008 had a weighted average exercise price of USD$5.00 and a weighted average remaining contractual life of four and half years.

In the year ended 30 June and 2008, there was no value included under personnel expenses in the Income Statement related to equity issued under this plan. All equity issued under this plan has been expensed in prior periods.

NOTE 24 EVENTS AFTER THE BALANCE SHEET 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 consolidated entity, the result of those operations or the state of affairs of the consolidated entity in subsequent financial years.

NOTE 25 RELATED PARTY TRANSACTIONS

There were no related party transactions other than those related to Director and Key Management Personnel remuneration and equity and transactions by the parent with its subsidiaries.

NOTE 26 FINANCIAL RISK MANAGEMENT

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

(a) Market Risk

(i) Foreign Currency Risk

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

The following financial assets and liabilities are subject to foreign currency risk, the currency of the amounts in the table below are displayed in brackets:

	Consolidated Entity		Parent Entity	
	2008 $	2007 $	**2008 $**	2007 $
Cash and cash equivalents ($USD)	**289,844**	3,614,523	**289,844**	3,614,523
Cash and cash equivalents (€EUR)	**41,166**	22,680	**41,166**	22,680
Cash and cash equivalents (£GBP)	**35,249**	12,795	**35,249**	12,795
Trade and other payables ($USD)	**(22,011)**	(3,718)	**(21,011)**	(1,218)
Trade and other payables (€EUR)	**-**	-	**-**	-
Trade and other payables (£GBP)	**(461)**	-	**(461)**	-
Total exposure	**343,787**	3,646,280	**344,787**	3,648,780

The Group has conducted a sensitivity analysis of the Group's exposure to foreign currency risk. The Group is currently exposed to the US dollar (USD), Euro (EUR) and Great British Pound (GBP). The sensitivity analysis below is conducted on a currency by currency basis using the same sensitivity analysis variable, which has been based on the average annual movement in the AUD/USD exchange rate over the past 5 years based on the year-end spot rates, being 8%. All the amounts in the table below are displayed in $AUD.

Increase/(Decrease) in cash and cash equivalents				
AUD/USD + 8%	**(26,240)**	(370,379)	**(26,240)**	(370,379)
AUD/EUR + 8%	**(5,888)**	(3,132)	**(5,888)**	(3,132)
AUD/GBP + 8%	**(6,368)**	(2,627)	**(6,368)**	(2,627)
AUD/USD - 8%	**22,352**	315,508	**22,352**	315,508
AUD/EUR - 8%	5,016	2,668	**5,016**	2,668
AUD/GBP - 8%	**5,424**	2,238	**5,424**	2,238
Increase/(Decrease) in trade and other payables				
AUD/USD + 8%	**1,993**	381	**1,902**	125
AUD/EUR + 8%	**-**	-	**-**	-
AUD/GBP + 8%	**83**	-	**83**	-
AUD/USD - 8%	**(1,697)**	(325)	**(1,620)**	(106)
AUD/EUR - 8%	**-**	-	**-**	-
AUD/GBP - 8%	**(71)**	-	**(71)**	-

(ii) Interest Rate Risk

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

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

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Within Year	Fixed Interest Rate 1 to 5 years	Fixed Interest Rate Over 5 years	Non-Interest Bearing	Total
		$	$	$	$	$	$
2008				**Consolidated Entity**			
Financial Assets:							
Cash and cash equivalents	7.45%	464,162	10,750,416	-	-	4,457	11,219,035
Receivables		-	-	-	-	120,641	120,641
Other current assets	7.68%	-	46,228	-	-	243,261	289,489
Total Financial Assets		464,162	10,796,644	-	-	368,359	11,629,165
Financial Liabilities:							
Trade and other payables		-	-	-	-	849,113	849,113
Other financial liabilities		-	-	-	-	772,430	772,430
Total Financial Liabilities		-	-	-	-	1,621,543	1,621,543
				Parent			
Financial Assets:							
Cash and cash equivalents	7.45%	464,162	10,750,416	-	-	4,457	11,219,035
Receivables		-	-	-	-	120,641	120,641
Other current assets	7.68%	-	46,228	-	-	244,676	290,904
Total Financial Assets		464,162	10,796,644	-	-	369,774	11,630,580
Financial Liabilities:							
Trade and other payables		-	-	-	-	848,072	848,072
Other financial liabilities		-	-	-	-	772,430	772,430
Total Financial Liabilities		**-**	**-**	**-**	**-**	**1,620,502**	**1,620,502**

NOTE 26 FINANCIAL RISK MANAGEMENT (CONINUED)

(ii) Interest Rate Risk (continued)

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Within Year	Fixed Interest Rate 1 to 5 years	Fixed Interest Rate Over 5 years	Non-Interest Bearing	Total
		$	$	$	$	$	$
2007				**Consolidated Entity**			
Financial Assets:							
Cash and cash equivalents	5.22%	453,397	6,953,063	-	-	2,796	7,409,256
Receivables		-	-	-	-	96,499	96,499
Other current assets	5.41%	-	45,636	-	-	122,903	168,539
Total Financial Assets		453,397	6,998,699	-	-	222,198	7,674,294
Financial Liabilities:							
Trade and other payables		-	-	-	-	1,661,609	1,661,609
Other financial liabilities		-	-	-	-	321,001	321,001
Total Financial Liabilities		-	-	-	-	1,982,610	1,982,610
				Parent			
Financial Assets:							
Cash and cash equivalents	5.22%	453,397	6,953,063	-	-	2,796	7,409,256
Receivables		-	-	-	-	96,499	96,499
Other current assets	5.41%	-	45,636	-	-	124,318	169,954
Total Financial Assets		453,397	6,998,699	-	-	223,613	7,675,709
Financial Liabilities:							
Trade and other payables		-	-	-	-	1,658,663	1,658,663
Other financial liabilities		-	-	-	-	321,001	321,001
Total Financial Liabilities		-	-	-	-	1,979,664	1,979,664

There has been no change to the consolidated entity's exposure to interest rate risk or the manner in which it manages and measures its risk in the current year.

An increase or decrease of 1% in interest rates at the reporting date would have the following increase/(decrease) effect on after tax loss and equity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

	Consolidated Entity		Parent Entity	
	2008 $	2007 $	**2008 $**	2007 $
+1% (100 basis points)	**112,608**	74,521	**112,608**	74,521
-1% (100 basis points)	**(112,608)**	(74,521)	**(112,608)**	(74,521)

(b) Credit Risk

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

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

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

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by maintaining sufficient bank balances to fund its operations and the availability of funding through committed credit facilities.

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

Maturities of Financial Liabilities

	Less than 6 months	6-12 months	Total contracted cashflows	Carrying amounts
		Consolidated Entity		
2008				
Trade and other payables	849,113	-	849,113	849,113
Other financial liabilities	772,430	-	772,430	772,430
		Parent		
Trade and other payables	848,072	-	848,072	848,072
Other financial liabilities	772,430	-	772,430	772,430
		Consolidated Entity		
2007				
Trade and other payables	1,661,609	-	1,661,609	1,661,609
Other financial liabilities	321,001	-	321,001	321,001
		Parent		
Trade and other payables	1,658,663	-	1,658,663	1,658,663
Other financial liabilities	321,001	-	321,001	321,001

(d) Capital Risk Management

The consolidated entity's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may issue new shares or reduce its capital, subject to the provisions of the Group's constitution. The capital structure of the consolidated entity consists of equity attributed to equity holders of the consolidated entity, comprising contributed equity, reserves and accumulated losses disclosed in notes 16, 17 and 18. By monitoring undiscounted cash flow forecasts and actual cash flows provided to the Board by the Group's Management the Board monitors the need to raise additional equity from the equity markets.

(e) Fair Value Estimation

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

NOTE 27 COMPANY DETAILS

The registered office of the Company is:
Suite 2, 1233 High Street Armadale, Victoria 3143 Australia, Phone: + 61 3 9824 8166 Fax: + 61 3 9824 8161

The principal place of business of the Company is:
Level 2, 369 Royal Parade Parkville, Victoria 3052 Australia, Phone: + 61 3 9349 4906 Fax: + 61 3 9348 0377

DIRECTOR'S DECLARATION

In the Director's opinion:

(a) the financial statements and notes, as set out on pages 23 to 57, are in accordance with the Corporations Act 2001 including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) the remuneration disclosures set out in sections A-E of the Directors' Report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors.

Director
Mr Geoffrey Kempler

Dated this 25th day of September 2008

INDEPENDENT AUDIT REPORT

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

Independent auditor's report to the members of Prana Biotechnology Limited

Report on the financial report

We have audited the accompanying financial report of Prana Biotechnology Limited (the company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Prana Biotechnology and the Prana Biotechnology Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Liability limited by a scheme approved under Professional Standards Legislation

INDEPENDENT AUDIT REPORT

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of Prana Biotechnology Limited (continued)

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Prana Biotechnology Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in sections A to E of the directors' report for the period ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Prana Biotechnology Limited for the period ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Nadia Carlin
Partner

Melbourne
25 September 2008

SHAREHOLDER INFORMATION

AS AT 23 SEPTEMBER 2008

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary Shares

202,010,429 fully paid ordinary shares are held by 2,376 individual shareholders

All ordinary shares carry one vote per share

Options

4,352,893 unlisted options exercisable at $0.446 on or before 30 November 2009, are held by 17 individual shareholders

1,250,000 unlisted options exercisable at $0.00 when the share price reaches $0.40 for 5 consecutive trading days, on or before 07 August 2014, are held by 1 individual shareholder

2,200,000 unlisted options exercisable at $0.00 when the share price reaches $0.80 for 5 consecutive trading days, on or before 31 July 2009, are held by 5 individual shareholders

363,817 unlisted options exercisable at $0.00 when the share price reaches $0.50 for 5 consecutive trading days, on or before 31 December 2011, are held by 7 individual shareholders

400,000 unlisted options exercisable at $0.285 on or before 17 December 2008, are held by 1 individual shareholder

717,592 unlisted options exercisable at $0.00 on or before 31 October 2010, are held by 7 individual shareholders

2,400,000 unlisted options exercisable at $0.30 on or before 31 October 2010, are held by 5 individual shareholders

5,395,112 unlisted options exercisable at $0.43 on or before 30 November 2010, are held by 29 individual shareholders

2,677,500 unlisted options exercisable at $0.00 when the share price reaches $1.00 for 5 consecutive trading days, on or before 30 June 2010, are held by 13 individual shareholders

5,395,112 unlisted options exercisable at $0.37 on or before 31 October 2010, are held by 29 individual shareholders

380,000 unlisted options exercisable at USD$5.00 on or before 17 December 2012, convertible to 380,000 ADRs

(1 option converts into 1 NASDAQ ADR = 10 ASX shares) are held by 1 individual shareholder

3,320,000 unlisted warrants exercisable at USD$8.00 on or before 4 June 2009, convertible to 3,320,000 ADRs

(1 warrant converts into 1 NASDAQ ADR = 10 ASX shares) are held by 42 individual shareholders

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

DISTRIBUTION OF HOLDERS IN EACH CLASS OF EQUITY SECURITIES

	Fully paid ordinary shares
1 - 1,000	360
1,001 - 5,000	886
5,001 - 10,000	423
10,001 - 100,000	604
100,001 - and over	103
Total number of shareholders	2,376
Unmarketable parcels	196

SHAREHOLDER INFORMATION

AS AT 23 SEPTEMBER 2008

TWENTY LARGEST HOLDERS OF QUOTED SECURITIES

		Fully Paid Ordinary Shares	
	Shareholders	**Number**	**%**
1	ANZ NOMINEES LIMITED	66,369,812	32.86
2	JAGEN NOMINEES PTY LTD	15,409,060	7.63
3	BAYWICK PTY LTD	13,965,000	6.91
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	12,758,702	6.32
5	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LTD	12,094,736	5.99
6	NATIONAL NOMINEES LIMITED	8,422,353	4.17
7	JJ HOLDINGS (VIC) PTY LTD	7,829,263	3.88
8	MR JAMES V BABCOCK	3,980,263	1.97
9	NRB DEVELOPMENTS PTY LTD	2,970,000	1.47
10	NEUROTRANSMISSION PTY LTD	2,875,000	1.42
11	CITICORP NOMINEES PTY LIMITED	1,903,546	0.94
12	ILANAJANINE PTY LTD	1,854,386	0.92
13	ROBERT & ARDIS JAMES FOUNDATION	1,826,024	0.90
14	MR LEON KEMPLER	1,615,947	0.80
15	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	1,609,560	0.80
16	P N GEROLYMATOS SA	1,350,000	0.67
17	MR ROBERT SMORGON	1,000,000	0.50
18	EQUITAS NOMINEES PTY LIMITED	877,193	0.43
19	MR ROBERT DAVIDOW	642,632	0.32
20	TENTH KUSIM PTY LTD	632,553	0.31
		159,986,030	79.21

UNQUOTED EQUITY SECURITIES HOLDINGS GREATER THAN 20%

There are no unquoted equity securities holding greater than 20%.

SUBSTANTIAL SHAREHOLDERS

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

Baywick Pty Ltd 17,055,000 ordinary shares
Jagen Nominees Pty Ltd 15,409,060 ordinary shares
Balyasny Asset Management LP 12,836,682 ordinary shares

SHAREHOLDER ENQUIRIES

Shareholders with enquiries about their shareholdings should contact the Share Registry:

Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnston Street
Abbotsford, Victoria, 3067, Australia
Telephone: 1300 85 05 05 (within Australia)+ 61 3 9415 4000 (overseas)
Facsimile: + 61 3 9473 2500
Email: essential.registry@computershare.com.au
Website: www.computershare.com.au

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.

ANNUAL REPORT MAILING

The Australian Government recently introduced legislation changing the default option for receiving annual reports. Unless requested by a Shareholder to the Company, the Company will not provide Shareholders with a hard copy of the Annual Report. The Annual Report is however available online at www.pranabio.com

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 uncertified holdings under the Australian Stock Exchange CHESS system should contact their stockbroker.

UNCERTIFIED 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.au

CORPORATE INFORMATION

DIRECTORS

Mr Geoffrey Kempler	Executive Chairman and Chief Executive Officer
Mr Brian Meltzer	Non-Executive Independent Director
Dr George Mihaly	Non-Executive Independent Director
Mr Peter Marks	Non-Executive Independent Director

COMPANY SECRETARY

Mr Richard Revelins

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
2 Southbank Boulevard
Southbank, Victoria, 3006, Australia

REGISTERED OFFICE

Suite 2, 1233 High Street
Armadale, Victoria, 3143, Australia
Phone: + 61 3 9824 8166 Fax: + 61 3 9824 8161

SOLICITORS

Oakley Thompson & Co
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Melbourne, Victoria, 3000, Australia

PRINCIPAL PLACE OF BUSINESS

Level 2, 369 Royal Parade
Parkville, Victoria, 3052, Australia
Phone: + 61 3 9349 4906 Fax: + 61 3 9348 0377

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnston Street
Abbotsford, Victoria, 3067, Australia
Telephone: 1300 85 05 05 (within Australia)
+ 61 3 9415 4000 (overseas)
Facsimile: + 61 3 9473 2500
Email: essential.registry@computershare.com.au
Website: www.computershare.com.au

SECURITIES QUOTED

Australian Stock Exchange
Code: PBT (Shares)

NASDAQ (North American Dealers Automated Quotation)
Code: PRAN (ADRs)

WEBSITE

www.pranabio.com