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

FORM 20-F

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

OR

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

For the fiscal year ended June 30, 2011

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report

Commission file number 000-49843

PRANA BIOTECHNOLOGY LIMITED

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

Australia

(Jurisdiction of incorporation or organization)

Level 2, 369 Royal Parade, Parkville, Victoria 3052, Australia
(Address of principal executive offices)

Geoffrey Kempler, Chief Executive Officer
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+61 3 9349 4906 (phone) ; +61 3 9348 0377 (fax)

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

Title of each class
**American Depositary Shares,
each representing ten Ordinary Shares**

Name of each exchange on which registered
NASDAQ Capital Market

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

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

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

Ordinary Shares, as of June 30, 2011.....275,286,783

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

Yes ☒ No ☐

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

Yes ☐ No ☒

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐

International Financial Reporting Standards as issued by the International Accounting Standards Board ☒

Other ☐

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ☐ Item 18 ☐

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

Yes ☐ No ☒

This Annual Report on Form 20-F is incorporated by reference into our Registration Statement on Form S-8 (File No. 333-153669) and our Registration Statements on Form F-3 (Files No. 333-173375 and 333-174278).

INTRODUCTION

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

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

Our consolidated financial statements appearing in this annual report are prepared in Australian dollars and in accordance with the International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. Our consolidated financial statements appearing in this annual report comply with both the IFRS and Australian Accounting Standards.

In this annual report, all references to "U.S. dollars" or "US\$" are to the currency of the United States of America, and all references to "Australian dollars" or "A\$" are to the currency of Australia.

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED CONSOLIDATED FINANCIAL DATA

We prepare our consolidated financial statements in accordance with IFRS, as issued by IASB. Our consolidated financial statements appearing in this annual report comply with both the IFRS as issued by IASB and Australian equivalents to International Financial Reporting Standards, or A-IFRS.

The following table presents our selected consolidated financial data as of the dates and for each of the periods indicated. The following selected consolidated financial data as of June 30, 2011 and 2010 and for the years ended June 30, 2011, 2010 and 2009 have been derived from our audited consolidated financial statements and notes thereto included elsewhere in this annual report. The selected consolidated financial data as of June 30, 2009, 2008 and 2007 and for the years ended June 30, 2008 and 2007 have been derived from our audited consolidated financial statements and notes thereto which are not included in this annual report.

The selected consolidated financial data set forth below should be read in conjunction with and are qualified entirely by reference to Item 5. "Operating and Financial Review and Prospects" and our consolidated financial statements and notes thereto included elsewhere in this annual report.

Statement of Comprehensive Income:

	Year Ended June 30,				
	2011	2010	2009	2008	2007
	(in A\$, except number of shares)				
Revenue from continuing operations	156,135	215,008	428,193	490,943	507,150
Other income	6,785	—	—	170	287
Research and development expenses, net	(2,329,491)	(87,992)	(2,215,358)	(5,757,168)	(4,492,193)
Research and development expenses - related party	—	—	—	—	—
Personnel expenses	(2,394,298)	(3,087,234)	(3,832,804)	(5,350,189)	(4,554,731)
Intellectual property expenses	(399,237)	(431,082)	(1,107,534)	(469,428)	(600,232)
Auditor and accounting expenses	(157,436)	(168,909)	(129,998)	(331,950)	(260,117)
Travel expenses	(159,971)	(234,555)	(195,251)	(146,651)	(309,997)
Public relations and marketing expenses	(110,646)	(130,090)	(222,679)	(141,337)	(215,455)
Depreciation expenses	(31,577)	(35,290)	(34,190)	(25,349)	(58,582)
Other expenses	(857,281)	(940,699)	(978,875)	(975,404)	(1,008,563)
Foreign exchange gain (loss)	(145,377)	(6,079)	(6,723)	(402,886)	(757,578)
Gain (loss) on fair value of financial liabilities	(8,791)	—	772,430	(451,429)	607,691
Net loss	(6,431,185)	(4,906,922)	(7,522,789)	(13,560,678)	(11,142,320)
Loss per share – basic and diluted	(0.03)	(0.02)	(0.04)	(0.08)	(0.08)
Weighted average number of ordinary shares outstanding - basic and diluted	247,578,570	227,527,388	202,357,885	174,714,146	140,754,495

Balance Sheet Data:

	As at June 30,				
	2011	2010	2009	2008	2007
	(in A\$)				
Cash and cash equivalents	8,838,245	5,227,298	4,304,977	11,219,035	7,409,256
Working capital	6,852,456	5,135,625	3,643,502	9,762,015	5,564,304
Total assets	9,010,952	6,801,417	4,597,250	11,698,313	7,722,185
Net assets	6,931,202	5,229,316	3,749,816	9,866,327	5,612,195
Issued capital	82,340,819	75,120,164	70,188,989	69,842,303	53,988,412
Share based payment reserves	9,494,995	8,582,579	7,127,332	6,067,740	4,106,821
Accumulated deficit during development stage	(84,904,612)	(78,473,427)	(73,566,505)	(66,043,716)	(52,483,038)
Total equity	6,931,202	5,229,316	3,749,816	9,866,327	5,612,195

Exchange Rate Information

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

Year Ended June 30,	At Period End	Average Rate	High	Low
2007	0.8488	0.7859	0.8521	0.7377
2008	0.9615	0.8965	0.9654	0.7672
2009	0.8048	0.7480	0.9849	0.6005
2010	0.8567	0.8822	0.9405	0.7723
2011	1.0597	0.9894	1.1011	0.8323

Month	High	Low
April 2011	1.0977	1.0288
May 2011	1.1011	1.0440
June 2011	1.0774	1.0390
July 2011	1.1080	1.0525
August 2011	1.1064	0.9926
September 2011	1.0764	0.9621

The noon buying rate on September 27, 2011 was US\$0.9757 = A\$1.00.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

Risks Related To Our Business

We have incurred operating losses and may not be profitable in the future; our plans to maintain and increase liquidity may not be successful.

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

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

On March 25, 2011, we completed a A\$6,120,000 (US\$6,190,992) financing necessary to ensure that we can continue as a going concern over the next 12 months. We added additional working capital on June 30, 2011, when Quintiles Limited subscribed for US\$1,000,000 of our ordinary shares. However, to continue to meet our longer term business objectives beyond the next 12 months, which would include advancement of our research and development programs, we will need to secure additional financing. We will also require additional funds to pursue regulatory clearances, defend our intellectual property rights, establish commercial scale manufacturing facilities, develop marketing and sales capabilities and fund operating expenses. We intend to seek such additional funding through public or private financings and/or through licensing of our assets or strategic alliances or other arrangements with corporate partners. The global economic climate could adversely impact our ability to obtain such funding, license our assets or enter into alliances or other arrangements with corporate partners. Any shortfall in funding could result in our having to curtail or cease our operations, including our research and development activities, which would be expected to have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

We have incurred losses in every period since we began operations in 1997. We expect to continue to incur additional operating losses over at least the next several years and to increase our cumulative losses substantially as we expand our research and development and pre-clinical activities and commence additional clinical trials of PBT2. We reported net losses of A\$6,431,185, A\$4,906,922 and A\$7,522,789 during the fiscal years ended June 30, 2011, 2010 and 2009, respectively. As of June 30, 2011, our accumulated deficit was A\$84,904,612. We may never be able to achieve or maintain profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the receipt and timing of regulatory approvals for the uses that we are studying;
- the establishment and demonstration to the medical community of the safety, clinical efficacy and cost-effectiveness of our product candidates and their potential advantages over existing therapeutics and technologies; and
- the pricing and reimbursement policies of governments and third-party payors.

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

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

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

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

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

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

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

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

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

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

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

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

We typically rely on a single manufacturer to develop Good Manufacturing Practice (GMP) synthetic processes for our lead compounds. Our lead compound, PBT2, was manufactured by the Institute of Drug Technology Australia Limited until early 2008. During late 2008, we transferred our PBT2 drug substance manufacturing process technology to Dr. Reddy's Laboratories Limited, based in Hyderabad, India, to enable future and efficient large scale manufacture of PBT2 to provide drug substance for the currently planned Phase II trials in Alzheimer's patients and Huntington's patients. We also rely on a sole manufacturer, Patheon Inc., to encapsulate PBT2. We intend to continue this approach, subject to ongoing appraisal of our manufacturing needs and financial position. We may not be able to promptly find a replacement manufacturer, if required, without incurring material additional costs and substantial delays.

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

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

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

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

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

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

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

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

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

Risks Relating to Our Securities

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

The market price for our securities, like that of the securities of other pharmaceutical and biotechnology companies, has fluctuated substantially and may continue to be highly volatile in the future. During the last two fiscal years, the market price for our ordinary shares on the Australian Securities Exchange, or ASX, has ranged from as low as A\$0.11 to a high of A\$0.38 and the market price of our American Depositary Shares on the NASDAQ Capital Market has ranged from as low as US\$1.02 to a high of US\$4.50. The market price for our securities has been affected by both broad market developments and announcements relating to actual or potential developments concerning products under development. We believe that the following factors, in addition to other risk factors described above and elsewhere in this annual report, will continue to significantly affect the market price of our ordinary shares:

- the results of pre-clinical testing and clinical trials by us and our competitors;

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

In addition, stock markets have experienced extreme price and volume fluctuations. These fluctuations have especially affected the stock market price of many high technology and healthcare related companies, including pharmaceutical and biotechnology companies, and, in many cases, are unrelated to the operating performance of the particular companies. Market fluctuations, as well as general political and economic conditions, such as a recession, interest rate or currency rate fluctuations, could adversely affect the market price of our securities.

Your ownership interest in our company may be diluted as a result of additional financings.

We may seek to raise funds from time to time in public or private issuances of equity, and such financings may take place in the near future or over the longer term. In March 2011, we issued 27,200,000 ordinary shares and options to purchase an additional 6,800,000 ordinary shares in a private placement. In May 2011, we registered US\$50,000,000 of securities for public sale pursuant to our registration statement on Form F-3 filed on May 17, 2011. Without shareholder approval, we may not issue more than 15% of our outstanding ordinary shares in any six month period. On June 10, 2011, our shareholders approved the issuance of up to 100,000,000 of our ordinary shares in the following three month period to facilitate the funding of a Phase II imaging trial for PBT2 in Alzheimer's disease patients and a Phase II trial for PBT2 in Huntington's disease patients. We are currently offering an aggregate of 5,000,000 ADSs under such registration statement and pursuant to a prospectus supplement for an at-the-market offering of our ADSs. Sales of our ADSs in this offering will result in dilution to our shareholders. Sales of our securities offered through future equity offerings may also result in substantial dilution to the interests of our current shareholders. The sale of a substantial number of securities to investors, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales.

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

Holders of our ADRs who are U.S. residents face income tax risks. There is a substantial risk that we are a passive foreign investment company, commonly referred to as PFIC. Our treatment as a PFIC could result in a reduction in the after-tax return to the holders of our ADRs and would likely cause a reduction in the value of such ADRs. For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, cash is considered to be an asset that produces passive income. As a result of our substantial cash position and the decline in the value of our stock, we believe that we became a PFIC during the taxable year ended June 30, 2005, and once again qualified as a PFIC during each of the last five fiscal years, under a literal application of the asset test described above, which looks solely to market value. We believe that we once again will be classified as a PFIC for the taxable year ended June 30, 2012. If we are classified as a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning ADRs. Accordingly, you are urged to consult your tax advisors regarding the application of such rules. United States residents should carefully read "Item 10.E. Additional Information - Taxation, United States Federal Income Tax Consequences" for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our ADRs.

We do not anticipate paying dividends on our ordinary shares.

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

Risks Relating to our Location in Australia

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

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

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

Since completing our initial public offering and listing process of our ordinary shares on the ASX on March 28, 2000, we have concentrated our resources toward the pursuit of our disease targets. Initially we focused on clinical trials of our proof of concept compound, PBT1, as a therapeutic for the treatment of Alzheimer's disease. On April 11, 2005, we announced that we would not proceed with the Phase II/III study as we had found unacceptably high levels of a di-iodo-8-hydroxyquinoline impurity that could potentially alter the risk of side-effects and mutagenicity. We considered methods to reduce the levels of the di-iodo impurity, however, we reached the conclusion that attempts to reduce the impurity to required levels were not likely to be successful in a timely, commercially viable manner and that further development of PBT1 for the treatment of Alzheimer's disease was not appropriate.

On June 16, 2005, we announced that we had completed a review of our strategic development programs and we reaffirmed our commitment to PBT2, our current lead candidate for the potential treatment of Alzheimer's disease. PBT2 was announced as a new lead metal protein attenuating compound, or MPAC, molecule for Alzheimer's disease in early August 2003. PBT2 is the result of rational drug design. It was built "from the ground up" to fulfill very specific criteria. It was designed so that it will be orally bioavailable and cross the blood-brain barrier. PBT2 was selected from over 300 compounds that had been developed by us at such time on the basis of its significant effectiveness in both pre-clinical *in vitro* and *in vivo* testing. It was designed to have an improved safety and efficacy profile compared to PBT1. Phase I trials for PBT2 were completed by February 2006 in healthy young and aged volunteers and demonstrated that the drug was well tolerated and suitable for Phase II clinical development. During 2007, a Phase IIa clinical study was undertaken in elderly patients with Alzheimer's disease over three months. The top line results were announced in February 2008, including the primary endpoints of safety and tolerability being met together with several secondary endpoints in biomarker and cognition endpoints also being met. In July 2008, the results of the Phase IIa trial were published in *The Lancet Neurology* journal. The key findings included that PBT2 was well tolerated, with the safety profile of PBT2 being similar to that of the placebo, that the level of Abeta in the cerebrospinal fluid was significantly lowered and that two measures of executive cognitive function were improved in patients on the higher dose of PBT2. Also in July 2008, the results of extensive pre-clinical research findings for PBT2 were published in the journal *Neuron*. The key findings included the demonstration that PBT2 could rapidly improve cognition in transgenic mice, prevent the formation of toxic soluble Abeta oligomers, lower the Abeta levels in the brain of transgenic mice and protect neurons from the toxic effect of Abeta at the synapses between neurons enabling improved neurotransmission. In March 2009, we published further data on the impact of PBT2 on synapses in transgenic animal models. The findings demonstrated that PBT2 could prevent the loss of synapses in these Alzheimer's disease animal models, indicating that PBT2 has a potent neuroprotective effect on neurons, consistent with the observation that PBT2 can improve cognitive performance in impaired transgenic animals.

In November 2009, an erratum to the July 2008 edition of *The Lancet Neurology* journal was published that corrected the original results of the neuropsychological test battery, or NTB, arising from the Phase IIa trial. The corrected results show that in addition to two measures of executive cognitive function found to be significantly improved, the overall executive function domain of the NTB, comprising five cognitive tests, was significantly improved for those patients taking 250mg of PBT2 compared to patients on placebo. In April 2010, we published an unblinded analysis of the responses of individual patients treated with PBT2 in the Phase IIa clinical trial in *The Journal of Alzheimer's Disease*. The analysis demonstrates that there was a significant probability that any patient that showed cognitive executive function improvement in the trial was being treated with 250mg of PBT2. Moreover, 81% of patients taking the 250mg dose of PBT2 responded better on the executive function of the NTB score than the best performing patient on placebo. Improvement in ADAS-cog, a measure of memory and cognition, was observed in patients treated with 250mg of PBT2, almost reaching statistical significance by 12 weeks of the Phase IIa trial. The corrected cognitive data from the Phase IIa trial together with the additional analysis provides strong evidence of the ability of PBT2 to improve cognitive executive function as measured by the NTB. In March 2011 we announced that the New York based Alzheimer's Drug Discovery Foundation is making a \$700,000 project based investment towards a Phase II study in 40 patients with prodromal or mild Alzheimer's disease. The primary outcome measure for this trial is the burden of amyloid in the brain as measured by brain imaging techniques. For details regarding clinical trials for PBT2, our lead compound, see Item 4.B. "Information on the Company - Business Overview - Clinical Trials for Our Lead Compound."

In late July 2008, we received the findings from a report commissioned by us from U.S.-based clinical researchers on the suitability of PBT2 for Huntington's disease. The report detailed the relevance of animal modeling experiments done with PBT2, its demonstrated mode of action in the brains of Huntington's disease model mice and its promising safety and efficacy findings in the recently completed Alzheimer's disease Phase IIa study with PBT2. The report concluded that PBT2 was recommended to proceed to clinical trials in Huntington's disease research participants. In July 2010, we presented data emerging from our research and development that the neuroprotective qualities of our lead product candidate PBT2 indicate that PBT2 may have clinical application in Huntington's disease patients in addition to Alzheimer's disease. At the International Conference on Alzheimer's Disease in Hawaii, our Head of Research, Associate Professor Robert Cherny, described how PBT2 prolonged survival, increased motor strength and delayed involuntary limb clenching that otherwise presents in the transgenic mouse model of Huntington's disease. In addition, PBT2 appears to prevent the aggregation of the hallmark toxic mutant huntingtin protein. Examination of the brains of transgenic mice revealed that PBT2 had a significant impact on preventing the degeneration of neurons, further evidencing the neuroprotective attributes of PBT2 that had been reported earlier in our work on Alzheimer's disease. In December 2010, our management assembled a team to develop a Phase IIa clinical trial protocol for the treatment of Huntington's disease with PBT2. The group is comprised of leading clinical researchers from Australia and the United States, including members from the Huntington Study Group based in the United States and Australia. PBT2 has previously demonstrated that it can improve cognitive executive function in a Phase IIa study in Alzheimer disease patients. The team is finalizing a Phase IIa study design most appropriate for PBT2, understanding its potential as a disease modifying approach to the treatment of this crippling disease.

In August 2009, a key patent protecting our clinical drug asset PBT2 was granted in Europe by the European Patent Office, or the EPO. The patent entitled '8-Hydroxyquinoline derivatives' covers the composition of matter of selected families of 8-Hydroxyquinoline compounds, including PBT2, and the uses of such compounds for the treatment of neurological diseases, including Alzheimer's disease and Huntington's disease. The European patent has a 20 year term expiring on July 16, 2023, with a possible extension of the term of up to five additional years under supplementary protection provisions. In July of 2010, we received notification from the EPO that the mandatory nine month post grant opposition period had expired in Europe and that the patent had been entered into the European Register of Patents. Also in August 2009, we received a notice of allowance from the United States Patent and Trade Mark Office, or USPTO, for our key patent protecting our clinical drug asset PBT2. The patent was granted in November 2009. The U.S. patent, which is also entitled '8-Hydroxyquinoline derivatives,' covers the composition of matter of selected families of 8-Hydroxyquinoline compounds, including PBT2. In August 2010, we announced that the USPTO granted a recalculation of such U.S. patent term to extend it by 889 days and accordingly, such patent will expire on December 21, 2025. It is possible that the patent may be further extended in the future under the pharmaceutical extension of term provisions that apply in the United States. In the same month August 2010, the nine month mandatory post-grant opposition period for the related patent case in Europe lapsed without any third party opposition. Accordingly, the patent case in Europe was placed on the Register of European Patents and the term will expire on July 16, 2023 with possible pharmaceutical extension of patent term of five years. In April 2011, we announced that the Japanese Patent Office had granted the same patent, also entitled '8-Hydroxyquinoline derivatives', with the claimed subject matter encompassing compounds and pharmaceutical compositions containing PBT2 and the use of the compounds for the treatment of Alzheimer's disease. The Japanese patent will expire on July 2023 and may be eligible for pharmaceutical extension of patent term for up to a further five years.

In September 2009, we received a report on a study conducted on PBT519, our lead brain cancer MPAC, by the Royal Melbourne Hospital. The report showed that PBT519 was able to significantly prevent the growth of the tumors of the deadly *glioblastoma multiforme* form of brain cancer in mouse models of the disease. Moreover, PBT519 appeared to be very well tolerated and was at least as efficacious as the current leading form of chemotherapy, temozolomide. The data indicates that PBT519 may work synergistically with temozolomide in reducing the growth of such brain tumors. The company is generating mechanistic information on the behaviour of this compound and generating other structurally related MPACs with potential anti-cancer activity. See Item 4.B “Business Overview – Platform Technology and Research Programs – Brain Cancer”.

In September 2010, we announced that we have selected a new novel lead drug candidate with potential to be developed as a disease modifying treatment for Parkinson's disease, PBT434. Over the past year, substantial mechanistic information of PBT434 has been generated and the company was awarded a grant of \$206,000 from the New York based Michael J. Fox Foundation to initiate pre-clinical development of the compound. See Item 4.B “Business Overview - Platform Technology and Research Programs - Parkinson's Disease.”

Since inception, we have not been required to invest material amounts for capital expenditures since our development efforts have taken place at research facilities operated by institutions with which we have relationships. In the three fiscal years ended June 30, 2011, our capital expenditures have totaled A\$72,550. Since July 1, 2011, we have incurred A\$1,968 in capital expenditures.

B. BUSINESS OVERVIEW

Prana's Background

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

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

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

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

Research Institutions

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

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

Work conducted at the first three of these institutions demonstrated that clioquinol, codenamed PBT1, had potential efficacy for the treatment of Alzheimer's disease. Our research efforts led to the development of a novel MPAC within the same chemical class as PBT1, PBT2, a low molecular weight chemical entity that demonstrates a significant pre-clinical improvement over PBT1, and currently a library of approximately 800 MPAC molecules in total (approximately 200 of which are of the same chemical class as PBT1 with the remaining MPACs of other chemical classes). Our research program aims to find further and potentially more effective preferred compounds for the treatment of Alzheimer's disease as well as for our other major disease indications (such as Huntington's disease, Parkinson's disease, certain cancers and age-related macular degeneration).

Platform Technology and Research Programs

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

Alzheimer's disease. Research is ongoing to increase our understanding of the neuropathology of Alzheimer's disease. Our research continues to focus on the structure and function of beta-amyloid and its precursor, and protein structural studies specifically around the sites of interaction between metals, metal complexes, our MPACs and the significant proteins in Alzheimer's disease, such as Amyloid Precursor Protein and beta-amyloid. PBT2, our lead compound from our MPAC library for Alzheimer's disease, has been extensively tested in both *in vitro* and *in vivo* animal models for its ability to reduce both the amount of Abeta and its toxic effects in the brain. Results of the research, which were published in the journal *Neuron* in July 2008, demonstrate that PBT2 can rapidly improve cognition in transgenic mice, prevent the formation of toxic soluble Abeta oligomers, lower the Abeta levels in the brain of transgenic mice and protect neurons from the toxic effect of Abeta at the synapses (the space) between neurons, enabling improved neurotransmission. Experimental work during 2008 and 2009 has shown that PBT2 can also prevent the loss of neuronal synapses, a feature of the brain degeneration associated with Alzheimer's disease. During 2009 and 2010, our scientists further examined the apparent link between aging and disease related defects due to metal imbalances in the brain. In February 2010, we reported in *The Journal of Neuroscience* on the loss of synaptic zinc uptake mechanisms in aged animal models and how this correlated with cognitive impairment. Our scientists also investigated the molecular basis for the neuroprotective qualities of PBT2 in animal models of Alzheimer's disease. They found that several important intracellular signaling pathways required for neuronal function were stimulated when animals were treated with PBT2. In March 2011, we reported in the scientific journal PLoS ONE, that in the same Alzheimer's animal model where PBT2 is able to significantly improve cognition, there were changes in the brain anatomy. Specifically, it was observed that PBT2 treatment had significantly increased the numbers of spines on the branches (or dendrites) of neurons in the hippocampus, a memory centre specifically affected in Alzheimer's disease. Increasing the number of spines permits many more neurons to interconnect with any particular neuron thereby increasing the brain's capacity to carry out learning and memory functions. These findings provide an insight into how PBT2 helps preserve and protect neurons in Alzheimer's disease and also in animal models of Huntington's disease. For a description of the history and development of our lead MPAC, PBT2, as a therapeutic for the treatment of Alzheimer's disease, see Item 4.B. "Information on the Company - Business Overview - Clinical Trials for Our Lead Compound."

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

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

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

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

In late July 2008, we received the findings from a report commissioned by us from U.S.-based clinical researchers on the suitability of PBT2 for Huntington's disease. The report detailed the relevance of animal modeling experiments done with PBT2, its demonstrated mode of action in the brains of Huntington's disease model mice and its promising safety and efficacy findings in the recently completed Alzheimer's disease Phase IIa study with PBT2. The report concluded that PBT2 was recommended to proceed to clinical trials in Huntington's disease research participants. Further work undertaken by our scientists during 2009, 2010 and 2011 on the neuroprotective qualities of PBT2 provides further evidence that PBT2 may be considered for clinical application in Huntington's disease. Others scientists have previously published data that demonstrates that the levels of copper in the brains of Huntington's disease animals, such as the R6/2 mouse model, have elevated levels of copper relative to normal mice and that copper promotes the aggregation of the mutant Huntingtin protein formed in the brains of affected animals. Our scientists hypothesize that PBT2 may benefit Huntington's patients by preventing the aggregation of the huntingtin protein and through its neuroprotective properties, help to maintain normal neuronal function. This hypothesis is further supported by the findings of other workers that the mutant huntingtin protein has a copper binding site and that formation of oligomers or aggregates of the mutant protein, that are toxic to neurons, appears to be a metal dependent process.

Parkinson's Disease. Parkinson's disease, another crippling disease of the aging population, causes a progressive slowing of movement, tremors and the loss of fine motor control due to the death of *substantia nigra* cells in the brain. The *substantia nigra* cells produce the neurotransmitter dopamine in the brain, which is required for normal motor coordination. Increasingly, dementia is also being recognized as a significant component of Parkinson's disease. Existing therapies, such as dopaminergic agents, may provide some short-term symptomatic relief, but do not address the underlying cause of the disease. We believe that our platform technology may affect the aggregation of the proteins concerned and may provide a pathway for reversing the disease. Parkinson's disease ranks among the most common late life neurodegenerative diseases.

During 2005, we entered into a contractual arrangement with the Integrative Neuroscience Facility based at the Howard Florey Institute in Melbourne to assist in the examination of the effect of MPACs administered to the 6-hydroxydopamine (PD) mouse model of the disease, which concluded with positive results. In addition, groups unrelated to us have published data that demonstrates the usefulness of clioquinol in treating the symptoms of Parkinson's disease generated in the alternative MPTP (1-methyl-4-phenyl-1,2,3,6-tetrahydropyridine) mouse model of the disease. These two mouse models mimic the disease by using these toxins to destroy over time the cells of the *substantia nigra*, the area of the brain affected in Parkinson's disease, leading to motor function loss. Based on these positive results with clioquinol in such two mouse models, we began investigating the efficacy of other selected MPACs in these two models to screen for possible MPAC candidates as treatment candidates for Parkinson's disease. Currently, we have identified six potential compound leads that demonstrate the ability to rescue the *substantia nigra* neuronal cells in both models of Parkinson's disease, that otherwise perish over time as the disease progresses. During 2009 and 2010, a lead Parkinson's disease candidate emerged, PBT434, which demonstrated significant ability to protect *substantia nigra* cells from the toxic effects of the two toxins, 6-hydroxydopamine and MPTP, when administered in the two models of Parkinson's disease, and motor function and coordination was also markedly improved in both models. This neuroprotection and motor improvement was observed when the candidate compound was administered after toxins had destroyed significant amounts of *substantia nigra* tissue, indicating that the compound can restore and maintain normal neuronal function. In September 2010, we announced that we have selected PBT434 as a new novel lead drug candidate with potential to be developed as a disease modifying treatment for Parkinson's disease. During 2011 further mechanistic characterisation work was undertaken and it was demonstrated that PBT434 reduces the accumulation of the target protein in Parkinson's disease and alpha-synuclein, and elevates the levels of the neuroprotective protein, DJ-1, which helps to modulate and reduce oxidative stress in neurons. In August 2011, the New York based Michael J. Fox Foundation awarded us a grant entitled, 'PBT434, a Novel Neuroprotective Drug For Parkinson's Disease; Completion of Pre-Clinical Studies to Enable Human Clinical Trials'. This grant will be used to initiate several studies which will assess the suitability of the compound for development as a drug for administration to humans.

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

In September 2009, we received a report on a study conducted on PBT519, our lead brain cancer MPAC, by the Royal Melbourne Hospital. The report showed that PBT519 was able to significantly prevent the growth of the tumors of the deadly GBM form of brain cancer in mouse models of the disease. Moreover, PBT519 appeared to be very well tolerated and was at least as efficacious as the current leading form of chemotherapy, temozolomide. The data indicates that PBT519 may work synergistically with temozolomide in reducing the growth of such brain tumors. During 2010 and 2011, our discovery team have been creating variants of PBT519 to further understand its mechanism of action. PBT519 and related compounds have been submitted to the United States National Cancer Institute for *in vitro* profiling against a large range of tumour cell lines to test for anti-tumour potency.

Clinical Trials for Our Lead Compound

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

In parallel to such clinical studies, chronic pre-clinical animal toxicology studies and the development work for GMP manufacture of PBT2 required for Phase II clinical studies was conducted and completed by the third calendar quarter of 2006. On July 20, 2006, while preparations for the Phase IIa clinical trial were underway, we announced key pre-clinical efficacy findings with PBT2 demonstrating that PBT2 could rapidly enhance memory function within five days of dosing in an Alzheimer's disease mouse model, improve synaptic function and significantly reduce soluble beta-amyloid protein levels in mouse models of Alzheimer's disease in acute 24 hour experiments. On October 5, 2006, we announced the grant of approval from the Swedish Medical Products Agency (a Swedish regulatory authority) to undertake a Phase IIa clinical trial in elderly patients with mild Alzheimer's disease in Sweden. On December 19, 2006, we announced that dosing had commenced in the Phase IIa clinical trial. The Phase IIa trial was a three month double-blind, placebo-controlled safety and tolerability study of PBT2 in 80 elderly male and female patients with mild forms of Alzheimer's disease. Tolerability, safety, cerebrospinal fluid and plasma biomarker and cognition endpoints were measured. On August 6, 2007, we announced that 55 patients (of the planned 80) had been randomized to participate in the Phase IIa clinical trial, of which 30 patients had completed the trial, and that the independent Data Safety Monitoring Board, or DSMB, appointed by us upon the recommendation of Dr. Craig Ritchie and Quintiles, for the Phase IIa clinical trial of PBT2 had reviewed the data of over 50 patients and concluded there have been no treatment-related serious adverse events or withdrawals and that the trial was safe to continue in accordance with the original protocol. On September 24, 2007, we announced that the enrollment for the Phase IIa trial had been completed and that we expected to report results during the first calendar quarter of 2008. On November 29, 2007, we announced that the DSMB had completed its cycle of safety review meetings and reported to us that of the 59 patients included in the review at that time, there had been no treatment-related serious adverse events or withdrawals. The DSMB confirmed that the trial was safe to continue. Patient dosing was completed on December 18, 2007, and we announced the formal completion of the study on January 2, 2008. On February 26, 2008, we publicly released the top line trial results and announced that the trial primary endpoints of safety and tolerability were met. We also announced that with respect to the secondary endpoints, namely biomarker, cognition and behavioral changes, several significant and promising changes were observed. Specifically, that in the cerebrospinal fluid (CSF), PBT2 treatment at a 250mg dose resulted in a significant decrease in the target Abeta 42 protein. In addition, at the 250mg dose, while no significant effect was observed with the ADAS-cog, two of the five NTB tests for improvement in executive function were significantly improved. In July 2008, the results of the Phase IIa trial were published in *The Lancet Neurology* journal. The key findings included the demonstration that PBT2 could rapidly improve cognition in transgenic mice, prevent the formation of toxic soluble Abeta oligomers, lower the Abeta levels in the brain of transgenic mice and protect neurons from the toxic effect of Abeta at the synapses between neurons enabling improved neurotransmission. Also in July 2008, the results of extensive pre-clinical research findings for PBT2 were published in the journal *Neuron*. The key findings included the demonstration that PBT2 could rapidly improve cognition in transgenic mice, prevent the formation of toxic soluble Abeta oligomers, lower the Abeta levels in the brain of transgenic mice and protect neurons from the toxic effect of Abeta at the synapses between neurons enabling improved neurotransmission.

In November 2009, an erratum to the July 2008 edition of *The Lancet Neurology* journal was published that corrected the original results of the NTB cognitive findings arising from the Phase IIa trial. The corrected results show that in addition to two measures of executive cognitive function found to be significantly improved, the overall executive function domain of the NTB, comprising five cognitive tests, was significantly improved for those patients taking 250mg of PBT2 compared to patients on placebo. In April 2010, we published an analysis of the responses of individual patients treated with PBT2 in the Phase IIa clinical trial in the *Journal of Alzheimer's Disease*. The analysis demonstrated that there was a significant probability that any patient that showed cognitive executive function improvement in the trial was being treated with 250mg of PBT2. Moreover, 81% of patients on the 250mg dose of PBT2 responded better on the executive function of the NTB score than the best performing patient on placebo. Improvement in ADAS-cog, a measure of memory and cognition, was observed with patients treated with 250mg of PBT2, almost reaching statistical significance by 12 weeks of the Phase IIa trial. The corrected cognitive data from the Phase IIa trial together with the additional analysis provides strong evidence of the ability of PBT2 to improve cognitive executive function as measured by the NTB. Also in November 2009, Prana presented its pre-clinical and clinical information package on PBT2 to the FDA in accordance with the Pre-Investigational New Drug (IND) Consultation Program. The meeting provided useful guidance on possible steps to take to open an IND Application with the FDA to undertake clinical trials in the United States in Alzheimer's disease or Huntington's disease. The meeting provided us with important information to help form our regulatory strategy for the development of PBT2 in these neurological indications.

During the first half of 2010, we developed a Phase IIb trial protocol to test PBT2 in a Phase II trial in patients with Alzheimer's disease under the guidance of an international protocol steering committee. The protocol provides for a substantial trial measuring the effects of PBT2 on cognition and functional abilities in patients with mild to moderate Alzheimer's disease. We have not yet scheduled a Phase IIb trial in patients with Alzheimer's disease, which will require significant funding. In early 2011 we obtained support from the New York based Alzheimer's Drug Discovery Foundation (ADDF) to conduct a Phase II imaging study in patients with prodromal or mild Alzheimer's disease. The ADDF is making a \$700,000 project based investment to enable the study in forty patients to be conducted in Melbourne, Australia. The planned trial design will investigate the effect of PBT2 on a patient's amyloid burden in the brain as measured by Positron Emission Tomography imaging (PET). As the Phase IIa trial demonstrated significant changes in cognitive executive function in twelve weeks, this trial will look at such cognitive domains over a twelve month period in this patient group.

In addition to the current activities to initiate an imaging trial in Alzheimer's patients, we have been finalizing a protocol to test PBT2 in a Phase II trial in patients with Huntington's disease. In April of 2011 the company announced its plans for a Phase IIa study in Huntington's disease to be undertaken in Australia and the United States. Huntington's disease is a neurodegenerative inherited disease which we believe shares many pathological features in common with Alzheimer's disease. As an orphan indication, there is a reduced clinical development timeline. The Phase IIa plans entail a study in approximately a hundred patient's investigating the effect of PBT2 on cognition, behaviour, functional capacity, motor effects and safety and tolerability measures.

Rational Drug Design

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

Our medicinal chemistry program, previously based at laboratories leased from The University of Melbourne, was transferred in October 2009 to a laboratory leased from The University of Melbourne's Bio21 Molecular Science and Biotechnology Institute, which is a multidisciplinary research centre that specializes in medical, agricultural and environmental biotechnology. Accommodating more than 500 research scientists, students and industry participants, the Bio21 Institute is one of the largest biotechnology research centers in Australia.

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

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

PBT2, our current Alzheimer's disease lead MPAC product candidate, was selected from this "rationally designed" pipeline in 2003 and is the first such new and specifically designed compound to move into formal development. It has been built "from the ground up" to fulfill very specific criteria. It was designed so that it will be orally bioavailable and cross the blood-brain barrier. PBT2 was selected from several hundred compounds that had been developed by us at such time. It has been designed to have an improved safety and pharmacokinetic profile and has demonstrated significant effectiveness in both pre-clinical *in vitro* and *in vivo* testing. For details regarding our PBT2 clinical trials see above in this Item 4.B. "Information on the Company - Business Overview - Clinical Trials for Our Lead Compound."

MPACs from different chemical classes to those of PBT1 and PBT2, with different structural characteristics have shown differential behavior in screens for neurological disorders other than Alzheimer's disease. For example, over the last few years we have generated a series of MPACs differentiated for their ability to be efficacious in animal models of Parkinson's disease and brain cancer.

Patents and Licenses

Patent Matters

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

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

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

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

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

Patent Portfolio

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

Patent	Status	Invention
“Beta amyloid peptide inhibitors” Filed: July 21, 2000 Applicant: Biomolecular Research Institute and University of Melbourne Assigned to Prana Biotechnology Limited	Patents have been granted in the USA, Canada and Australia.	The invention encompasses claims to specific classes of metallocomplex agents capable of inhibiting binding of specified metal ions to the N-terminus of beta-amyloid and the use of these agents in the treatment of amyloid related conditions including Alzheimer’s Disease.
“Neurotoxic Oligomers” Filed: June 28, 2000 Applicants: Prana Biotechnology Limited and The General Hospital Corporation	Patents have been granted in Australia and New Zealand and the USA. Applications are under examination in the USA (divisional), Canada, China and Japan and Europe.	The invention is directed to an immunotherapy strategy using or targeting tyrosine cross-linked protein aggregates. The approach may be used in the treatment of Alzheimer’s Disease and other amyloid related conditions.
“8-Hydroxyquinoline Derivatives” Filed: July 16, 2003 Applicant: Prana Biotechnology Limited	Patents in Europe, the USA, New Zealand, Canada, Japan, Russia, Singapore, Australia, Mexico and South Africa have been granted. A patent in Hong Kong has been registered. Applications in India, Brazil, South Korea, Israel, and China are under examination.	The invention is directed to chemical scaffolds of the 8-Hydroxyquinoline MPAC class and their utility in the treatment of neurological conditions.
“Neurologically-Active Compounds” Filed: October 3 , 2003 Applicant: Prana Biotechnology Limited	Patents in the USA, New Zealand, Canada, Japan, Mexico, India, Australia, South Africa and Singapore have been Granted. Applications in China, Europe, South Korea, Brazil, Japan and Israel are under examination. A patent in Hong Kong has been processed. Divisional applications have been filed in Europe and the USA.	The invention is directed to alternative MPAC chemical structures and their utility in the treatment of neurological conditions.

Patent	Status	Invention
“Neurologically- Active Compounds” Filed: April 1, 2005 Applicant: Prana Biotechnology Limited	Patents have been Granted in Singapore, Mexico, Australia, New Zealand and South Africa. An application in Russia has been Accepted. Applications in India, Israel, Japan, Europe, the USA and China are under examination. Examination has been requested in Brazil, Canada and Korea. A patent in Hong Kong has been processed.	The invention is directed to ‘F4’ MPAC chemical structures and their utility in the treatment of neurological conditions and includes Parkinson’s Disease lead compounds.
“Use of Clioquinol for the treatment of Alzheimer’s Disease” Filed: February 13, 1998 Applicant: Prana Biotechnology Limited	Patent has been Granted in the USA.	This invention is directed to the use of clioquinol for the treatment of Alzheimer’s Disease.
“Pharmaceutical compositions of Clioquinol with B12 for therapeutic use” Filed: February 13, 1998 Applicant: Prana Biotechnology Limited.	Patent has been Granted in the USA.	This invention is directed to clioquinol pharmaceutical compositions comprising B12.
“Use of Clioquinol for the treatment of Parkinson’s Disease” Filed: February 13, 1998 Applicant: Prana Biotechnology Limited.	Patent has been Granted in the USA.	This invention is directed to the use of clioquinol for the treatment of Parkinson’s Disease.
“Method of treatment and prophylaxis and agents useful for same” Filed: April 13, 2007 Applicant: Prana Biotechnology Limited	A patent has been Granted in Singapore. An application has been Accepted in South Africa. Applications in Australia, Israel and New Zealand are being examined. Applications have been filed in, Canada, China, Europe, the USA, South Korea, Japan, India and Brazil. Divisional applications have been filed in Australia, Israel, New Zealand, Canada, China, Europe, the USA, South Korea, Japan, India and Brazil.	This invention was originally filed to claim the use of MPAC compounds for the treatment of Age related Macular Degeneration. The case has since been divided into two separate applications that each contain composition of matter claims on two different chemical scaffolds.
“A method of prophylaxis or treatment and agents for same” Filed: June 22, 2007 Applicant: Prana Biotechnology Limited	Applications have been filed in Canada, China, Europe, the USA and Japan. An application in Australia is under examination.	This invention is directed to novel MPAC compounds and compounds for treating certain brain cancers.
“Compounds for therapy and diagnosis” Filed: December 5, 2008 Applicant: Prana Biotechnology Limited	A patent has been Granted in New Zealand. Remaining applications in Australia, Canada, Europe, USA and Japan have been filed.	This invention is directed to anti-amyloid (metallocomplexes) compounds for the treatment of Alzheimer’s Disease.
“Processes for the preparation of 8-Hydroxyquinoline Derivatives” Filed: 11 December 2008 Applicant: Prana Biotechnology Limited	An Australian provisional application has been filed.	This invention is directed to synthetic routes for 8-Hydroxyquinoline Derivatives.
“Quinazolinone compounds” Filed: 24 December 2008 Applicant: Prana Biotechnology Limited	National Phase of the international (PCT) application was entered in Australia, Europe, Japan and the USA.	This invention is directed to novel MPAC compounds and to selected MPAC’s used in the treatment of Parkinson’s Disease.

Patents and License Agreements

On February 8, 2000, we entered into a patent assignment and intellectual property licensing agreement with The Biomolecular Research Institute, or BRI, under which two patent applications were assigned to us. One is an international patent application (PCT application) entitled 'Beta-Amyloid Peptide Inhibitors' which is granted in Australia, Canada and in the United States and in prosecution in Europe and Japan. The invention is directed to compounds which block the metal binding site on Beta-Amyloid. The technologies or products that may arise from this invention include metallo-based compounds as therapeutics or preventative treatments for Alzheimer's disease. The other patent entitled 'Method of Screening for inhibitors of Alzheimer's Disease,' an Australian provisional application that matured into a patent application in the United States, was allowed to lapse in the second half of 2009. In consideration of the assignment of the patents, we are required to pay BRI a royalty of 1.5% on the net invoiced price of products sold utilizing such patents. In addition, we must also pay the lesser of 1.5% of the net invoice price of products sold or 10% of royalties received from any licensee or sub-licensee we appoint to utilize such patents, or a minimum of A\$2,000 a year. If the patent rights are assigned before a total of A\$20,000 has been paid as royalties, the difference between the royalties paid and A\$20,000 must be paid to BRI. To date, we paid a total of \$350,000 under the agreement, all of which amount was paid in 2000. On September 10, 2007, we, BRI and the Commonwealth Scientific and Industrial Research Organization, or CSIRO, executed an Assignment and Novation Deed under which BRI assigned to CSIRO all of its rights and obligations under the patent assignment agreement, including entitlement to royalties.

On January 1, 2001, we entered into a license agreement with GHC, under which we licensed from GHC certain patents. The agreement was subsequently amended on August 8, 2001 and March 15, 2004. Under the agreement, as amended, the license for a particular patent expires at the end of the term of the patent rights under the respective patent. In general, the anticipated patent expiration date is 20 years from the filing date of the respective patent application. Under the agreement, we agreed to pay GHC a total of U.S.\$166,590 in monthly installments over a 30 month period beginning January 1, 2001 and U.S.\$182,000 in monthly installments over a 30 month period beginning August 1, 2001 for the right to use the results of research under the license agreement. Such obligations have been satisfied by us in full, and we hold the rights under the license. We currently retain a license under the agreement with GHC for the patent 'Neurotoxic Oligomers.' This international patent application (PCT application) was filed on June 28, 2000 and matured into national phase prosecution in Canada, China, Europe, Japan and the United States. Patents have been granted in Australia and New Zealand to both active vaccines and the use of antibodies as a passive vaccine for Alzheimer's disease. A patent has also been granted in the United States containing claims to an active vaccine and a further divisional patent has been filed in the United States that contains claims to antibodies as a passive vaccine for Alzheimer's disease. The patent is expected to expire on June 28, 2020. The invention is directed to a novel target for an Alzheimer's disease vaccine. The technologies or products that may arise from this invention include toxic dimerized full length or fragments of beta-amyloid as active vaccines for Alzheimer's disease or antibodies to these beta-amyloid fragments as passive vaccines for Alzheimer's disease. The license provides for potential payments to GHC of an aggregate U.S.\$1.5 million, in accordance with the following milestones: (i) U.S.\$500,000 upon the submission of a registration dossier in the United States or Europe; and (ii) U.S.\$1.0 million upon the first approval of a product arising from the invention. The milestones have not been met to date.

Competition

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

Regulatory Considerations

Our ongoing research and development activities are, and the production and marketing of our pharmaceutical product candidates derived from those activities will be, subject to regulation by human research ethics committees and institutional research boards, as well as numerous governmental authorities in Australia, principally the TGA (Therapeutic Goods Administration), the FDA (the Food and Drug Administration) in the United States, the MHRA (Medicines Control Agency) in the United Kingdom and the EMEA (European Medicines Evaluation Authority). Prior to marketing, any therapeutic product developed must undergo rigorous pre-clinical testing and clinical trials, as well as an extensive regulatory approval process mandated by the TGA and, to the extent that any of our pharmaceutical products under development are marketed abroad, by foreign regulatory agencies, including the FDA, EMEA and MHRA.

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

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

For details regarding clinical trials for our lead compound PBT2, see Item 4.B. “Information on the Company - Business Overview - Clinical Trials for Our Lead Compound.” We cannot make any assurances that we will be able to enter into a collaborative arrangement with a large pharmaceutical or biotechnology company to commercialize PBT2. Nor can we make any assurances that once clinical trials are completed by us or a collaborative partner, we will be able to submit as scheduled a marketing approval request to the applicable governmental regulatory authority, or that such request and application will be reviewed and cleared by such governmental authority in a timely manner, or at all. Although we intend to make use of fast-track and abbreviated regulatory approval programs when possible and commercially appropriate, we cannot be certain that we will be able to obtain the clearances and approvals necessary for clinical testing or for manufacturing and marketing our pharmaceutical products candidates.

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

Manufacturing and Raw Materials

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

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

C. ORGANIZATIONAL STRUCTURE

Our two wholly owned subsidiaries, Prana Biotechnology Inc., incorporated in the United States, and Prana Biotechnology UK plc, incorporated in the United Kingdom, are currently inactive.

D. PROPERTY, PLANTS AND EQUIPMENT

Our executive offices are located at 369 Royal Parade, Parkville, Victoria 3052, Australia, where we occupy approximately 3,800 square feet. The lease for the office space, which expires on October 31, 2011, has an annual rental of approximately A\$99,064 for the period through October 31, 2011. We intend to exercise our option to extend the term of our lease for an additional 12 months, at an annual rent of approximately A\$112,930.

We own computer equipment, office furniture and laboratory equipment.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

A. OPERATING RESULTS

Background

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

Our consolidated financial statements appearing in this annual report are prepared in Australian dollars and in accordance with IFRS as issued by IASB. Our consolidated financial statements appearing in this annual report comply with both IFRS as issued by IASB and A-IFRS. In this annual report, all references to “U.S. dollars” or “US\$” are to the currency of the United States of America, and all references to “Australian dollars” or “A\$” are to the currency of Australia.

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

Overview

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

Since completing our initial public offering and listing process on the ASX on March 28, 2000, we have concentrated our resources toward the pursuit of our disease targets. Initially we focused on clinical trials of our PBT1 compound as a therapeutic for the treatment of Alzheimer’s disease, which we ceased in April 2005 due to an unacceptably high level of an impurity found in the compound. In early August 2003, our PBT2 compound was announced as a new lead metal protein attenuating compound, or MPAC, molecule for Alzheimer’s disease. We have completed two Phase I studies of PBT2 and a Phase IIa clinical trial for PBT2 in patients with Alzheimer’s disease. We are currently in the planning phase to initiate a Phase II imaging trial in Alzheimer’s disease and Phase IIa trial in Huntington’s disease. For details regarding clinical trials for our lead compound PBT2, see Item 4.B. “Information on the Company - Business Overview - Clinical Trials for Our Lead Compound.”

Critical Accounting Policies

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

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

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

Other income recognition. We recognize other income to the extent that it is probable that the economic benefits will flow to us and the other income can be reliably measured. Reimbursements of expenses are recognized as an offset of the expense (see Note 4a to the consolidated financial statements).

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

Significant Costs and Expenses

Research and development expenses, net. Our research and development expenses consist primarily of expenses for contracted research and development activities conducted by third parties on our behalf. Research and development expenses also include costs associated with the acquisition and development of patents.

Personnel expenses. Our personnel expenses consist of directors' fees, consultancy fees paid to clinicians and scientists, salaries and benefits paid to employees and officers, and equity-based payments awarded to directors, officers and employees. Personnel expenses include salaries and fees paid to employees and consultants involved in research and development activities.

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

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

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

Public relations and marketing expenses. Our public relations and marketing expenses consist of fees paid to outside consultants for services related to ASX and NASDAQ announcements and presentations.

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

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

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

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

Gain (loss) on fair value of financial liabilities. Each reporting period we are required to revalue financial liabilities. We recorded financial liabilities attributable to warrants that were issued to the investors in our private placement in the United States in June 2004 and with respect to options issued in a private placement to investors in February 2011. The warrants which were issued in 2004 expired on June 4, 2009, permitted the investors to purchase an aggregate 3,000,000 ADRs at an exercise price of US\$8.00 per ADR. Because the warrants were exercisable in a currency that is not the functional currency of our company, they were required to be classified as a financial liability. These warrants expired without being exercised. The 2011 options, which expire on February 25, 2016, permit the investors to purchase an aggregate 612,397 ordinary shares at an exercise price of A\$0.17 per share. When the fair value of the outstanding 2011 options increase or decrease, the difference is recorded as a gain or loss, as applicable, on the fair value of financial liabilities.

Results of Operations

Year ended June 30, 2011 compared to year ended June 30, 2010

Revenue from continuing operations

Revenue from continuing operations (consisting of interest income only) decreased to A\$156,135 for the year ended June 30, 2011 from A\$215,008 for the year ended June 30, 2010, a decrease of A\$58,873, or 27.38%. The decrease in revenue from continuing operations in the 2011 fiscal year is primarily attributable to lower cash and cash equivalents throughout the year and lower prevailing interest rates.

Other Income

We had other income of A\$6,785 for the year ended June 30, 2011 relating to donations received by the Company from unrelated third parties. We did not have other income for the year ended June 30, 2010.

Research and development expenses, net

Our net research and development expenses (including research and development expenses paid to related parties) increased to A\$2,329,491 for the year ended June 30, 2011 from A\$87,992 for the year ended June 30, 2010, an increase of A\$2,241,499, or 2,547.39%. The increase in research and development expenses in the year ended June 30, 2011 is primarily attributable to substantial expenses for the scale up manufacturing of our PBT2 active pharmaceutical ingredient, or API, and the engagement of a clinical research organization to initiate pre-trial activities for a Phase II trial of PBT2 in Alzheimer's disease. In the year ended June 30, 2010, our research and development expenses were offset by A\$2,252,385 cash reimbursement that we received under a research and development contract. We anticipate that in fiscal year 2012, our research and development expenditure will be primarily directed at a Phase II imaging trial for PBT2 in Alzheimer's disease patients and a Phase II trial for PBT2 in Huntington's disease patients that we intend to initiate in the fourth calendar quarter of 2011. In addition, we also intend to investigate lead MPAC candidate compounds for Parkinson's disease and brain cancer models.

Personnel expenses

Personnel expenses decreased to A\$2,394,298 for the year ended June 30, 2011 from A\$3,087,234 for the year ended June 30, 2010, a decrease of A\$692,936, or 22.45%. The decrease in personnel expenses in the 2011 fiscal year is primarily attributable to decreased equity-based compensation in the form of options and shares issued to directors, employees and consultants. In the 2011 fiscal year, we expensed A\$101,464 in respect of equity-based payments to directors, consultants and employees compared to A\$730,480 in the 2010 fiscal year. Personnel expenses in the 2011 and 2010 fiscal years include a portion of the total fair value of options granted to our directors and employees in the previous fiscal years of A\$41,298 and A\$214,951, respectively.

Intellectual property expenses

Intellectual property expenses, which include patent portfolio costs and intellectual property related legal costs, decreased to A\$399,237 for the year ended June 30, 2011 from A\$431,082 for the year ended June 30, 2010, a decrease of A\$31,845, or 7.39%. The decrease in intellectual property expenses in the 2011 fiscal year was primarily due to the completion of substantial prosecution of a key international patent application and reducing the size of the portfolio.

Auditor and accounting expenses

Auditor and accounting expenses decreased to A\$157,436 for the year ended June 30, 2011 from A\$168,909 for the year ended June 30, 2010, a decrease of A\$11,473, or 6.79%. The decrease in auditor and accounting expenses in the 2011 fiscal year is primarily attributable to a decrease in auditor fees resulting from decreased costs associated with preparation for the expected auditor attestation report on our internal control over financial reporting, which requirement does not apply to our company.

Travel expenses

Travel expenses decreased to A\$159,971 for the year ended June 30, 2011 from A\$234,555 for the year ended June 30, 2010, a decrease of A\$74,584, or 31.80%. The decrease in travel expenses in the 2011 fiscal year is primarily attributable to decreased overseas travel by executives and consultants for company business meetings.

Public relations and marketing expenses

Public relations and marketing expenses decreased to A\$110,646 for the year ended June 30, 2011 from A\$130,090 for the year ended June 30, 2010, a decrease of A\$19,444, or 14.95%. Our public relations and marketing expenses consist primarily of costs relating to our U.S.-based investor relations consultants. The decrease in public relations and marketing expenses in the 2011 fiscal year is primarily attributable to the appreciation of the Australian dollar against the U.S. dollar during the twelve months ended June 30, 2011, which decreased the Australian dollar value of such U.S. dollar denominated expenses.

Depreciation expenses

Depreciation expenses decreased to A\$31,577 for the year ended June 30, 2011 from A\$35,290 for the year ended June 30, 2010, a decrease of A\$3,713, or 10.52%. The decrease in depreciation expenses in the 2011 fiscal year is primarily attributable to a A\$5,437 write-off of computer equipment in the 2011 fiscal year. Additional plant and computer equipment in the aggregate amount of A\$13,961 was purchased during the 2011 fiscal year.

Other expenses

Other expenses from ordinary activities decreased to A\$857,281 for the year ended June 30, 2011 from A\$940,699 for the year ended June 30, 2010, a decrease of A\$83,418, or 8.87%. The decrease in other expenses in the 2011 fiscal year is primarily attributable to a decrease in insurance, legal and office costs.

Foreign exchange gain (loss)

We recorded a foreign exchange loss of A\$145,377 for the year ended June 30, 2011 compared to a foreign exchange loss of A\$6,079 for the year ended June 30, 2010. Foreign exchange gain (loss) reflects the impact of changes in foreign currency exchange rates on cash that we hold in U.S. dollars, Great British Pounds and Euro. In the 2011 and 2010 fiscal years, the Australian dollar appreciated against the U.S. dollar, which had an adverse impact on the Australian dollar value of our cash held in U.S. dollars. In fiscal 2011, we incurred a foreign exchange loss of A\$132,230 attributable to the cash balances that we held in U.S. dollars, a foreign exchange loss of A\$125 attributable to the cash balances that were held in British Pounds, a foreign exchange loss of A\$17,176 attributable to cash balances that were held in Euros and a foreign exchange gain of A\$4,154 attributable to foreign currency transactions. In fiscal 2010, we incurred a foreign exchange gain of A\$38,584 attributable to the cash balances that we held in U.S. dollars, a foreign exchange loss of A\$108 attributable to the cash balances that were held in British Pounds, a foreign exchange loss of A\$40,492 attributable to cash balances that were held in Euros and a foreign exchange loss of A\$4,063 attributable to foreign currency transactions.

Gain (loss) on fair value of financial liabilities

We recorded a loss on fair value of financial liabilities of A\$8,791 for the year ended June 30, 2011, attributable to the warrants that were issued in connection with an agreement signed with the Alzheimer's Drug Discovery Foundation (ADDF). The Company issued 612,397 warrants over ordinary shares to the ADDF representing 30% of the value of the first tranche of a grant of US\$350,000 received during the financial year. The warrants issued have an exercise price of A\$0.17 and expire on February 25, 2016. The gain and loss on fair value of financial liabilities is attributable to the changes in the market price of our ADRs and the volatility of the ADR market price. We did not record a gain or loss on fair valuation of financial liabilities for the 2010 fiscal year.

Year ended June 30, 2010 compared to year ended June 30, 2009

Revenue from continuing operations

Revenue from continuing operations decreased to A\$215,008 for the year ended June 30, 2010 from A\$428,193 for the year ended June 30, 2009, a decrease of A\$213,185, or 49.79%. Revenue from continuing operations consisted of A\$215,008 and A\$428,154 in interest income for the years ended June 30, 2010 and 2009, respectively. The decrease in revenue from continuing operations in the 2010 fiscal year is primarily attributable to lower interest income as a result of a reduction in cash and cash equivalents and lower prevailing interest rates.

Other Income

We did not have other income for the years ended June 30, 2010 and 2009.

Research and development expenses, net

Our net research and development expenses (including research and development expenses paid to related parties) decreased to A\$87,992 for the year ended June 30, 2010 from A\$2,215,358 for the year ended June 30, 2009, a decrease of A\$2,127,366, or 96.03%. For the year ended June 30, 2010, we incurred research and development expenses of A\$2,340,377 (including research and development expenses paid to related parties), which amount was offset by a A\$2,252,385 cash reimbursement that we received under a research and development contract.

Personnel expenses

Personnel expenses decreased to A\$3,087,234 for the year ended June 30, 2010 from A\$3,832,804 for the year ended June 30, 2009, a decrease of A\$745,570, or 19.45%. The decrease in personnel expenses in the 2010 fiscal year is primarily attributable to decreased equity-based compensation in the form of options and shares issued to directors, employees and consultants. In the 2010 fiscal year, we expensed A\$730,480 in respect of equity-based payments to directors, consultants and employees compared to A\$1,305,471 in the 2009 fiscal year. Personnel expenses in the 2010 and 2009 fiscal years include a portion of the total fair value of options granted to our directors and employees in the previous fiscal years of A\$214,952 and A\$516,432, respectively. The decrease in personnel expense in the 2010 fiscal year is also due to a decrease in consulting and director fees for such period.

Intellectual property expenses

Intellectual property expenses, which include patent portfolio costs and intellectual property related legal costs, decreased to A\$431,082 for the year ended June 30, 2010 from A\$1,107,534 for the year ended June 30, 2009, a decrease of A\$676,452, or 61.08%. The decrease in intellectual property expenses in the 2010 fiscal year was primarily due to substantially reduced intellectual licensing activity in such period. In addition, patent portfolio costs decreased to A\$426,105 in the 2010 fiscal year from A\$628,865 in the 2009 fiscal year, primarily due to the completion of prosecution of key patents in Europe and Japan during the 2009 fiscal year.

Auditor and accounting expenses

Auditor and accounting expenses increased to A\$168,909 for the year ended June 30, 2010 from A\$129,998 for the year ended June 30, 2009, an increase of A\$38,911, or 29.93%. The increase in auditor and accounting expenses in the 2010 fiscal year is primarily attributable to an increase in auditor fees resulting from increased market rates and costs associated with preparation for the expected auditor attestation report on our internal control over financial reporting, which requirements no longer applies to our company .

Travel expenses

Travel expenses increased to A\$234,555 for the year ended June 30, 2010 from A\$195,251 for the year ended June 30, 2009, an increase of A\$39,304, or 20.13%. The increase in travel expenses in the 2010 fiscal year is primarily attributable to increased overseas travel by executives and consultants for activities associated with Phase II studies for PBT2.

Public relations and marketing expenses

Public relations and marketing expenses decreased to A\$130,090 for the year ended June 30, 2010 from A\$222,679 for the year ended June 30, 2009, a decrease of A\$92,589, or 41.58%. Our public relations and marketing expenses consist primarily of costs relating to our U.S.-based investor relations consultants. The decrease in public relations and marketing expenses in the 2010 fiscal year is primarily attributable to a decrease in public relations consultant fees, together with the appreciation of the Australian dollar against the U.S. dollar during the 2010 fiscal year, which decreased the Australian dollar value of such U.S. dollar denominated expenses.

Depreciation expenses

Depreciation expenses increased to A\$35,290 for the year ended June 30, 2010 from A\$34,190 for the year ended June 30, 2009, an increase of A\$1,100, or 3.2%. The increase in depreciation expenses in the 2010 fiscal year is primarily attributable to additional plant and computer equipment in the aggregate amount of A\$22,665 that we purchased during the 2010 fiscal year.

Other expenses

Other expenses decreased to A\$940,699 for the year ended June 30, 2010 from A\$978,875 for the year ended June 30, 2009, a decrease of A\$38,176, or 3.9% . The decrease in other expenses in the 2010 fiscal year is primarily attributable to a decrease in insurance and office costs.

Foreign exchange gain (loss)

We recorded a foreign exchange loss of A\$6,079 for the year ended June 30, 2010 compared to a foreign exchange loss of A\$6,723 for the year ended June 30, 2009. Foreign exchange gain (loss) reflects the impact of changes in foreign currency exchange rates on cash that we hold in U.S. dollars, Great British Pounds and Euro. In the 2010 fiscal year, the Australian dollar appreciated against the U.S. dollar, while in the 2009 fiscal year the Australian dollar depreciated against the U.S. dollar. In fiscal 2010, we incurred a foreign exchange gain of A\$38,584 attributable to the cash balances that we held in U.S. dollars, a foreign exchange loss of A\$108 attributable to the cash balances that were held in British Pounds, a foreign exchange loss of A\$40,492 attributable to cash balances that were held in Euros and a foreign exchange loss of A\$4,063 attributable to foreign currency transactions. In fiscal 2009, we incurred a foreign exchange gain of A\$5,536 attributable to the cash balances that we held in U.S. dollars, a foreign exchange gain of A\$5,893 attributable to the cash balances that were held in British Pounds, a foreign exchange gain of A\$4,072 attributable to cash balances that were held in Euros and a foreign exchange loss of A\$22,224 attributable to foreign currency transactions.

Gain (loss) on fair value of financial liabilities

We did not record a gain or loss on fair valuation of financial liabilities for 2010 fiscal year. We recorded a gain on fair value of financial liabilities of AS\$772,430 for the year ended June 30, 2009 attributable to the warrants that were issued in connection with our private placement of securities in the United States in June 2004 that expired on June 4, 2009. The gain and loss on fair value of financial liabilities is attributable to the changes in the market price of our ADRs and the volatility of the ADR market price.

Inflation and Seasonality

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

Conditions in Australia

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

Recently Issued International Accounting Standards and Pronouncements

Certain new Australian accounting standards and interpretations (and their equivalent IASB standards) have been published that are not mandatory for June 30, 2011 reporting periods. Our assessment of the impact of these new standards and interpretations is described below.

AASB 124 Related Party Disclosures (effective January 1, 2011)

The revised AASB 124 changed the definition of a "related party", by clarifying its meaning and eliminating inconsistencies from the definition, including: (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; (b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer considered related parties of each other; and (c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures. We intend to apply the amendment from July 1, 2011, and it is not expected to have any impact on our financial statements.

AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (effective January 1, 2013)[AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127].

The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: (a) The change attributable to changes in credit risk are presented in other comprehensive income (OCI); (b) The remaining change is presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Initial application of the following Standards and Interpretations will not affect any of the amounts recognized in our financial report, but may change the presentation of the disclosures presently made:

AASB 9 <i>Financial Instruments</i> and AASB 2009-11 <i>Amendments to Australian Accounting Standards arising from AASB 9</i>	Effective January 1, 2013
Revised AASB 124 <i>Related Party Disclosures</i> and AASB 2009-12 <i>Amendments to Australian Accounting Standards</i>	Effective January 1, 2011
AASB 2010-4 <i>Further amendments to Australian Accounting Standards arising from the Annual Improvements Process</i>	Effective January 1, 2011
AASB 2010-5 <i>Amendments to Australian Accounting Standards</i>	Effective January 1, 2011
Revised AASB 9 <i>Financial Instruments</i> and AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i>	Effective January 1, 2013
IFRS 10 <i>Consolidated financial statements</i> , IFRS 11 <i>Joint Arrangements</i> , IFRS 12 <i>Disclosure of interests in other entities</i> and revised IAS 27 <i>Separate financial statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i>	Effective January 1, 2013
IFRS 13 <i>Fair value measurement</i>	Effective January 1, 2013
Revised IAS 1 <i>Presentation of Financial Statements</i>	Effective July 1, 2012
AASB 2011-4 <i>Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements</i>	Effective July 1, 2013

B. LIQUIDITY AND CAPITAL RESOURCES

We are a development stage company and have had no sales income to date, and as of June 30, 2011 our accumulated deficit totaled A\$84,904,612. From inception until our initial public offering in March 2000 we financed our operations primarily through borrowings from two of our then directors, which were repaid from the proceeds of such offering. Since our initial public offering we have financed our operations primarily through sales of equity securities, proceeds from the exercise of options, government grants, licensing and research collaborations and interest earned on investments. During the period from 2001 to 2006, we were awarded government grants in the aggregate amount of A\$3.3 million, but we have not received any government grants since 2006.

In December 2008, we raised A\$114,000 (before costs) from the exercise of options previously granted to a consultant. The options were exercised at A\$0.285 per ordinary share (approximately US\$4.43 per ADR).

In September 2009, we raised A\$6.0 million before costs (approximately A\$5.7 million net of costs) in a private placement to one of our institutional shareholders in the United States of 30 million ordinary shares (equivalent to three million ADRs) at a price of A\$0.20 per share (A\$2.0 per ADR). We also agreed to grant the investor, subject to shareholder approval, options to purchase 10 million ordinary shares (equivalent to one million ADRs) at an exercise price of A\$0.30 per share (A\$3.0 per ADR) that will expire four years after the date of the issuance of the shares in the private placement. Shareholder approval for the issuance of the shares and option grant was obtained in November 2009. We also agreed to issue to the investor up to an additional 3,000,000 ordinary shares, or 300,000 ADRs, if the daily closing price of our ordinary shares on the ASX on any day from the date of the private placement until five days after the date on which the registration statement for the ordinary shares issued in the private placement is declared effective, declines below A\$0.19, based on a formula set forth in the agreement. The foregoing condition was met and based on the agreed upon formula, we issued to the investor an additional 750,000 ordinary shares, pursuant to the approval of our shareholders obtained in November 2009. For additional information, see Item 10.C. "Additional Information - Material Contracts."

In July 2010, we raised A\$1.15 million (US\$1.0 million) (before costs) in a private placement of 7.065 million of our ordinary shares (equivalent to 0.7 million ADRs) to Quintiles, at a price of A\$0.1624 per ordinary share (US\$1.624 per ADR). For additional information, see Item 10.C. "Additional Information - Material Contracts."

On February 21, 2011, the Alzheimer's Drug Discovery Foundation, or ADDF, awarded us a grant of US\$700,000, to be provided in two equal instalments over two years, of which \$350,000 was already provided. The ADDF is based in New York and functions on a venture philanthropy model. We issued to ADDF a convertible promissory note in the principal amount of the grant and a five-year warrant to purchase 612,397 ordinary shares of our company at a price per share of A\$0.17 (equivalent to US\$0.169), being the closing pricing of our ordinary shares on the ASX on the date of our agreement with ADDF. We have also agreed to issue an additional five-year warrant to purchase US\$105,000 of ordinary shares of our company at a price per share equal to the closing price of our ordinary shares on the ASX on the date of the receipt of the second instalment of US\$350,000. The note will become due and payable on February 25, 2014, unless converted earlier. We may, under certain conditions, elect to issue our ordinary shares to satisfy our repayment obligation at a price per shares equal to 80% of the then prevailing volume weighted average price of our ordinary shares on the ASX during the five trading days prior to the issuance. Under the terms of the convertible note, the ADDF may elect, at its discretion, to convert the promissory note into ordinary shares of our company following the consummation by us of a debt or equity financing to third party investors resulting in gross proceeds to our company of at least US\$1.0 million, or upon a sale of our company. Following the completion of the private placement described in the following paragraph, the ADDF is now entitled to convert the note under the same terms as such private placement, or under the same terms as any subsequent financing that we may complete prior to the conversion or repayment of the note. The purpose of the grants is to support a Phase II imaging trial with PBT2 to investigate the effect of PBT2 on the deposition of beta-amyloid in the brains of patients with mild Alzheimer's disease.

On March 28, 2011, we completed a private placement of our securities to institutional investors for aggregate gross proceeds of approximately A\$6.12 million (US\$6.19 million). Under the terms of the offering, we sold an aggregate of approximately 27,200,000 ordinary shares (equivalent to 2,720,000 ADRs) at a price of A\$0.225 per share (A\$2.25 per ADR). We also granted to the investors options to purchase up to an aggregate of approximately 6,800,000 ordinary shares (equivalent to 680,000 ADRs) at an exercise price of A\$0.225 per share (A\$2.25 per ADR). The options are exercisable for a term of four years, and the exercise price is subject to future adjustment for various events, such as stock splits or dividend distributions.

On June 30, 2011, we completed a private placement of 5.69 million of our ordinary shares to institutional investors and Quintiles Limited, at a price of A\$0.225 per share, for aggregate gross proceeds of approximately A\$1.28 million (US\$1.4 million). We also granted the investors options to purchase 1.42 million ordinary shares at an exercise price of A\$0.225 per share that will expire March 24, 2015.

On July 13, 2011, we entered into an At-The-Market Issuance Sales Agreement with McNicoll, Lewis & Vlak LLC, or MLV, under which we may sell American Depositary Shares, or ADSs, each representing ten ordinary shares, from time to time through MLV, as our agent for the offer and sale of the ADSs. The aggregate offering price for the ordinary shares represented by ADSs may not exceed the aggregate amount that can be sold under the registration statement that we filed on May 17, 2011, which amount, as of the date of this annual report, is US\$50 million. We currently have prospectus outstanding permitting the sale of up to 50 million ordinary shares or 5 million ADSs. The ADSs are evidenced by ADRs. We will pay MLV a commission equal to 3% of the gross proceeds of the sales price of all ADSs sold through it as sales agent under the sales agreement. Because there is no minimum offering amount required as a condition to closing this offering, the actual total public offering amount, commissions and proceeds to us, if any, are not determinable at this time. For additional information regarding the agreement, see Item 10 "Additional Information - Material Contracts."

From inception to June 30, 2011, our capital expenditures have totaled A\$527,722 (including A\$200,000 of noncash expenditures), consisting of computer equipment, furniture and fixtures, fit-out costs and laboratory equipment that is being used in connection with our research at the University of Melbourne. Capital expenditures for equipment are depreciated on a straight-line basis over the estimated useful lives of three to 20 years, with a net balance at June 30, 2011 of A\$40,909. We currently do not have significant capital spending requirements, but we expect to continue to engage in capital spending consistent with anticipated growth in our operations and personnel.

We had A\$8,838,245 of cash and cash equivalents at June 30, 2011, compared to A\$5,227,298 at June 30, 2010.

Our directors believe that the going concern basis of preparation of our financial statements for the fiscal year ended June 30, 2011 is appropriate given our cash position.

In addition, on July 14, 2011, we announced that we had filed a prospectus supplement to sell up to an aggregate 50,000,000 ordinary shares, represented by 5,000,000 American Depositary Receipts (ADRs) through an "at-the-market" (ATM) facility. If utilised, the ADRs would be offered through McNicoll, Lewis & Vlak LLC (MLV) as sales agent who, at our discretion and instruction, will use its commercially reasonable efforts to sell the ADRs at market prices from time to time, including sales made by means of ordinary brokers' transactions on the NASDAQ Capital Market. We are also continuing to pursue raising additional funds through alternative funding structures. In addition, we have the ability to scale down our operations and prioritise our research and development programs in neurology should the need arise to conserve cash.

At this time, our directors are of the opinion that no asset is likely to be realized for an amount less than the amount at which it is recorded in the Statement of Financial Position as of June 30, 2011. Therefore, no adjustments have been made to our consolidated financial statements relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should we not continue as a going concern.

Cash Flows

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

	Year ended June 30,		
	2011	2010 (A\$)	2009
Net cash used in operating activities	(4,558,415)	(4,708,939)	(6,994,174)
Net cash used in investing activities	(16,364)	(22,667)	(36,192)
Net cash provided by financing activities	8,335,258	5,655,944	100,807
Net increase (decrease) in cash and cash equivalents	3,760,479	924,338	(6,929,559)
Cash and cash equivalents at beginning of period	5,227,298	4,304,977	11,219,035
Exchange rate adjustments on cash held in foreign currencies	(149,532)	(2,017)	15,501
Cash and cash equivalents at end of period	8,838,245	5,227,298	4,304,977

Net cash used in operating activities was A\$4,558,415, A\$4,708,939 and A\$6,994,174 during the years ended June 30, 2011, 2010 and 2009, respectively. Our payments to suppliers and employees during the years ended June 30, 2011, 2010 and 2009 were A\$4,714,771, A\$4,923,648 and A\$7,511,372, respectively. The A\$208,877 decrease from the year ended June 30, 2010 to the year ended June 30, 2011 was not significant and reflects the Company's continued maintenance of its research and development programs. The decrease from the year ended June 30, 2009 to the year ended June 30, 2010 was primarily due to a decrease in research and development expenditure. During the year ended June 30, 2010, our research and development expenditure was offset by a A\$2,252,385, cash reimbursement under a research and development contract. During the years ended June 30, 2011, 2010 and 2009, our payments to suppliers and employees was offset by interest income of A\$156,366, A\$214,709 and A\$517,198, respectively.

Net cash used in investing activities was A\$16,364, A\$22,667 and A\$36,192 during the years ended June 30, 2011, 2010 and 2009, respectively. Cash flows used for investing activities was primarily attributable to payments for the purchase of property and equipment for the years ended June 30, 2011, 2010 and 2009.

Net cash provided by financing activities was A\$8,335,258, A\$5,655,944 and A\$100,807 for the years ended June 30, 2011, 2010 and 2009. Cash flows provided by financing activities during the year ended June 30, 2011 is primarily attributable to a A\$6.12 million (US\$6.19 million) private placement of our securities to institutional investors in March 2011, as well as private placements of our ordinary shares to Quintiles in July 2010 and June 2011 and grants awarded to us by the ADDF. Cash flows provided by financing activities during the year ended June 30, 2010 are attributable to a private placement of our ordinary shares to an institutional investor in the United States in September 2009. Cash flows provided by financing activities during the year ended June 30, 2009 are attributable to a consultant exercising options to purchase 400,000 ordinary shares at an exercise price of A\$0.285 per share (after costs).

We realized a foreign exchange loss of A\$149,532 for the year ended June 30, 2011 compared to a foreign exchange loss of A\$2,017 for the year ended June 30, 2010 and a foreign exchange gain of A\$15,501 for the year ended June 30, 2009. In 2010 and 2011, the Australian dollar appreciated against the U.S. dollar by 5% and 20%, respectively, while in 2009, the Australian dollar depreciated against the U.S. dollar by 16%.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

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

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

Research and development expenses, net amounted to A\$2,329,491, A\$87,992 and A\$2,215,358 during the years ended June 30, 2011, 2010 and 2009, respectively. Costs associated with patent applications and defense of patent applications are classified as intellectual property expenses and amounted to A\$399,237, A\$431,082 and A\$1,107,534 during the years ended June 30, 2011, 2010 and 2009, respectively.

Our research and development expenses consist primarily of expenses for contracted research and development activities conducted by third parties on our behalf, including personnel, testing facilities and other payments in accordance with our research and clinical agreements. Research and development expenses also include costs associated with the acquisition and development of patents. We do not maintain accounting systems to accurately track research and development costs on an individual project basis because a significant portion of our historic research and development expenses benefited our two major research and development projects, and therefore were not tracked individually by project; rather, we tracked these costs by the type of costs incurred. Such costs are charged to operations as incurred. See Note 4 to the consolidated financial statements. Due to the numerous variables and the uncertain nature of the development of a clinical compound, we are not able to reasonably estimate the nature, timing and costs of the future expenditures necessary to complete our research and development projects, the anticipated completion dates of each project and when material net cash flows from our research and development programs will commence.

D. TREND INFORMATION

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

E. OFF-BALANCE SHEET ARRANGEMENTS

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

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our minimum contractual obligations as of June 30, 2011.

Contractual Obligations	Payments due by period				
	Total	less than 1 year	1-3 years	3-5 Years	more than 5 years
Operating lease obligations	33,021	33,021	—	—	—
Purchase obligations*	855,061	801,663	53,398	—	—
Total	888,082	834,684	53,398	—	—

* Purchase obligations relate solely to our patents and license agreements described under Item 4.B. "Information on the Company - Business Overview - Patents and License Agreements." and our research and development agreement described under Item 10 "Additional Information - Material Contracts." Purchase obligations exclude obligations under our employment agreements with Mr. Geoffrey Kempler, our Chief Executive Officer, and Ms. Dianne Angus, our Chief Operating Officer (see Item 6.C. "Operating and Financial Review and Prospects - Compensation") and our consulting agreement with Professor Ashley Bush (see Item 10. "Additional Information - Material Contracts"). See Note 17 to our consolidated financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

Our directors and executive officers are as follows:

Name	Age	Position
Geoffrey P. Kempler	56	Chairman of the Board of Directors and Chief Executive Officer
Richard Revelins	49	Chief Financial Officer and Secretary
Dianne Angus	51	Chief Operating Officer
Peter Marks(1)	55	Director
Brian D. Meltzer(1)(2)	57	Director
George W. Mihaly(1)(2)	58	Director
Lawrence Gozlan	32	Director

(1) Member of the Audit Committee

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

Geoffrey Paul Kempler has served as the Chairman of our Board of Directors since November 1997, between November 1997 and August 2004 he served as our Chief Executive Officer, and in June 2005 he again assumed the position of Chief Executive Officer. Mr. Kempler is one of the founders of our company. Mr. Kempler is a qualified psychologist. Mr. Kempler, who has extensive experience in investment and business development, has been responsible for the implementation of our strategic plan and the commercialization of our technology. Mr. Kempler holds a B.Sc degree in science from Monash University and a Grad. Dip. App. Soc. Psych. degree from Swinburne University.

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

Dianne Angus has served as our Chief Operating Office since May 2007. Ms. Angus joined our company in August 2002, initially serving as our Vice President of Intellectual Property and Licensing, she was promoted to Senior Vice President of Business Development, Intellectual Property and Research in July 2004 and served in that position until being promoted to her current position in May 2007. From 1992 to 2000, Ms Angus managed the intellectual property, licensing and biotechnology product development assets of two Australian companies, AMRAD Corporation Limited and Florigene Limited. At Florigene, Ms. Angus was the joint venture alliance manager with Suntory for three years. From June 2000 to August 2002, Ms Angus was Director of Dianne Angus and Associates Pty. Ltd. providing strategic business development, technology evaluation and intellectual property consulting services to biotechnology companies. Ms. Angus has worked in the commercial biotechnology sector for over 18 years directing product valuation, acquisition and product licensing. During her career, Ms. Angus has managed large and diverse intellectual property portfolios, contract rights and enforcement. Ms Angus has negotiated and executed many commercial licenses and research and product development agreements with entities ranging from large pharmaceutical companies to numerous global research institutes. Ms. Angus has also undertaken due diligence assessments on several Australian biotechnology companies for investment brokers. Ms. Angus holds a Bachelor of Science (Education) and Bachelor of Science (Honours) degree from the University of Melbourne, a Master's degree in Biotechnology from Monash University, a Graduate Diploma in Intellectual Property Law from Monash University, a Diploma in Intellectual Property Practice from the Institute of Patent and Trademark Attorneys of Australia and is a registered Australian Patent and Trade Mark Attorney.

Peter Marks has served as a director of our company since July 2005. For the period November 21, 2006 to October 20, 2010, Mr. Marks has also served as Executive Chairman of iSonea Ltd, formally KarmelSonix Ltd, a medical devices company listed on the ASX that is focused on developing and commercializing a range of devices in the respiratory and medicine space. Mr. Marks is currently also a director of Peregrine Corporate Limited, an Australian-based investment bank, and Watermark Global Plc, an AIM listed company, which commercializes the treatment and recycling of acid mine drainage water from South African mines. From September 1998 until March 2001, Mr. Marks was employed by KPMG Corporate Finance Ltd (Australia), where he rose to Director and was responsible for heading up the equity capital markets group in Melbourne. From January 1992 until July 1994, Mr. Marks served as Head of the Melbourne Companies Department at the ASX and was founding Director of Momentum Funds Management Pty Ltd, an Australian venture capital firm. From December 1990 until December 1991, Mr. Marks served as Director of Corporate Finance at Burdett Buckridge & Young Ltd in their Melbourne offices, from August 1988 until November 1990, he held senior corporate finance position 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 valuation, business strategies, acquisitions and international opportunities. Mr. Marks holds a Bachelor of Economics degree, a Bachelor of Law degree and Graduate Diploma in Commercial Law from Monash University in Melbourne, Australia, and an MBA degree from the Scottish School of Business at the University of Edinburgh.

Brian Derek Meltzer has served as a director of our company since December 1999. Mr. Meltzer has over 30 years of experience in economics, finance and investment banking. Mr. Meltzer is a director of Momentum Ventures Limited, licensed by the government as an Innovation Investment Fund with venture capital investments including biotechnology. Mr. Meltzer is a non-executive director on the board of directors of a number of private companies. Mr. Meltzer is also a director on the board of directors of the Australian-Israel Chamber of Commerce and is Chairman of Independence Australia. Mr. Meltzer is Chairman of our Audit Committee, Remuneration Committee and Nomination Committee. Mr. Meltzer holds a Bachelor of Commerce degree from the University of Auckland and a Master of Economics degree from Monash University.

Dr. George William Mihaly has served as director of our company since December 1999. Dr. Mihaly also serves as a director of Waide Pty Ltd., a private company. Dr. Mihaly has had an extensive and successful career spanning the research and commercial facets of the pharmaceutical industry. During the period from mid-1994 to early 2000, Dr. Mihaly was the founding executive Chairman and Managing Director of Synermedica Pty Ltd, or Synermedica, one of Australia's leading independent consultant research organizations to the pharmaceutical industry. Synermedica merged with the global consultant research organization Kendle International Inc. in April 2000 and Dr. Mihaly continued as Managing Director of the merged entity in Australia (now called Kendle Pty Ltd) until December 2004. Over the course of the last 35 years in academia and industry, Dr. Mihaly has amassed extensive experience in both the science and logistics of setting up, monitoring, managing and evaluating results from Phase I, II, III and IV clinical trials. Dr. Mihaly holds a B.Pharm. from Monash University, an M.Sc. degree from Sydney University and a Ph.D. degree from Melbourne University, and he is a fellow of the Australian Institute of Company Directors.

Mr. Lawrence Gozlan was appointed as a director of our company on August 8, 2011. Mr. Gozlan, a leading biotechnology investor and advisor, is the Chief Investment Officer and Founder of Scientia Capital, a specialized global investment fund focused exclusively in life sciences. Scientia Capital was founded to provide high level expertise and to manage investments for high net worth individuals, family offices and institutional investors seeking exposure to the biotechnology industry. Mr. Gozlan commenced his position with Scientia Capital in June 2006. Previously, Mr. Gozlan was responsible for the largest biotechnology investment portfolio in Australia as the institutional biotechnology analyst at the Queensland Investment Corporation (QIC), an investment fund with over AU\$60 billion worth of assets under management. Mr. Gozlan also worked as the senior biotechnology analyst in the equities team at Foster Stock broking, and gained senior corporate finance experience advising life sciences companies at Deloitte. Mr. Gozlan is an investment advisor to several companies in the biotechnology industry, presented at numerous international healthcare conferences, and has been featured in various published media as an expert on investing in life sciences. He holds a Bachelor of Science with Honors in microbiology and immunology from the University of Melbourne specializing in neurodegenerative diseases.

There are no family relationships among our directors and senior executives.

B. COMPENSATION

The following table sets forth all compensation we paid for the year ended June 30, 2011 with respect to each of our executive officers and directors during the 2011 fiscal year (including Mr. Paul Marks who resigned as a director of our company effective as of January 4, 2011).

	Salaries, fees, commissions, bonuses and other	Pension, retirement and other similar benefits
Geoffrey P. Kempler (1)	A\$403,402	—
Richard Revelins	A\$80,000	—
Dianne Angus (3)	507,544	—
Paul Marks (2)	A\$20,000	—
Peter Marks	A\$55,000	—
Brian D. Meltzer	A\$90,000	—
George W. Mihaly	A\$75,000	—

(1) Mr. Kempler has elected not to accept an A\$100,000 incentive bonus to which he is entitled until further notice.

(2) Mr. Paul Marks resigned as a director of our company effective as of January 4, 2011.

(3) Including a payment of A\$150,000 in consideration of reducing in nine (9) months the monthly payments of her usual salary that Ms. Angus will be entitled to receive in the event of termination of her employment.

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

During the year ended June 30, 2011, we did not grant options to any of our executive officer or directors. As of June 30, 2011, our directors and executive officers as a group, then consisting of six persons, held options to purchase an aggregate 1,737,093 of our ordinary shares. Of such options, (i) options to purchase 1,444,837 ordinary shares are exercisable for nil consideration on or before August 7, 2014. Such options may not be exercised until and unless the price of our ordinary shares has achieved and maintained a minimum value of A\$0.40 for five consecutive trading days; and (ii) options to purchase 292,256 ordinary shares are exercisable for A\$0.15 consideration on or before March 31, 2014. All such options were granted under our 2004 Employees', Directors' & Consultants' Share and Option Plan. See Item 6.E. "Directors, Senior Management and Employees - Share Ownership – Stock Option Plans."

Agreement with Chief Executive Officer. On September 21, 2007, we entered into an agreement with Mr. Geoffrey Kempler, a director, in connection with his employment as our Chief Executive Officer. Under the agreement, we agreed to pay Mr. Kempler a base salary of A\$386,400 per annum (which may be increased at the discretion of our Board of Directors). On June 5, 2008 at the discretion of our Board of Directors, Mr. Kempler received a salary adjustment for CPI of 4.4% effective July 1, 2008, increasing his base salary to A\$403,402. We also agreed to pay Mr. Kempler a bonus of \$50,000 upon a capital raising of at least A\$7.0 million (before costs) prior to September 30, 2007, which milestone was timely met and therefore we paid such bonus to Mr. Kempler in the 2008 fiscal year. In addition, Mr. Kempler is entitled to a bonus of A\$6,000 for holding regular meetings (minimum twice a year) of the full Research and Development Advisory Board. We also agreed to pay Mr. Kempler additional bonuses subject to certain milestones that were not timely met and therefore he is no longer entitled to such bonuses. Mr. Kempler is entitled to (i) up to 20 days vacation a year. Vacation days that are not used in any calendar year will be carried over for use in the following year to a maximum carry-over of two years; and (ii) reimbursement of reasonable business expenses incurred in the performance of his duties. Mr. Kempler is also entitled to participate in the employee benefits established by our company, as applicable to executives, including, without limitation, a Section 401(k) retirement plan, health, dental, life insurance and short and long term disability plans.

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

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

The agreement contains customary confidentiality provisions.

Agreement with Chief Operating Officer. On June 12, 2007, we entered into an amendment to an employment agreement with Ms. Angus in connection with her appointment as our Chief Operating Officer, effective as of May 31, 2007. Under the amended agreement we agreed to pay Ms. Angus a base salary of A\$268,125 per year, plus superannuation equivalent to 9.0% of the base salary (or the percentage stipulated by applicable Australian law). Effective May 1, 2010, Ms. Angus received a salary increase of 8% bringing her annual base salary to A\$315,637. In addition, under the amended agreement, we granted to Ms. Angus options to purchase an additional 250,000 ordinary shares in recognition of our company's achievements and performance. Such options are exercisable for nil consideration on or before August 7, 2014 and will not be exercisable unless the price of our ordinary shares has achieved and maintained a minimum value of A\$0.40 for five consecutive trading days. The options were granted under the 2004 ASX Plan (as defined below). If we terminate the employment agreement without cause or if Ms. Angus terminates the employment agreement with good reason (as such terms are defined in the agreement) (i) we will pay to Ms. Angus, within 90 days of such termination, the sums she would have been entitled to receive had she continued to provide services for three months following the termination date; and (ii) any unvested options shall be accelerated and will become fully vested and she will be entitled to exercise her options during the remainder of their term.

C. BOARD PRACTICES

Introduction

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

Election of Directors

Directors are elected at our annual general meeting of shareholders. Under our Constitution, the term of office of our directors are staggered, such that at every annual general meeting of shareholders one-third, rounded down to the nearest whole number, of the directors, except a Managing Director, must retire from office and may offer himself/herself for re-election. No director, except a Managing Director, shall retain office for a period in excess of three years without submitting for re-election. Under Australian law, directors who have reached the age of 72 must stand for re-election annually. Our Board of Directors has the power to appoint any person to be a director, either to fill a vacancy or as an additional director (provided that the total number of directors does not exceed the maximum allowed by law), and any director so appointed may hold office only until the next annual general meeting when he or she shall be eligible for election. Mr. Kempler is our Managing Director. Dr. Mihaly must retire and may stand for re-election at our 2012 annual general meeting of shareholders. Mr. Peter Marks must retire and may stand for re-election at our 2011 annual general meeting of shareholders.

Non-Executive and Independent Directors

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

Under the rules of the NASDAQ Stock Market, in general a majority of our Board of Directors must qualify as independent directors within the meaning of the rules of the NASDAQ Stock Market and our audit committee must have at least three members and be comprised only of independent directors, each of whom satisfies the respective “independence” requirements of the NASDAQ Stock Market and the Securities and Exchange Commission.

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

Committees of the Board of Directors

Our Board of Directors has established the following committees:

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

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

Our Audit Committee currently consists of three board members, each of whom satisfies the “independence” requirements of the Securities and Exchange Commission, the NASDAQ Stock Market Rules and ASX Rules. Our Audit Committee is currently composed of Messrs. Peter Marks and Brian Meltzer and Dr. George Mihaly. The audit committee meets at least four times per year.

Remuneration Committee. Our Board of Directors has established a Remuneration Committee, which is comprised solely of independent directors, within the meaning of the NASDAQ Stock Market Rules. The Remuneration Committee is responsible for reviewing the salary, incentives and other benefits of our executive officers and to make recommendations on such matters for approval by our Board of Directors. The Remuneration Committee is also responsible for overseeing and advising our Board of Directors with regard to the adoption of policies that govern our compensation programs, including share and ADR option and employee benefit plans. Additionally, the Remuneration Committee administers our share and ADR option plans and any other employee benefit plans through a sub-committee that it established for this purpose (see Share Plan Committee below). Dr. Mihaly and Mr. Meltzer are the current members of the Remuneration Committee, each of whom qualifies as an “independent director” within the meaning of the NASDAQ Stock Market Rules.

Share Plan Committee. Our Remuneration Committee has established a sub-committee, the Share Plan Committee, which administers our share and ADR option plans. Dr. Mihaly and Mr. Meltzer are the current members of the Share Plan Committee, each of whom qualifies as an “independent director” within the meaning of the NASDAQ Stock Market Rules.

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

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

Dr. Jeffrey Cummings is the Chairman of our Research and Development Advisory Board. Dr. Cummings is the Director of the Cleveland Clinic Lou Ruvo Center for Brain Health and the Andrea and Joseph Hahn Professor of Neurotherapeutics. The Lou Ruvo Center for Brain Health provides clinical care to patients, promotes innovative programs for caregivers, and advances translational research and clinical trials for Alzheimer’s disease and related disorders. Dr. Cummings was formerly the director of the UCLA Alzheimer’s Disease Center; the Augustus S. Rose Professor of Neurology at UCLA and the Director of the Deane F. Johnson Center for Neurotherapeutics. Dr. Cummings’ interests embrace clinical trials and the development of new treatments for neurodegenerative disorders and other neurological diseases. Dr. Cummings has broad interests in dementing disorders, neuropsychiatry, neurotherapeutics and the interface of neuroscience and society.

Dr. Ashley Bush (MB BS, DPM, FRANZCP, PhD, FTSE) is a psychiatrist and translational neuroscientist, who heads the Oxidation Biology Laboratory at the Mental Health Research Institute, University of Melbourne, Australia, and also has academic appointments in psychiatry at Massachusetts General Hospital, or MGH, and neuroscience at Cornell University. Dr. Bush is the recipient of numerous awards including the Potamkin Prize for Alzheimer’s disease research. Dr. Bush received his PhD in Colin Masters’ laboratory at the University of Melbourne, performed post-doctoral studies with Rudy Tanzi at MGH, directed a laboratory at MGH from 1995-2005, whereupon he took up a professorship as Australian Research Council Federation Fellow at his current location. Dr. Bush discovered the interaction of beta-amyloid with zinc as a major factor in Alzheimer’s disease pathogenesis, and focuses on the neurobiology of metal ions in neurodegenerative disorders.

Professor Jean-Marc Orgogozo, MD, is the Chair of the Department of Clinical Neurosciences and Professor of Neurology at the University of Bordeaux, France. Professor Orgogozo has extensive experience in neuroepidemiology and clinical trials, particularly in stroke and dementia. Professor Orgogozo’s early publications on the amyloid vaccines have helped to shape the field of anti-amyloid therapeutics. Professor Orgogozo’s main therapeutic research now is on the prodromal phase of Alzheimer’s disease.

Dr. Craig Ritchie is the Clinical Research Fellow (Senior), Old Age Psychiatry at Imperial College, London. In 2011 Dr. Ritchie was appointed Co-Director of the London (Northwest) Comprehensive Local Research Network. Dr. Ritchie is heavily involved, both clinically and academically, in psychiatric disorders of late life, in particular Alzheimer’s disease, delirium and schizophrenia. Dr. Ritchie’s interest in conducting and assimilating evidence from clinical trials is based on his clinical background, having worked with elderly patients with dementia for most of his career.

Professor Colin Masters is the Executive Director of the Mental Health Research Institute (Australia) and an ex-founding director of our company. For more than 30 years, Professor Masters has dedicated his research to the study of the nature of Alzheimer's disease and other neurodegenerative disorders. Professor Masters and his team are internationally renowned for their work on the disease and he is considered the most eminent neuroscientist in Australia. In addition, Professor Masters is regarded as one of the leading worldwide researchers in the study of Alzheimer's disease. In 2006, Professor Masters was awarded the Lifetime Achievement Award in Alzheimer's Disease Research at the 10th International Conference on Alzheimer's Disease (ICAD), the Lennox K. Black International Prize for Excellence in Biomedical Research and the Grand Hamdan International Award for a research breakthrough in the subject of Molecular and Cellular Pathology of Neurological Disorders.

Professor Rudolph Emile Tanzi is the Joseph P. and Rose F. Kennedy Professor of Neurology at Harvard Medical School and Director of Genetics and the Aging Research Unit at MGH. Professor Tanzi co-discovered three of the four known Alzheimer's disease genes and contributed greatly to elucidating the molecular mechanisms by which they cause of Alzheimer's disease. Professor Tanzi's laboratory at MGH is one of the leaders in the field. Professor Tanzi conceived the "Metal Hypothesis of Alzheimer's Disease" with Dr. Ashley Bush, and over the past 15 years has helped guide the design and development of our platform technology.

Dr. Steven D. Targum is our Chief Medical Advisor. Dr. Targum consults widely to the pharmaceutical industry regarding the design and implementation of clinical trials for new psychotropic drugs and the progression of drug development from concept to approval to launch. Dr. Targum is well known for his expertise in clinical trials methodologies. In this capacity, Dr. Targum founded both PharmaStar and Clintara LLC, global rater training and medical education companies focused on central nervous system drug development and international clinical trials. Dr. Targum has been Professor of Psychiatry and Vice-Chairman of the Department of Mental Health Sciences at Hahnemann University School of Medicine in Philadelphia, and most recently a consultant in psychiatry at MGH in Boston.

Directors' Service Contracts

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

Other. Except as described above, there are no arrangements or understandings between us and any of our subsidiaries, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their employment or service as directors of our company or any of our subsidiaries.

Indemnification of Directors and Officers

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

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

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

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

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

D. EMPLOYEES

At June 30, 2011, we had 9 employees. Of such employees, five persons were employed in research and development, two persons in management and administration and two persons in operations. All such employees were located in Australia.

At June 30, 2010, we had 12 employees. Of such employees, eight persons were employed in research and development, two persons in management and administration and two persons in operations. All such employees were located in Australia.

At June 30, 2009, we had 12 employees. Of such employees, seven persons were employed in research and development, three persons in management and administration and two persons in operations. All such employees were located in Australia.

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

E. SHARE OWNERSHIP

Beneficial Ownership of Executive Officers and Directors

The following table sets forth certain information as of September 27, 2011 regarding the beneficial ownership of our ordinary shares by each of our directors and executive officers and by all of our directors and executive officers as a group:

Name	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Ownership (2)
Geoffrey P. Kempler	17,055,000 (3)	6.06%
Richard Revelins	20,308 (4)	*
Dianne Angus	1,837,093 (5)	*
Peter Marks	43,111 (6)	*
Brian D. Meltzer	326,666 (7)	*
George W. Mihaly	226,666 (8)	*
All directors and executive officers as a group (s persons)	19,508,844 (9)	6.93%

* Less than 1%

1. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of the date of the above table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.

2. The percentages shown are based on 281,608,383 ordinary shares issued and outstanding as of September 27, 2011.
3. Of the 17,055,000 outstanding ordinary shares, 30,000 ordinary shares are held of record by Mr. Kempler, 13,965,000 ordinary shares are held by Baywick Pty Ltd., an Australian corporation owned by Mr. Kempler, 90,000 ordinary shares are held of record by Crystal Triangle Pty Ltd., an Australian corporation owned by Mr. Kempler and 2,970,000 ordinary shares are held of record by NRB Developments Pty Ltd., an Australian corporation in which Mr. Kempler holds a 50% interest. Mr. Kempler may be deemed to be the beneficial owner of the ordinary shares held of record by Baywick Pty Ltd., Crystal Triangle Pty Ltd. and NRB Developments Pty Ltd.
4. The 20,308 outstanding ordinary shares are held of record by Darontack Pty Ltd., an Australian corporation owned by Mr. Revelins.
5. Includes (i) 100,000 outstanding ordinary shares; and (ii) options to purchase 1,737,093 ordinary shares. Of such options, options to purchase 1,444,837 ordinary shares are exercisable for nil consideration on or before August 7, 2014. These options may not be exercised unless the price of our ordinary shares has achieved and maintained a minimum value of A\$0.40 for five consecutive trading days. Options to purchase 292,256 ordinary shares are exercisable for A\$0.15 consideration on or before March 31, 2014.
6. The 43,111 outstanding ordinary shares are held of record by Lampam Pty Ltd, an Australian corporation owned by Mr. Peter Marks.
7. The 326,666 outstanding ordinary shares are held of record by RBC Dexia Pty Ltd., a superannuation fund of Mr. Meltzer.
8. Of the 226,666 outstanding ordinary shares, 166,666 ordinary shares are held of record by Dr. Mihaly, 52,000 ordinary shares are held of record by Waide Pty Ltd., an Australian corporation owned by Dr. Mihaly, and 4,000 ordinary shares are held of record by each of Kieren Mihaly and Warwick Mihaly, Dr. Mihaly's sons. Dr. Mihaly disclaims beneficial ownership of the ordinary shares held by his sons, Kieren Mihaly and Warwick Mihaly.
9. See Footnotes (3) - (8).

Stock Option Plans

In November 2004, we adopted the 2004 Employees', Directors' and Consultants' Share and Option Plan, or the 2004 ASX Plan, and the 2004 American Depositary Share (ADS) Option Plan, or the 2004 ADS Plan. For the description below, the 2004 ASX Plan and 2004 ADS Plan are referred to together as the 2004 Plans. Under the 2004 ASX Plan we may issue ordinary shares and under the 2004 ADS Plan we may issue ADSs. We were initially authorized to issue under the 2004 Plans up to an aggregate 12,000,000 ordinary shares or ADSs representing 12,000,000 ordinary shares. In November 2005, our shareholders approved an amendment to the 2004 Plans to provide for the issuance thereunder of an additional 10,000,000 ordinary shares (or ADSs representing 10,000,000 ordinary shares), following which we could issue under the 2004 Plans up to an aggregate 22,000,000 ordinary shares or ADSs representing 22,000,000 ordinary shares. In December 2007, our shareholders approved an amendment to the 2004 Plans to provide for the issuance thereunder of an additional 8,000,000 ordinary shares (or ADSs representing 8,000,000 ordinary shares), following which we could issue under the 2004 Plans up to an aggregate 30,000,000 ordinary shares (or ADSs representing 30,000,000 ordinary shares). In November 2008, our shareholders approved an amendment to the 2004 Plans to provide for the issuance thereunder of an additional 15,000,000 ordinary shares (or ADSs representing 15,000,000 ordinary shares), following which we could issue under the 2004 Plans up to an aggregate 45,000,000 ordinary shares (or ADSs representing 45,000,000 ordinary shares). In November 2009, our shareholders approved an amendment to the 2004 Plans to provide for the issuance thereunder of an additional 15,000,000 ordinary shares (or ADSs representing 15,000,000 ordinary shares), following which we are entitled to issue under the 2004 Plans up to an aggregate 60,000,000 ordinary shares (or ADSs representing 60,000,000 ordinary shares). Any increase in such maximum number of ordinary shares or ADSs issuable under the 2004 Plans is subject to shareholder approval.

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

The 2004 ASX Plan is administered by the Share Plan Committee, a sub-committee of the Remuneration Committee. For the purpose of the disclosure below, the term “Remuneration Committee” shall refer to the Remuneration Committee or Share Plan Committee, as applicable. Subject to Board approval where required by applicable law, the Remuneration Committee has the authority, in its sole discretion, to grant options under the 2004 ASX Plan, to interpret the provisions of the 2004 ASX Plan and to prescribe, amend, and rescind rules and regulations relating to the 2004 ASX Plan or any issue or grant thereunder as it may deem necessary or advisable, subject to any other approval if required by applicable law. All decisions made by the Remuneration Committee pursuant to the provisions of the 2004 ASX Plan will be final, conclusive and binding on all persons.

The number of shares issued or options granted, the exercise price and option term or options granted, the vesting schedule and escrow periods of shares issued and options granted, under the 2004 ASX Plan are determined by the Remuneration Committee, in accordance with the provisions of the ASX Plan, and specified in an offer document from our company and accepted by the eligible person, subject to the terms of the 2004 ASX Plan. Options granted under the 2004 ASX Plan will be unlisted and exercisable at an exercise price equal to less than market value of an ordinary share on the ASX at the date of grant, or such other exercise price that the Remuneration Committee determines to be appropriate under the circumstances. The term of an option granted under the 2004 ASX Plan will be determined by the Remuneration Committee; however, no option will be exercisable after the expiration of ten years from the date of its grant. Except as otherwise provided in the 2004 ASX Plan or determined by the Remuneration Committee and set forth in an offer document, the issuance of shares and exercise of options granted under the 2004 ASX Plan will either (i) be subject to an escrow, under which such shares or options cannot be disposed of or exercised, respectively, within six months from the date of issue or grant (or 12 months if issued or granted to a director); or (ii) will vest over a four year period in four equal installments, 25% at the end of each year from the date of grant. Shares issued and options granted under the 2004 ASX Plan may be subject to other performance criteria and hurdles, as determined by the Remuneration Committee.

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

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

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

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

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

A summary of the status of the 2004 Plans as of June 30, 2011, 2010 and 2009, and changes during the years ended on those dates, is presented below:

	As of June 30,					
	2011		2010		2009	
	Amount	Weighted average exercise price	Amount	Weighted average exercise price	Amount	Weighted average exercise price
Options outstanding at the beginning of the year	15,855,394	\$ 0.26	16,271,183	\$ 0.25	13,987,848	\$ 0.20
Granted	200,000	—	2,204,609	\$ 0.10	3,099,818	\$ 0.32
Exercised	(816,583)	—	(420,398)	—	(816,483)	\$ 0.14
Expired	(7,327,500)	\$ 0.23	(2,200,000)	—	—	—
Forfeited	(80,000)	—	—	—	—	—
Options outstanding at the end of the year	7,831,311	\$ 0.26	15,855,394	\$ 0.26	16,271,183	\$ 0.25
Options exercisable at the end of the year	6,810,621	\$ 0.29	12,277,204	\$ 0.34	11,198,846	\$ 0.36
Options that may be granted as of the end of the year	34,897,723		42,850,233		23,652,332	

In addition, as of June 30, 2011, 165,000 ordinary shares have been issued under the ASX Plan that were not issued upon the exercise of options.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth certain information, as of September 27, 2011, regarding the beneficial ownership by all shareholders known to us to own beneficially more than 5% of our ordinary shares.

Name	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Outstanding Ordinary Shares (2)
Geoffrey P. Kempler	17,055,000(3)	6.06%
Jagen Nominees Pty Ltd	15,409,060(4)	5.47%

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of the date of the table above are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 281,608,383 ordinary shares issued and outstanding as of September 27, 2011.
- (3) Of the 17,055,000 outstanding ordinary shares, 30,000 ordinary shares are held of record by Mr. Kempler, 13,965,000 ordinary shares are held by Baywick Pty Ltd., an Australian corporation owned by Mr. Kempler, 90,000 ordinary shares are held of record by Crystal Triangle Pty Ltd., an Australian corporation owned by Mr. Kempler and 2,970,000 ordinary shares are held of record by NRB Developments Pty Ltd., an Australian corporation in which Mr. Kempler holds a 50% interest. Mr. Kempler may be deemed to be the beneficial owner of the ordinary shares held of record by Baywick Pty Ltd., Crystal Triangle Pty Ltd. and NRB Developments Pty Ltd.
- (4) Based upon a Notice of Change of Interest of Substantial Holder filed by Jagen Nominees Pty Ltd with the ASX on June 30, 2011 and other information available to the company. Mr. Boris Liberman is the sole owner of Jagen Nominees Pty Ltd. and may be deemed to hold the voting and investment powers for the ordinary shares held of record by Jagen Nominees Pty Ltd.

Significant Changes in the Ownership of Major Shareholders

Mr. Geoffrey Kempler. As of June 30, 2008 and 2009, Mr. Kempler's beneficially owned 20,055,000 ordinary shares, representing approximately 9.94% and 9.89%, respectively, of our then outstanding shares. On December 1, 2009, Mr Kempler filed with the ASX a Notice of Change of Interest of Substantial Holder, reflecting ownership of 17,055,000 or 7.29% of our then outstanding shares.

Jagen Nominees Pty Ltd. As of May 28, 2008, September 16, 2009 and June 30, 2011, Jagen Nominees Pty Ltd. beneficially owned 15,409,060, or 7.15%, 6.61% and 5.60%, respectively, of our then outstanding shares.

Balyasny Asset Management L.P. On May 23, 2008, Balyasny Asset Management L.P. filed with the ASX a Notice of Change of Interest of Substantial Holder, reflecting ownership of 12,836,682, or 7.00%, of our then outstanding ordinary shares. While no subsequent filings have been made, we believe that Balyasny Asset Management L.P. no longer holds more than 5% of our outstanding ordinary shares.

BAM Capital. On September 8, 2009, we entered into a private placement agreement with BAM Capital, LLC, or BAM Capital, one of our institutional shareholders in the United States, under which we raised an aggregate A\$6.0 million before costs (approximately A\$5.7 million net of costs) in a private placement of our ordinary shares to such investor. The private placement was for 30 million ordinary shares (equivalent to three million ADRs) at a price of A\$0.20 per share (A\$2.0 per ADR). We also agreed to grant the investor, subject to shareholder approval, options to purchase 10 million ordinary shares (equivalent to one million ADRs) at an exercise price of A\$0.30 per share (A\$3.0 per ADR) that will expire four years after the date of the issuance of the shares in the private placement. Shareholder approval for the issuance of the shares and option grant was obtained in November 2009. We also agreed to issue to the investor up to an additional 3,000,000 ordinary shares, or 300,000 ADRs, if the daily closing price of our ordinary shares on the ASX on any day from the date of the private placement until five days after the date on which the registration statement for the ordinary shares issued in the private placement is declared effective, declines below A\$0.19, based on a formula set forth in the agreement. The foregoing condition was met and based on the agreed upon formula, we issued to the investor an additional 750,000 ordinary shares, pursuant to the approval of our shareholders obtained in November 2009. On April 23, 2010, BAM Capital filed with the ASX a Notice of Ceasing to be a Substantial Holder. On May 18, 2010, Amendment No. 6 to Schedule 13G was filed by BAM Capital and other reporting persons with the Securities and Exchange Commission indicating that such persons beneficially hold 15,241,193 or 6.25% of our then outstanding ordinary shares, of which 5,241,193 ordinary shares are outstanding and held of record by BAM Partnership and 10,000,000 ordinary shares are subject to options held by BAM SPV. BAM Capital and the other reporting persons filed Amendment No. 7 to their Schedule 13G with the Securities and Exchange Commission indicating that they have ceased to beneficially own 5% or more of our outstanding shares.

Bank of America Corporation. On September 18, 2009, Bank of America Corporation filed a Notice of Initial Substantial Holder with the ASX reflecting ownership of 30,080,000, or 12.29%, of our then outstanding shares. On August 19, 2011, Bank of America Corporation filed with the ASX a Notice of Ceasing to be a Substantial Holder.

Morgan Stanley Australia Securities Limited. On November 16, 2009, Morgan Stanley Australia Securities Limited or Morgan Stanley filed a Schedule 13G with the Securities and Exchange Commission reflecting beneficial ownership of 12,076,175, or 5.2% of our ordinary shares. On February 12, 2010, Morgan Stanley filed Amendment No. 1 to Schedule 13G with the Securities and Exchange Commission reflecting beneficial ownership of 11,802,531, or 5% of our ordinary shares. On March 1, 2010, Morgan Stanley filed with the ASX a Notice of Ceasing to be a Substantial Holder. On February 14, 2011, Morgan Stanley filed Amendment No. 2 to Schedule 13G with the Securities and Exchange Commission indicating that each of them has ceased to beneficially own 5% or more of our outstanding shares.

Major Shareholders Voting Rights

Our major shareholders do not have different voting rights.

Record Holders

As of September 27, 2011, there were 2,437 holders of record of our ordinary shares, of which 21 record holders, holding approximately 0.86% of our ordinary shares, had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor are they representative of where such beneficial holders reside, since many of these ordinary shares were held of record by brokers or other nominees. The majority of trading by our U.S. investors is done by means of ADRs that are held of record by National Nominees Ltd., which held 52.16% of our ordinary shares as of such date.

B. RELATED PARTY TRANSACTIONS

None.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

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

Legal Proceedings

We are not involved in any legal proceedings nor are we subject to any threatened litigation that is material to our business or financial condition.

Dividend Distribution Policy

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

B. SIGNIFICANT CHANGES

There have been no significant changes in the operation or financial condition of our company since June 30, 2011.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Australian Securities Exchange

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

	Per Ordinary Share (A\$)	
	High	Low
<u>Fiscal Year Ended June 30.</u>		
2007	0.80	0.18
2008	0.70	0.23
2009	0.69	0.12
2010	0.25	0.12
2011	0.38	0.11
<u>Fiscal Year Ended June 30, 2010:</u>		
First Quarter	0.25	0.14
Second Quarter	0.24	0.14
Third Quarter	0.17	0.12
Fourth Quarter	0.22	0.12
<u>Fiscal Year Ended June 30, 2011:</u>		
First Quarter	0.17	0.12
Second Quarter	0.16	0.12
Third Quarter	0.38	0.11
Fourth Quarter	0.26	0.16
<u>Month Ended:</u>		
April 2011	0.26	0.20
May 2011	0.22	0.17
June 2011	0.20	0.16
July 2011	0.19	0.16
August 2011	0.17	0.14
September 2011 (through September 27)	0.22	0.14

NASDAQ Capital Market

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

	Per ADR (US\$)	
	High	Low
<u>Fiscal Year Ended June 30.</u>		
2007	4.35	1.21
2008	6.73	2.06
2009	5.70	1.00
2010	3.35	1.02
2011	4.50	1.09
<u>Fiscal Year Ended June 30, 2010:</u>		
First Quarter	2.17	1.05
Second Quarter	1.89	1.13
Third Quarter	1.60	1.02
Fourth Quarter	3.35	1.09
<u>Fiscal Year Ended June 30, 2011:</u>		
First Quarter	1.38	1.09
Second Quarter	1.68	1.13
Third Quarter	4.50	1.23
Fourth Quarter	2.83	1.70
<u>Month Ended:</u>		
April 2011	2.83	2.21
May 2011	2.52	1.85
June 2011	2.22	1.70
July 2011	2.13	1.77
August 2011	1.95	1.40
September 2011 (through September 27)	2.31	1.50

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

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

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

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

Prana’s Purposes and Objects

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

The Powers of the Directors

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

Rights Attached to Our Ordinary Shares

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

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

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

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

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

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

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

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

Changing Rights Attached to Shares

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

Annual and Extraordinary Meetings

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

Limitations on the Rights to Own Securities in Our Company

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

Changes in Our Capital

Pursuant to the Listing Rules of the ASX, our directors may in their discretion issue securities equal to not more than 15% of our issued capital within a 12-month period. Issuances of securities in excess of such amount require the approval of our shareholders by an ordinary resolution.

C. MATERIAL CONTRACTS

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

On December 1, 2000, we entered into a research funding and intellectual property assignment agreement with the University of Melbourne, under which the University of Melbourne agreed to conduct certain research projects on our behalf. Such projects include structure-based drug design involving the design of various metal-based compounds as potential diagnostics and therapeutics, drug screening and development involving the characterization of our compounds *in vitro* and *in vivo* models of neurodegenerative disorders, and cell-based drug discovery involving the screening and assessment of our compounds in cell-based systems to measure toxicity and cellular dysfunction and to develop new screens for our company. In consideration of such services, we agreed to pay the University of Melbourne a sum of A\$297,000 (inclusive of goods and services tax) each year for a period of three years. In consideration for the assignment of rights to intellectual property developed by the University of Melbourne during the research period, we agreed to pay to the University of Melbourne royalties equal to 1.5% of the net invoice price of all products incorporating such intellectual property sold by us or on our behalf, or, the lesser of 1.5% of the net invoice price of such products sold by a licensee or assignee and 10% of gross revenues received from licensees or assignees relating to the exploitation of such intellectual property. Following the expiration of this agreement, the parties entered into consecutive agreements on December 1, 2003, December 1, 2006 and December 1, 2009. The recent research funding and intellectual property assignment agreement is deemed to have commenced as of the expiration date of the previous agreement on December 1, 2009 and expires on December 1, 2012. The financial consideration terms under the original agreement remain unchanged by all such consecutive agreements, and under their terms an annual budget is set for each of the three years of each respective agreement. We provided to the University of Melbourne funding in an amount equal to A\$529,000 for the year running December 2008 to November 2009 and A\$363,500 for the year running December 2009 to November 2010. We estimate that we will provide to the University of Melbourne funding in an amount equal to A\$390,000 (exclusive of goods and services tax) for the year running December 2010 to November 2011.

On January 8, 2004, we entered into a ten year consultancy services agreement with Professor Ashley Bush, effective as of February 1, 2003. The consulting services provided by Professor Ashley Bush include the discussion of current and future developments in the field of therapies based on metal mediated, oxidative stress or toxic gain of function of proteins involved in selected neurodegenerative diseases. Professor Bush's services also include possible participation in research projects, the assignment of intellectual property rights arising from such projects and assisting is with our patent prosecutions. The services are provided for a maximum of 40 days per year of service under the agreement. Under the agreement, we agreed to pay Professor Bush a consulting fee of US\$100,000 per year, increasing on the anniversary of the agreement by the U.S. consumer price index, which effective June 1, 2009, was reduced to AU\$60,000 per year, increasing on the anniversary of the agreement by the Australian consumer price index. We also agreed, as a bonus package, to issue to Professor Bush 1,650,000 ordinary shares and to grant to him options to purchase 825,000 ordinary shares at an exercise price of A\$0.50 per share. The shares and options vest in four equal installments on each of the six months anniversaries following the effective date of the agreement. In addition, subject to the achievement of certain milestones, Professor Bush is entitled to purchase up to 5,000,000 additional ordinary shares at a price per share that is 10% below the mean market price of our ordinary shares during the 30-day period prior to their purchase. Once a milestone has been achieved, up to 250,000 ordinary shares out of the total tranche of ordinary shares to which he becomes entitled may be purchased each six months after such achievement. The first milestone has been achieved (the publication of results of a Phase II trial) and as a result, Professor Bush is now entitled to purchase up to 1,250,000 ordinary shares in accordance with the foregoing terms, of which Professor Bush acquired 250,000 ordinary shares during the 2007 fiscal year. The ordinary shares issued and options granted to Professor Bush under the agreement are subject to certain resale restrictions. During the period of 20 years after the effective date of the agreement, Professor Bush is also entitled to receive royalties equal to 5% of the income that we derive from the exploitation of new intellectual property developed by him or contributed to our company through his services pursuant to the agreement. The agreement may be terminated for any reason by either party upon 30 days prior notice.

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

On May 22, 2007, we entered into an agreement with Patheon Inc., or Patheon, to undertake the capsule formulation development and prospective clinical trial manufacturing of PBT2 into capsules to support prospective further development of PBT2 into a Phase IIb study and/or other secondary clinical applications of PBT2. During the 2008 fiscal year, Patheon undertook the development of a capsule formulation suitable for large scale manufacture, as well as the development and validation of analytical methods to release the capsules. During the 2009 fiscal year, Patheon manufactured a feasibility batch of capsules using the newly developed process. We paid Patheon US\$196,654, US\$296,551 and US\$238,737 for the fiscal years 2011, 2010 and 2009, respectively, for services provided under the agreement.

In June 2007, we entered into two GMP drug manufacture and laboratory development agreements with the Institute for Drug Technology Australia Limited, or IDT, to undertake the GMP manufacture of an initial 4kg batch and subsequent large scale manufacture of 30kg of PBT2. IDT is engaged to also undertake process development, quality control release testing and stability testing of the final drug product before its release. We paid IDT A\$16,400, A\$18,635 and A\$11,442 for the fiscal years 2011, 2010 and 2009, respectively, for services provided under the two agreements.

In December 2008, we entered into a process development and manufacturing agreement with Dr. Reddy's Laboratories Limited, or Dr. Reddy's, to enable the transfer of existing manufacturing methods for PBT2 to Dr. Reddy's to work on improving the route of manufacture, optimization and scale up manufacture of PBT2. The agreement is comprised of a series of independent sub-projects, each of which is subject to our prior authorization to be initiated and funded, at our sole discretion. At this time, the potential expenditure is up to US\$1,200,000. The term of the agreement is for 90 days post the receipt by us of a written report and/or manufacturing deliverables under the last approved sub-project under the agreement. Early termination is available to either party under specified conditions, including material breach and voluntary termination by either party upon 30 days written notice. We paid Dr. Reddy's \$685,000, US\$175,500 and US\$82,500 for the fiscal years 2011, 2010 and 2009, respectively, for services provided under the agreement.

On September 8, 2009, we entered into a private placement agreement with BAM Capital LLC, one of our institutional shareholders in the United States, under which raised an aggregate A\$6.0 million before costs (approximately A\$5.7 million net of costs) in a private placement of our ordinary shares to such investor. Of such amount, A\$3.0 million was paid at the closing of the private placement on September 11, 2009 and an additional A\$3.0 million was paid on September 29, 2009. The private placement was for 30 million ordinary shares (equivalent to three million ADRs) at a price of A\$0.20 per share (A\$2.0 per ADR). We also agreed to grant the investor, subject to shareholder approval, options to purchase 10 million ordinary shares (equivalent to one million ADRs) at an exercise price of A\$0.30 per share (A\$3.0 per ADR) that will expire four years after the date of the issuance of the shares in the private placement. Shareholder approval for the issuance of the shares and option grant was obtained in November 2009. We also agreed to promptly take steps to register the ADRs with respect to the ordinary shares issued for distribution from time to time by the investor, and after January 1, 2010, upon the investor's demand, to file a registration statement covering the shares underlying the options. We also agreed to issue to the investor up to an additional 3,000,000 ordinary shares, or 300,000 ADRs, if the daily closing price of our ordinary shares on the ASX on any day from the date of the private placement until five days after the date on which the registration statement for the ordinary shares issued in the private placement is declared effective, declines below A\$0.19, based on a formula set forth in the agreement. The foregoing condition was met, and based on the agreed upon formula, we issued to the investor an additional 750,000 ordinary shares, pursuant to the approval of our shareholders obtained in November 2009.

On June 23, 2010, we entered into an agreement with Quintiles in connection with a research and development contract that we had previously entered into with Quintiles. Under the agreement, Quintiles agreed to pay us US\$2.0 million, of which US\$850,000 was paid up front and the remaining US\$1,150,000 was paid in four equal installments on July 9, 2010, October 1, 2010, January 5, 2011, and March 1, 2011. In addition, we agreed to issue to Quintiles 7,064,749 of our ordinary shares at a price per share of A\$0.1624 (\$US1.62), or an aggregate purchase price of A\$1.15 million (US\$1.0 million), which issuance was completed on July 1, 2010. Quintiles also agreed that in the event that we consummate a qualified financing (as such term is defined in the agreement) within one year after the date of the agreement, it will purchase from us additional ordinary shares for an aggregate purchase price of US\$1.0 million, on the same terms and conditions as the qualified financing. Accordingly, following the completion of the private placement described in the following paragraph, on June 30, 2011, we completed a private placement of 4.08 million ordinary shares to Quintiles, at a price of A\$0.225 per share, for aggregate gross proceeds of US\$1.0 million (approximately A\$915,200).

On March 22, 2011, we entered into a private placement agreement with institutional investors, under which we raised aggregate gross proceeds of approximately A\$6.12 million (US\$6.19 million). Under the terms of the offering, we sold an aggregate of approximately 27,200,000 ordinary shares (equivalent to 2,720,000 ADRs) at a price of A\$0.225 per share (A\$2.25 per ADR). We also granted to the investors options to purchase up to an aggregate of approximately 6,800,000 ordinary shares (equivalent to 680,000 ADRs) at an exercise price of A\$0.225 per share (A\$2.25 per ADR). The options are exercisable for a term of four years, and the exercise price is subject to future adjustment for various events, such as stock splits or dividend distributions. We also agreed to promptly take steps to register the ADRs with respect to the ordinary shares issued in the private placement and the ordinary shares issuable upon exercise of the options for distribution from time to time by the investors.

On July 13, 2011, we entered into an At-The-Market Issuance Sales Agreement with MLV, under which we may sell American Depositary Shares, or ADSs, each representing ten ordinary shares, from time to time through MLV, as our agent for the offer and sale of the ADSs. The aggregate offering price for the ordinary shares represented by ADSs may not exceed the aggregate amount that can be sold under the registration statement that we filed on May 17, 2011, which amount, as of the date of this annual report, is US\$50 million. The ADSs are evidenced by ADRs. We will pay MLV a commission equal to 3% of the gross proceeds of the sales price of all ADSs sold through it as sales agent under the sales agreement. Because there is no minimum offering amount required as a condition to closing this offering, the actual total public offering amount, commissions and proceeds to us, if any, are not determinable at this time. The offering of our ADSs pursuant to the sales agreement will terminate on the earliest of (1) the sale of all of the ordinary shares subject to the sales agreement, or (2) termination of the sales agreement by us or MLV. We and MLV may terminate the sales agreement at any time in our sole discretion upon five days prior notice. MLV may terminate the sales agreement at any time in certain circumstances, including the occurrence of a material adverse change that, in the sales agent's judgment, may make it impracticable or inadvisable to market or sell our ADSs or a suspension or limitation of trading of our ADSs on The NASDAQ Capital Market.

D. EXCHANGE CONTROLS

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

The Foreign Acquisitions and Takeovers Act 1975

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

Under the Takeovers Act, as currently in effect, any foreign person, together with associates, is prohibited from acquiring 15% or more of the shares in any company having total assets exceeding A\$231 million or more. In addition, a foreign person may not acquire shares in a company having total assets of A\$231 million or more if, as a result of that acquisition, the total holdings of all foreign persons and their associates will exceed 40% in aggregate without the approval of the Australian Treasurer. However, for “U.S. Investors,” a threshold of A\$1,005 million applies (except in certain circumstances) to each of the previous acquisitions. A “U.S. Investor” is defined by the Takeovers Act as a U.S. national or a U.S. enterprise.

If the necessary approvals are not obtained, the Treasurer may make an order requiring the acquirer to dispose of the shares it has acquired within a specified period of time. Under the current Australian foreign investment policy, however, it is unlikely that the Treasurer would make such an order where the level of foreign ownership exceeds 40% in the ordinary course of trading, unless the Treasurer finds that the acquisition is contrary to the national interest. The same rule applies if the total holdings of all foreign persons and their associates already exceeds 40% and a foreign person (or its associate) acquires any further shares, including in the course of trading in the secondary market of the ADRs. At present, we do not have total assets of A\$231 million.

If the level of foreign ownership exceeds 40% at any time, we would be considered a foreign person under the Takeovers Act. In such event, we would be required to obtain the approval of the Treasurer for our company, together with our associates, to acquire (i) more than 15% of an Australian company or business with assets totaling over A\$231 million; or (ii) any direct or indirect ownership interest in Australian residential real estate.

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

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

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

E. TAXATION

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

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

AUSTRALIAN TAX CONSEQUENCES

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

Nature of ADSs for Australian Taxation Purposes

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

Taxation of Dividends

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

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

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

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

Australian capital gains tax applies to net capital gains at a taxpayer's marginal tax rate but for certain stockholders a discount of the capital gain may apply if the shares have been held for 12 months or more. For individuals, this discount is 50%. Net capital gains are calculated after reduction for capital losses, which may only be offset against capital gains.

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

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

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

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

Dual Residency

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

Stamp Duty

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

Australian Death Duty

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

Goods and Services Tax

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

UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

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

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

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

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

Taxation of Dividends

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

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

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

Subject to certain limitations, “qualified dividend income” received by a noncorporate U.S. Holder in tax years beginning on or before December 31, 2012 will be subject to tax at a reduced maximum tax rate of 15 percent. Distributions taxable as dividends generally qualify for the 15 percent rate provided that either: (i) the issuer is entitled to benefits under the Tax Treaty or (ii) the shares are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the Tax Treaty and that the ADRs currently are readily tradable on an established securities market in the United States. However, no assurance can be given that the ADRs will remain readily tradable. Furthermore, the reduction does not apply to dividends received from PFICs. U.S. Holders of ADRs should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

Disposition of ADRs

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

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

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

The Health Care Reform and Education Reconciliation Act of 2010 (Pub. Law 111-152) requires certain U.S. Holders who are individuals to pay a 3.8% tax on the lesser of the excess of their modified adjusted gross income over a threshold amount (\$250,000 for married persons filing jointly and \$200,000 for single taxpayers) or their “net investment income,” which generally includes capital gains from the disposition of property, for taxable years beginning after December 31, 2012. This tax is in addition to any capital gains taxes due on such investment income. A similar tax will apply to estates and trusts. U.S. Holders should consult their tax advisors regarding the effect, if any, this law may have on them.

Passive Foreign Investment Companies

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

For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, cash is considered to be an asset which produces passive income. Passive income generally includes dividends, interest, royalties, rents, annuities and the excess of gains over losses from the disposition of assets which produce passive income. As a result of our substantial cash position and the decline in the value of our stock, we believe that we became a PFIC during the taxable year ended June 30, 2005, and once again qualified as a PFIC during each of the last five fiscal years, under a literal application of the asset test that looks solely to market value. We believe that we will once again qualify as a PFIC for the taxable year ended June 30, 2011.

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

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

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

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

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

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

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

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

Backup Withholding and Information Reporting

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

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

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

U.S. Gift and Estate Tax

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

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We are subject to the reporting requirements of the United States Securities and Exchange Act of 1934, as amended, or the Exchange Act, as applicable to "foreign private issuers" as defined in Rule 3b-4 under the Exchange Act. As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, transactions in our equity securities by our officers and directors are exempt from reporting and the "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we file with the Securities and Exchange Commission an annual report on Form 20-F containing financial statements that have been examined and reported on, with an opinion expressed by, an independent registered public accounting firm, and we submit reports to the Securities and Exchange Commission on Form 6-K containing (among other things) press releases and unaudited financial information for the first six months of each fiscal year. We post our annual report on Form 20-F on our website (www.pranabio.com) promptly following the filing of our annual report with the Securities and Exchange Commission. The information on our website is not incorporated by reference into this annual report.

This annual report and the exhibits thereto and any other document we file pursuant to the Exchange Act may be inspected without charge and copied at prescribed rates at the Securities and Exchange Commission public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Securities and Exchange Commission's public reference room in Washington, D.C. by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Exchange Act file number for our Securities and Exchange Commission filings is 000-49843.

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

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

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We invest our excess cash and cash equivalents in interest-bearing accounts and term deposits with banks in Australia. Our management believes that the financial institutions that hold our investments are financially sound and accordingly, minimal credit risk exists with respect to these investments. Certain of our cash equivalents are subject to interest rate risk. Due to the short duration and conservative nature of these instruments, we do not believe that we have a material exposure to interest rate risk. Our major market risk is changes in foreign exchange rates as we had approximately A\$2,464,000, A\$807,000 and A\$285,000 in cash held in U.S. dollars and Euro as of June 30, 2011, 2010 and 2009, respectively. A hypothetical 3% adverse movement in end-of-period exchange rates would reduce the cash balance by approximately A\$71,769, A\$23,500 and A\$83,108, respectively.

We do not currently utilize derivative financial instruments or other financial instruments subject to market risk.

We conduct our activities almost exclusively in Australia. However, we are required to make certain payments in U.S. dollars and other currencies. An adverse movement in end-of-period exchange rates would not have a material impact on our operating results. In 2010 and 2011, the Australian dollar appreciated against the U.S. dollar by 5% and 20% respectively, while the Australian dollar depreciated against the U.S. dollar by 16% in 2009. As of June 30, 2011, payables in U.S. dollars and other currencies were immaterial. A hypothetical 3% adverse movement in the U.S. dollar and Euro and 12% adverse movement in the Great British Pound exchange rates would increase the cost of these payables by approximately A\$3,627.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Fees and Charges Payable by ADR Holders

The table below summarizes the fees and charges that a holder of our ADRs may have to pay, directly or indirectly, to our ADR depository, The Bank of New York Mellon, or BoNY, pursuant to the Deposit Agreement, which was filed as Exhibit 2.1 to our Registration Statement on Form F-6 filed with the SEC on December 21, 2007, and the types of services and the amount of the fees or charges paid for such services. The disclosure under this heading "Fees and Charges Payable by ADR Holders" is subject to and qualified in its entirety by reference to the full text of the Deposit Agreement. The holder of an ADR may have to pay the following fees and charges to BoNY in connection with ownership of the ADR:

Category	Depository actions	Associated fee or charge
(a) Depositing or substituting the underlying shares	Issuances against deposits of shares, including deposits and issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or the deposited securities	Up to US \$5.00 for each 100 ADSs (or portion thereof) issued or delivered (as the case may be) The depository may sell (by public or private sale) sufficient securities and property received in respect of share distributions, rights and other distributions prior to such deposit to pay such charge US \$0.02 or less per ADS
(b) Receiving or distributing dividends	Cash distributions made pursuant to the deposit agreement	Up to US \$5.00 for each 100 ADSs (or portion thereof)
(c) Selling or exercising rights	Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities	Up to US \$5.00 for each 100 ADSs (or portion thereof) surrendered, cancelled or reduced (as the case may be)
(d) Withdrawing, cancelling or reducing an underlying security	Acceptance of ADSs surrendered for withdrawal, cancellation or reduction of deposited securities	The depository may sell (by public or private sale) sufficient securities and property received in respect of share distributions, rights and other distributions prior to such deposit to pay such charge US \$1.50 per ADR
(e) Transferring, combination or split-up of receipts	Transfer, combination and split-up of ADRs	Expenses payable at the sole discretion of the depository by billing ADR holders or by deducting such charges from one or more cash dividends or other cash distributions
(f) Fees and expenses of the depository	Fees and expenses incurred by the depository or the depository's agents on behalf of holders, including in connection with: <ul style="list-style-type: none"> • compliance with foreign exchange control regulations or any law or regulation relating to foreign investment • stock transfer or other taxes and governmental charges • cable, telex and facsimile transmission and delivery charges • fees for the transfer or registration of deposited securities in connection with the deposit or withdrawal of deposited securities • expenses of the depository in connection with the conversion of foreign currency into U.S. dollars • any other charge payable by the depository or the depository's agents in connection with the servicing of the shares or other deposited securities (which charge shall be assessed against holders as of the record date or dates set by the depository) 	

Fees and Payments Made by the Depositary to the Company

BoNY, as ADR depositary, has agreed to reimburse certain expenses related to our ADR program and incurred by us in connection with the program. For the year ended June 30, 2011, the ADR depositary reimbursed us, or paid on our behalf to third parties, a total of US \$2,892. The ADR depositary also waived US \$30,000 of its fees for standard costs associated with the administration of the ADR program.

Fees and Payments Made by the Company to the Depositary

We incurred expenses in relation to services for our annual general meeting and special general meeting of shareholders. For the year ended June 30, 2011, we paid BoNY a total of US\$9,535 (comprised of payments for the distribution and printing of meeting material and proxy vote tabulation).

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

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

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our chief executive officer and chief financial officer to allow timely decisions regarding required disclosure. Our management, including our chief executive officer and chief financial officer, conducted an evaluation of our disclosure controls and procedures, as defined under Exchange Act Rule 13a-15(e), as of the end of the period covered by this Annual Report on Form 20-F. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of June 30, 2011, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

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

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

Our management assessed the effectiveness of our internal control over financial reporting as of June 30, 2011. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment, our management concluded that as of June 30, 2011, our internal control over financial reporting is effective.

Changes in Internal Control over Financial Reporting

During the year ended June 30, 2011, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. RESERVED

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**Fees Paid to Independent Public Accountants**

The following table sets forth, for each of the years indicated, the fees billed by PricewaterhouseCoopers, which has served as our principal independent registered public accounting firm since November 30, 2006.

Services Rendered	Year Ended June 30,	
	2011	2010
Audit (1)	A\$132,000	A\$140,672
Audit-Related (2)	—	45,000
Other (3)	85,000	26,637
Total	A\$217,000	A\$212,309

(1) Audit fees consist of services that would normally be provided in connection with statutory and regulatory filings or engagements, including services that generally only the independent accountant can reasonably provide.

(2) Audit-related fees relate to services provided in connection with the auditor's review of our internal controls.

(3) Other fees relate to services provided in connection with other public filings for the Securities and Exchange Commission.

Pre-Approval Policies and Procedures

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

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

Not applicable.

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

Neither we, nor any affiliated purchaser of our company, has purchased any of our securities during the year ended June 30, 2011.

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

Under NASDAQ Stock Market Rule 5615(a)(3), foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of the the NASDAQ Stock Market Rules. A foreign private issuer that elects to follow a home country practice instead of any such NASDAQ rules must submit to NASDAQ, in advance, a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws.

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

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ITEM 19. EXHIBITS

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Exhibit	Description
1.1	Constitution of Registrant (1)
2.1	Deposit Agreement dated March 23, 2001, as amended and restated as of December 21, 2007, among the Registrant, the Bank of New York, as Depositary, and owners and holders from time to time of ADRs issued thereunder, including the Form of American Depositary Receipts (2)
4.1	Agreement for the Assignment of Patents and Intellectual Property Licensing dated February 8, 2000, between Registrant and the Biomolecular Research Institute (3)
4.2	License Agreement dated January 1, 2001, between the Registrant and The General Hospital Corporation (3)
4.3	Variation Agreement dated August 8, 2001, between the Registrant and The General Hospital Corporation, which amends the License Agreement dated January 1, 2001, between the parties (3)
4.4	Agreement to Provide Accounting, Administration, Corporate Advice and Company Secretarial Services dated February 23, 2000, between the Registrant and Malvern Administrative Services (now named The CFO solution) (3)
4.5	Second Amendment to Exclusive License Agreement dated January 1, 2001, between the Registrant and The General Hospital Corporation, dated March 15, 2004, between the between the Registrant and The General Hospital Corporation (4)
4.6	Fourth Research Funding and Intellectual Property Assignment Agreement dated December 1, 2009 (5)
4.7	GMP 30kg Manufacture Agreement dated June 6, 2007, between the Registrant and Institute of Drug Technology Australia Limited (6)
4.8	GMP 4kg Manufacture Agreement dated June 6, 2007, between the Registrant and Institute of Drug Technology Australia Limited (7)
4.9	Settlement Agreement dated July 28, 2004, among the Registrant, P.N. Gerolymatos S.A, or PNG, Mr. Gerolymatos, The General Hospital Corporation of Massachusetts, or The GHC, Professor Ashley Bush, Dr. Rudolph Tanzi and Dr. Robert Cherny and the ancillary agreements of even date therewith exhibited thereto, including the Patent Assignment and Settlement Agreement among the Registrant and PNG, Patent Rights Security Agreement among the Registrant and PNG and the Derivatives Agreement among the Registrant and PNG (8)

4.10	Prana Biotechnology Limited, 2004 American Depositary Share (ADS) Option Plan (9)
4.11	Prana Biotechnology Limited, 2004 Employees', Directors' and Consultants' Share and Option Plan (10)
4.12	Employment Agreement dated September 21, 2007, among the Registrant and Mr. Kempler (11)
4.13	Letter Agreements effective as of June 12, 2007 between the Registrant and Ms. Dianne Angus (12)
4.14	Assignment and Novation Deed between Commonwealth Scientific Industrial and Research Organization and the Biomolecular Research Institute and the Registrant dated September 10, 2007 (13)
4.15	Agreement dated May 22, 2007 by and between the Registrant and Patheon Inc. regarding the formulation, development and manufacture of capsules of PBT2 (14)
4.16	Placement Confirmation Letter dated September 8, 2009, between the Registrant and BAM Capital LLC (15)
4.17	Consultancy Services Agreement dated January 8, 2004, between the Registrant and Professor Ashley Bush (16)
4.18	Letter agreement dated November 14, 2007, between the Registrant and Professor Ashley Bush (17)
4.19	Letter agreement dated May 22, 2009, between the Registrant and Professor Ashley Bush (18)
4.20	Process Development and Manufacturing Agreement dated December 26, 2008, between the Registrant and Dr. Reddy's Laboratories Limited, as amended by Amendment No. 1 effective February 3, 2009 and Amendment No. 2 effective March 13, 2009 (19)
4.21	Amendments to Process Development and Manufacturing Agreement dated December 26, 2008 between the Registrant and Dr. Reddy's Laboratories Limited, as amended: Amendment No. 3 effective July 6, 2009; Amendment No. 4 effective September 15, 2009; Amendment No. 5 effective November 13, 2009; Amendment No. 6 effective December 22, 2009; Amendment No. 7 effective December 22, 2009; Amendment No. 8 effective May 7, 2010; and Amendment No. 9 effective May 20, 2010 (20)
4.22	Amendments to Process Development and Manufacturing Agreement dated December 26, 2008 between the Registrant and Dr. Reddy's Laboratories Limited, as amended: Amendment No. 10 effective October 21, 2010; Amendment No. 11 effective March 21, 2011; and Amendment No. 12 effective May 18, 2011
4.23	Agreement dated June 23, 2010, between the Registrant and Quintiles Limited (21)
4.24	Placement Confirmation Letter dated March 22, 2011, between the Registrant and certain institutional investors (22)
4.25	At-The-Market Issuance Sales Agreement dated July 13, 2011, by and between the Registrant and McNicoll, Lewis & Vlask LLC (23)
8.1	List of Subsidiaries of the Registrant
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act, as amended
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act, as amended
13.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of PricewaterhouseCoopers, Registered Public Accounting Firm

(1) Filed as Exhibit 1.1 to our Annual Report on Form 20-F for the year ended June 30, 2009, and incorporated herein by reference.

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

- (3) Incorporated by reference to our Registration Statement on Form 20-F filed with the Securities and Exchange Commission on May 28, 2002 (File No. 000-49843).
- (4) Filed as Exhibit 4.6 to our Annual Report on Form 20-F for the year ended June 30, 2004, and incorporated herein by reference.
- (5) Filed as Exhibit 4.7 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference.
- (6) Filed as Exhibit 4.9 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference.
- (7) Filed as Exhibit 4.10 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference.
- (8) Filed as Exhibit 4.21 to our Annual Report on Form 20-F for the year ended June 30, 2004, and incorporated herein by reference.
- (9) Incorporated by reference to Annexure A to Item 1 of our Report on Form 6-K for the month of November 2004.
- (10) Incorporated by reference to Annexure B to Item 1 of our Report on Form 6-K for the month of November 2004.
- (11) Filed as Exhibit 4.19 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference.
- (12) Filed as Exhibit 4.21 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference.
- (13) Filed as Exhibit 4.22 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference.
- (14) Filed as Exhibit 4.25 to our Annual Report on Form 20-F for the year ended June 30, 2007, and incorporated herein by reference.
- (15) Incorporated by reference to our Report on Form 6-K for the month of September 2009.
- (16) Incorporated by reference to Item 1 of our Report on Form 6-K for the month of June 2009.
- (17) Incorporated by reference to Item 2 of our Report on Form 6-K for the month of June 2009.
- (18) Filed as Exhibit 4.20 to our Annual Report on Form 20-F for the year ended June 30, 2009, and incorporated herein by reference.
- (19) Filed as Exhibit 4.21 to our Annual Report on Form 20-F for the year ended June 30, 2009, and incorporated herein by reference.
- (20) Filed as Exhibit 4.21 to our Annual Report on Form 20-F for the year ended June 30, 2010, and incorporated herein by reference.
- (21) Filed as Exhibit 4.22 to our Annual Report on Form 20-F for the year ended June 30, 2010, and incorporated herein by reference.
- (22) Incorporated by reference to Item 1 of our Report on Form 6-K for the month of March 2011.
- (23) Incorporated by reference to Exhibit 1.1 to our Report on Form 6-K for the month of July 2011.

PRANA BIOTECHNOLOGY LIMITED
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Report of Independent Registered Public Accounting Firm

To The Board of Directors and Shareholders of Prana Biotechnology Limited

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of comprehensive income, cash flows and changes in shareholder's equity present fairly, in all material respects, the financial position of Prana Biotechnology Limited (the "Company") and its subsidiaries at June 30, 2011 and June 30, 2010, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2011 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company has included parent entity only information in the notes to the financial statements. Such parent entity only information is presented for purposes of additional analysis and is not a requirement of the consolidated financial statements presented in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

A handwritten signature in blue ink that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers
Melbourne, Australia
September 30, 2011

PRANA BIOTECHNOLOGY LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in Australian dollars, except number of shares)

	Notes	June 30,	
		2011	2010
Assets			
Current Assets			
Cash and cash equivalents		8,838,245	5,227,298
Trade and other receivables	6	3,373	825
Other current assets	7	90,588	1,479,603
Total Current Assets		8,932,206	6,707,726
Non-Current Assets			
Property and equipment, net of accumulated depreciation of A\$355,788 and A\$329,646 respectively	8	40,909	58,527
Other non-current assets	7	37,837	35,164
Total Non-Current Assets		78,746	93,691
Total Assets		9,010,952	6,801,417
Liabilities			
Current Liabilities			
Trade and other payables	9	1,399,584	1,244,417
Other financial liabilities	10	355,815	–
Provisions	11	319,965	256,074
Total Current Liabilities		2,075,364	1,500,491
Non-Current Liabilities			
Provisions	11	4,386	71,610
Total Non-Current Liabilities		4,386	71,610
Total Liabilities		2,079,750	1,572,101
Net Assets		6,931,202	5,229,316
Equity			
Issued and unissued capital			
2011: 275,286,783 fully paid ordinary shares			
Nil options over fully paid ordinary shares			
2010: 234,045,871 fully paid ordinary shares			
Nil options over fully paid ordinary shares			
	13	82,340,819	75,120,164
Reserves	14	9,494,995	8,582,579
Accumulated deficit during the development stage	15	(84,904,612)	(78,473,427)
Total Equity		6,931,202	5,229,316

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

PRANA BIOTECHNOLOGY LIMITED

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

	Notes	Years ended June 30,		
		2011	2010	2009
Revenues from ordinary activities	3	156,135	215,008	428,193
Other income	3	6,785	–	–
Research and development expenses, net	4	(2,329,491)	(87,992)	(2,215,358)
Personnel expenses	4	(2,394,298)	(3,087,234)	(3,832,804)
Intellectual property expenses	4	(399,237)	(431,082)	(1,107,534)
Auditor and accounting expenses	4	(157,436)	(168,909)	(129,998)
Travel expenses	4	(159,971)	(234,555)	(195,251)
Public relations and marketing expenses	4	(110,646)	(130,090)	(222,679)
Depreciation expenses	4	(31,577)	(35,290)	(34,190)
Other expenses	4	(857,281)	(940,699)	(978,875)
Foreign exchange loss	4	(145,377)	(6,079)	(6,723)
Gain (loss) on fair valuation of financial liabilities	4	(8,791)	–	772,430
Loss before income tax expense		(6,431,185)	(4,906,922)	(7,522,789)
Income tax expense	5	–	–	–
Loss for the year		(6,431,185)	(4,906,922)	(7,522,789)
Other comprehensive income (loss)		–	–	–
Total comprehensive loss for the year	15	(6,431,185)	(4,906,922)	(7,522,789)
Loss per share (basic and diluted - cents per share)	20	(2.60)	(2.16)	(3.72)
Weighted average number of ordinary shares used in computing basic and diluted net loss per share		247,578,570	227,527,388	202,357,885

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

PRANA BIOTECHNOLOGY LIMITED

CONSOLIDATED CASH FLOW STATEMENTS
(in Australian dollars)

	Notes	Years Ended June 30,		
		2011	2010	2009
Cash Flows from Operating Activities				
Payments to suppliers and employees		(4,714,771)	(4,923,648)	(7,511,372)
Interest received		156,366	214,709	517,198
Other		(10)	—	—
Net cash flows used in operating activities	16(a)	(4,558,415)	(4,708,939)	(6,994,174)
Cash Flows from Investing Activities				
Payment for rental security deposits		(2,673)	—	—
Payments for purchase of plant and equipment		(13,691)	(22,667)	(36,192)
Net cash flows used in investing activities		(16,364)	(22,667)	(36,192)
Cash Flows from Financing Activities				
Proceeds from exercise of options and issue of securities		8,551,283	6,000,000	114,000
Payment of share issue costs		(563,025)	(344,056)	(13,193)
Proceeds from borrowings		347,000	—	—
Net cash flows provided by financing activities		8,335,258	5,655,944	100,807
Net increase (decrease) in cash and cash equivalents		3,760,479	924,338	(6,929,559)
Opening cash and cash equivalents brought forward		5,227,298	4,304,977	11,219,035
Exchange rate adjustments on cash and cash equivalents held in foreign currencies		(149,532)	(2,017)	15,501
Closing cash and cash equivalents carried forward	16(b)	8,838,245	5,227,298	4,304,977

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

PRANA BIOTECHNOLOGY LIMITED

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

	Notes	Number of Shares	Issued and Unissued Capital	Reserves	Accumulated Deficit During Development Stage	Total Equity
Balance, June 30, 2008		201,800,240	69,842,303	6,067,740	(66,043,716)	9,866,327
Transactions with owners in their capacity as owners:						
Non-cash issuance of shares to consultants	13(b)	93,750	128,932	–	–	128,932
Non-cash issuance of options to consultants	14(b)	–	–	622,700	–	622,700
Non-cash issuance of options to directors and employees	14(b)	–	–	138,213	–	138,213
Issuance of shares in connection with exercise of options, net of costs	13(b) & 14(b)	816,483	217,754	(217,754)	–	–
Share options – value of share option scheme	14(b)	–	–	516,433	–	516,433
		202,710,473	70,188,989	7,127,332	(66,043,716)	11,272,605
Net loss		–	–	–	(7,522,789)	(7,522,789)
Total comprehensive loss for the year		–	–	–	(7,522,789)	(7,522,789)
Balance, June 30, 2009		202,710,473	70,188,989	7,127,332	(73,566,505)	3,749,816
Transactions with owners in their capacity as owners:						
Issuance of shares in connection with private placement, net of costs	13(b)	30,750,000	4,798,801	–	–	4,798,801
Issuance of options in connection with private placement	13(c)	–	–	857,143	–	857,143
Non-cash issuance of shares to consultants	13(b)	165,000	42,267	–	–	42,267
Non-cash issuance of options to consultants	14(b)	–	–	409,299	–	409,299
Non-cash issuance of options to directors and employees	14(b)	–	–	63,961	–	63,961
Issuance of shares in connection with exercise of options, net of costs	13(b) & 14(b)	420,398	90,107	(90,107)	–	–
Share options – value of share option scheme	14(b)	–	–	214,951	–	214,951
		31,335,398	4,931,175	1,455,247	–	6,386,422
Net loss	15	–	–	–	(4,906,922)	(4,906,922)
Total comprehensive loss for the year		–	–	–	(4,906,922)	(4,906,922)
Balance, June 30, 2010		234,045,871	75,120,164	8,582,579	(78,473,427)	5,229,316
Transactions with owners in their capacity as owners:						
Issuance of shares in connection with private placement, net of costs	13(b)	39,959,329	6,974,424	–	–	6,974,424
Issuance of options in connection with private placement	13(c)	–	–	1,057,182	–	1,057,182
Non-cash issuance of shares to consultants	13(b)	465,000	56,583	–	–	56,583
Non-cash issuance of options to consultants	14(b)	–	–	5,850	–	5,850
Options forfeited	14(b)	–	–	(2,266)	–	(2,266)
Issuance of shares in connection with exercise of options, net of costs	13(b) & 14(b)	816,583	189,648	(189,648)	–	–
Share options – value of share option scheme	14(b)	–	–	41,298	–	41,298
		41,240,912	7,220,655	912,416	–	8,133,071
Net loss	15	–	–	–	(6,431,185)	(6,431,185)
Total comprehensive loss for the year		–	–	–	(6,431,185)	(6,431,185)
Balance, June 30, 2011		275,286,783	82,340,819	9,494,995	(84,904,612)	6,931,202

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

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

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

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

Financial Reporting Framework

The financial report of Prana Biotechnology Limited for the year ended June 30, 2011 was authorized for issue in accordance with a resolution of the Directors on September 28, 2011.

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

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

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

The accounting policies set out below have been applied in preparing the financial statements for the year ended June 30, 2011 and the comparative information presented in these financial statements for the years ended June 30, 2010 and 2009.

Critical accounting estimates, judgments and assumptions

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

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

(a) Valuation of options with market vesting conditions

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

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

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

- 1) The market condition will be met as the listed share price will reach the defined share price during the life of the option; and
- 2) Based on the best estimate of the consolidated entity, made during the 2010 fiscal year, the share price will reach the defined level:
 - > A\$0.40 at June 30, 2012

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

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

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

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

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

Warrants that were exercisable for ADRs expired without being exercised on June 4, 2009. On June 30, 2011, the Company granted warrants to purchase 612,397 ordinary shares to Alzheimer's Drug Discovery Foundation ("ADDF") The warrants are exercisable at A\$0.17 consideration and expire on February 25, 2016. Options for ADRs remain outstanding.

Going Concern Basis

The consolidated entity is a development stage medical biotechnology company and as such expects to be utilising cash until its research activities have become marketable. As at June 30, 2011, the consolidated entity incurred an operating loss of A\$6,431,185 (2010 loss: A\$4,906,922). As at year end, the consolidated entity's net assets stood at A\$6,931,202 (2010: A\$5,229,316). The consolidated entity's cash position has increased to A\$8,838,245 from A\$5,227,298 at June 30, 2011.

The directors believe that the going concern basis of preparation is appropriate given the consolidated entity's cash position, in addition:

- On July 14, 2011, the Company announced that it had filed a prospectus supplement to sell up to an aggregate 50,000,000 ordinary shares, represented by 5,000,000 ADRs through an "at-the-market" (ATM) facility. If utilised, the ADRs would be offered through McNicoll, Lewis & Vlax LLC ("MLV") as sales agent who, at Prana's discretion and instruction, will use its commercially reasonable efforts to sell the ADRs at market prices from time to time, including sales made by means of ordinary brokers' transactions on the NASDAQ Capital Market.
- In parallel, the Company continues to pursue raising additional funds through alternative funding structures.
- Notwithstanding, the Company has the ability to scale down its operations and prioritise its research and development programs in neurology should the need arise.

Development Stage – Risks and Uncertainties

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

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

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

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

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

Significant Accounting Policies

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

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

(a) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company and its subsidiaries as defined in Accounting Standard IAS 27: *Consolidated and Separate Financial Statements*. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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

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

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

(b) Income Tax

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

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

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

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

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

(c) Property and Equipment

Property and equipment is measured at historical cost less accumulated depreciation and impairment and consists of laboratory equipment, computer equipment, furniture and fittings and leasehold improvements attributable to Prana's premises at Parkville, Victoria, Australia.

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

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

Depreciation

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

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

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

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

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

(d) Leases

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

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

(e) Financial Instruments

Loans and Receivables

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

Warrants and Options

Under IAS 32, options and warrants issued other than for goods or services that are exercisable in a currency other than the functional currency of the Company and meet the definition of a liability are recorded as financial liabilities rather than equity. Refer to accounting policy (p) share-based payments for the accounting policy for warrants and options issued as share-based payments for goods or services.

Warrants and options recorded as financial liabilities under IAS 32 are valued at fair value using the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. At each reporting date, the options and warrants are revalued to their current fair value, with the difference in fair value recorded in the Statement of Comprehensive Income.

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

1. BACKGROUND AND SUMMARY 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.

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

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

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

No impairment charges were incurred during the three years ended June 30, 2011.

(g) Intangible Assets - Research and Development

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

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

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

At June 30, 2011 and 2010, Prana had no capitalized research and development costs.

(h) Foreign Currency Transactions and Balances

Functional and Presentation Currency

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

Foreign currency transactions

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

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

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

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

Group companies

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

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

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

(i) Employee Benefits

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

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

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

(j) Provisions

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

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

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

(k) Cash and Cash Equivalents

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

(l) Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is made up of interest income which is recognized on a time proportion basis using the effective interest method.

(m) Other Income

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

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

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

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

Cash flows are included in the 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.

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

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

(o) Trade and Other Payables

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

(p) Share-Based Payments

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

Directors

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

Employees

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

Consultants

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

Equity-based compensation benefits are provided to directors, employees and consultants under the 2004 ASX Plan (the "2004 ASX Plan") and the 2004 American Depositary Share (ADS) Option Plan (the "2004 ADS Plan"). Information relating to this plan is set out in Note 18.

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

The fair value at grant date is independently determined using a Black-Scholes (for options without market condition) and Barrier Pricing (for options with market conditions) model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

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

(q) Loss Per Share

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

(r) Share Capital

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

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

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

(s) Trade and Other Receivables

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

(t) Comparative Figures

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

(u) Parent Information

The financial information for the parent entity, Prana Biotechnology Limited, disclosed in Note 2 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investment in Subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Prana Biotechnology Limited.

(v) New Accounting Standards And Interpretations

In respect of the year ended June 30, 2011, the Group has assessed all new accounting standards mandatory for adoption during the current year, noting no new standards which would have a material affect on the disclosure in these financial statements. There has been no affect on the profit and loss or the financial position of the Group.

Certain new Australian accounting standards and interpretations (and their equivalent IASB standards) have been published that are not mandatory for June 30, 2011 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

➤ *AASB 124 Related Party Disclosures (effective January 1, 2011)*

The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:

- a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other
- b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other
- c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other

A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.

The group intends to apply the amendment from July 1, 2011; it is not expected to have any impact on the group's financial statements.

➤ *AASB 1054 Australian Additional Disclosures (effective July 1, 2011)*

This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.

This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:

- a) Compliance with Australian Accounting Standards
- b) The statutory basis or reporting framework for financial statements
- c) Whether the financial statements are general purpose or special purpose
- d) Audit fees
- e) Imputation credits

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

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

➤ AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (effective January 1, 2013)

[AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]

The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows:

- The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
- The remaining change is presented in profit or loss

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

➤ AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project (effective July 1, 2011)

[AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]

This Standard addresses many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054.

These are the only changes which are expected to be of relevance to the Group.

	Years Ended June 30,		
	2011	2010	2009
2. PARENT INFORMATION			
The following information has been extracted from the books and records of the parent and has been prepared in accordance with the company's accounting policies.			
Statement of Financial Position			
ASSETS			
Current Assets	8,932,206	6,707,726	4,490,936
Non-current Assets	80,161	95,106	107,729
TOTAL ASSETS	9,012,367	6,802,832	4,598,665
LIABILITIES			
Current Liabilities	2,074,349	1,499,354	797,685
Non-current Liabilities	4,386	71,610	48,389
TOTAL LIABILITIES	2,078,735	1,570,964	846,074
EQUITY			
Issued Capital	82,340,819	75,120,164	70,188,989
Reserves	9,494,995	8,582,579	7,127,332
Accumulated losses	(84,902,182)	(78,470,875)	(73,563,730)
TOTAL EQUITY	6,933,632	5,231,868	3,752,591
Statement of Comprehensive Income			
Total loss	(6,431,307)	(4,907,145)	(7,522,470)
Total comprehensive loss	(6,431,307)	(4,907,145)	(7,522,470)

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

		Years Ended June 30,		
		2011	2010	2009
3. REVENUE AND OTHER INCOME FROM CONTINUING OPERATIONS				
Other revenue				
Interest		156,135	215,008	428,193
Donations		6,785	–	–
Total revenue		162,920	215,008	428,193
		Years Ended June 30,		
		2011	2010	2009
4. EXPENSES FROM ORDINARY ACTIVITIES				
Research and development	4(a)	2,329,491	87,992	2,215,358
Personnel expenses				
Employee expenses		1,222,986	1,286,094	1,359,887
Equity based payments to employees		29,783	118,228	169,043
Consultant and director expenses		921,884	923,472	1,022,227
Equity-based payments to consultants and directors		71,681	612,252	1,136,428
Defined contribution superannuation expenses		147,964	147,188	145,219
Total personnel expense*		2,394,298	3,087,234	3,832,804
Intellectual property expenses				
Overseas		74,634	202,002	497,947
Local		324,603	229,080	609,587
Total intellectual property expense		399,237	431,082	1,107,534
Depreciation of non-current assets				
Laboratory equipment		6,557	3,899	1,748
Computer equipment		22,235	26,997	26,488
Furniture and fittings		2,711	2,700	2,688
Leasehold improvements		74	1,420	1,420
Write-off non-current assets		–	274	1,846
Total depreciation expense		31,577	35,290	34,190
Other expenses				
Corporate compliance		181,992	284,156	299,250
Office expenses		452,567	433,818	444,579
Computer expenses		21,975	21,167	23,178
Insurance		56,868	61,359	77,166
Office rental under operating lease		140,121	140,199	134,702
Interest Expense - ADDF		3,758	–	–
Total other expenses		857,281	940,699	978,875
Auditor and accounting expenses		157,436	168,909	129,998
Travel expenses		159,971	234,555	195,251
Public relations and marketing expenses		110,646	130,090	222,679
Foreign exchange gain		145,377	6,079	6,723
Gain (loss) on fair valuation of financial liabilities		8,791	–	(772,430)
Total expenses		6,594,105	5,121,930	7,950,982

* Personnel expenses include salaries and fees paid to employees and consultants involved in research and development activities.

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

	Years Ended June 30,		
	2011	2010	2009
4(a) Research and development expenses			
Personnel expenses related to research and development	428,890	578,389	812,086
Research and development expenses ¹	2,329,491	87,992	2,215,358
Total research and development expenses	2,758,381	666,381	3,027,444

¹ Research and development expenses consist of expenses paid for contracted research and development activities conducted by third parties on behalf of the Company.

For the year ended 30 June 2010, the Company incurred research and development expenses of A\$2,340,377. Such expenses were offset by cash that the Company received or is receivable, due to an adjustment under a research and development contract, resulting in the line item of research and development expenses for such period being A\$87,992.

	Years Ended June 30,		
	2011	2010	2009
5. INCOME TAX			
(a) The prima facie tax on net (loss) before tax is reconciled to the income tax is as follows:			
Prima facie tax on net (loss) before income tax at 30% (2010 & 2009: 30%)	(1,929,356)	(1,472,077)	(2,256,837)
Effect of lower tax rates of tax on overseas income	(18)	(34)	48
Add tax effect of:			
(Over)/Under provision of income tax in previous year relating to a correction of estimates ¹	218,421	(133,538)	13,806
Equity issued for nil consideration	30,439	219,144	391,641
Research and development tax concession	(222,358)	(44,027)	(258,131)
Gain on fair value of financial liabilities	(2,637)	–	(231,729)
Other	1,355	1,426	1,701
Deferred tax asset not recognized	1,904,154	1,429,106	2,339,501
Income tax expense attributable to loss before income tax	<u>–</u>	<u>–</u>	<u>–</u>
(b) Potential deferred tax asset at June 30, 2011, 2010 and 2009 in respect of: tax losses not brought to account is:	32,246,695	30,238,852	28,809,746
Temporary differences	345,577	(230,014)	246,714

¹ This is the result of the difference between the accounting estimate included in the prior year's tax note, as disclosed in the Form 20-F for the year ended June 30, 2010, and the tax return lodged with the Australian Tax Office after the filing of the Form 20-F for such period.

	Years Ended June 30,	
	2011	2010
6. TRADE AND OTHER RECEIVABLES		
Accrued income	593	825
Goods and services tax	2,780	–
	<u>3,373</u>	<u>825</u>

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

	Years Ended June 30,	
	2011	2010
7. OTHER ASSETS		
<u>Current</u>		
Prepayments	86,723	72,892
Other receivables*	3,865	1,406,711
Total	90,588	1,479,603
<u>Non-current</u>		
Term deposit	37,837	35,164
Total	37,837	35,164

*Refer to Note 4a for further details in relation to other receivables.

	Notes	Years Ended June 30,	
		2011	2010
8. PROPERTY AND EQUIPMENT			
Gross carrying amount			
Balance at beginning of year		393,312	596,428
Additions		13,961	22,665
Disposals		(10,576)	(230,920)
Balance at end of year		396,697	388,173
Accumulated depreciation			
Balance at beginning of year		(334,785)	(525,278)
Disposals		10,574	230,648
Depreciation expense	4	(31,577)	(35,016)
Balance at end of year		(355,788)	(329,646)
Net book value at end of year		40,909	58,527

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

	Years Ended June 30,	
	2011	2010
Laboratory equipment, at cost	166,299	166,165
Less accumulated depreciation	(158,298)	(151,739)
Total laboratory equipment	8,001	14,426
Computer equipment, at cost	117,461	109,071
Less accumulated depreciation	(100,995)	(84,197)
Total computer equipment	16,466	24,874
Furniture and fittings, at cost	37,278	37,278
Less accumulated depreciation	(20,836)	(18,125)
Total furniture and fittings	16,442	19,153
Leasehold improvements, at cost	75,659	75,659
Less accumulated depreciation	(75,659)	(75,585)
Total leasehold improvements	–	74
Total	40,909	58,527

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

	Years Ended June 30,	
	2011	2010
9. TRADE AND OTHER PAYABLES		
Trade creditors	311,268	279,752
Accrued research and development expenses	449,067	650,331
Accrued intellectual property expenses	10,550	20,719
Accrued personnel expenses (1)	389,580	31,516
Accrued audit fees	193,755	114,686
Accrued travel expenses	75	8,295
Accrued marketing expenses	807	63,078
Other accrued expenses	24,252	9,270
Sundry payables	20,230	66,770
Total	1,399,584	1,244,417

(1) At June 30, 2011, the following amounts were payable to Directors:

Brian Meltzer – A\$60,000
George Mihaly – A\$50,000
Geoffrey Kempler – A\$237,430

	Notes	Years Ended June 30,			
		2011	2010	2011	2010
		No.	No.	\$	\$
10. FINANCIAL LIABILITIES					
<u>Non-Current</u>					
Convertible Promissory Note	(a)	–	–	285,785	–
Warrants over ordinary shares	(b)	612,397	–	70,030	–
Total				355,815	–

(a) Convertible Promissory Note

In the Financial Year ended June 30, 2011, the Company entered into an agreement with the ADDF to receive a grant of up to US\$700,000, receivable in two installments of US\$350,000. As at June 30, 2011, only the first installment has been received. As a condition to receiving the grant and on execution of the agreement, the Company executed a convertible promissory note, which is equal to the amount of the first installment. This convertible promissory note governs the terms of repayment of the grant or its conversion into ordinary shares of the Company. Further, as a condition to receiving the grant, on receipt of each installment, the Company must issue a warrant to ADDF to purchase ordinary shares of the Company.

The convertible promissory note is classified as a financial liability in accordance with AASB 132 and AASB 139 for recognition and measurement.

The terms of the convertible promissory note are as follows:

Interest Payable –	Per annum rate equal to the United States “prime” rate as published by the Wall Street Journal, compounds annually and payable at maturity.
Maturity –	All unpaid principal, together with any unpaid and accrued interest, will be due and payable on the 3rd anniversary of the date of the agreement.
Note holder conversion –	Upon the Company closing an equity financing of at least US\$1M, excluding the principle amount of the convertible promissory note, the outstanding principal, together with unpaid and accrued interest, the convertible promissory note holder may elect to convert the total outstanding amounts into units of securities issued in the equity financing at a conversion price equal to the lowest per unit price paid by investors in that financing.
Company conversion –	If, at any time, any unpaid principal, together with any unpaid and accrued interest, would be due and payable by the Company to the convertible promissory note holder in cash and the Company does not have the capacity to repay the total outstanding amounts in cash, the Company may elect to substitute an issue of ordinary shares equal to the total outstanding amount at a 20% discount to a 5 day VWAP.

(b) Warrants over ordinary shares

As per an agreement with the ADDF, the Company issued warrants to purchase 612,397 ordinary shares to the ADDF representing 30% of the value of the first tranche of the US\$350,000 grant received during the financial year.

The warrants are convertible to ordinary shares on or before February 25, 2016 at an exercise price of A\$ 0.17 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.

On initial recognition the warrants are measured at fair value on the Statement of Financial Position. At each reporting date the financial liability representing the warrants are required to be re-valued to fair value with the movement in the fair value recorded in the Statement of Comprehensive Income.

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

	Notes	Years Ended June 30,	
		2011	2010
11. PROVISIONS			
Current			
Annual leave ²	18	142,521	171,789
Long service leave ^{1&2}		177,444	84,285
Total		319,965	256,074

Non-Current			
Long service leave ²	18	4,386	71,610

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

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

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

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

	Years Ended June 30,	
	2011	2010
Long service leave obligation expected to be settled after 12 months	177,444	84,285

² Movements in provisions

Movements in each class of provision during the financial year are set out below:

	Years Ended June 30,	
	2011	2010
Annual leave		
Carrying amount at start of year	171,789	126,427
Charged/(credited) to profit or loss		
-additional provisions recognized	241,616	272,195
-unused amounts reversed	(171,789)	(126,427)
Amounts used during the year	(99,095)	(100,406)
Carrying amount at end of year	142,521	171,789
Long service leave		
Carrying amount at start of year	155,895	116,865
Charged/(credited) to profit or loss		
-additional provisions recognized	181,830	155,895
-unused amounts reversed	(155,895)	(116,865)
Amounts used during the year	–	–
Carrying amount at end of year	181,830	155,895
TOTAL	324,351	327,684

12. COMMITMENTS AND CONTINGENCIES

There are no contingent assets or liabilities at the date of this report. The consolidated entity is not involved in any legal or arbitration proceedings and, so far as the Directors are aware, no such proceedings are pending or threatened against the company.

In respect of expenditure commitments, refer to Note 17.

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

		Years Ended June 30,		
	Notes	2011	2010	2009
13. ISSUED CAPITAL				
(a) Issued Capital				
275,286,783 (2010: 234,045,871) fully paid ordinary shares	13(b)	79,639,175	72,418,520	67,487,345
Nil (2010: Nil) options for fully paid ordinary shares	13(c)	2,701,644	2,701,644	2,701,644
		82,340,819	75,120,164	70,188,989

(b) Movements in Issued Shares

	June 30,					
	2011		2010		2009	
	No.	\$	No.	\$	No.	\$
Beginning of the year	234,045,871	72,418,520	202,710,473	67,487,345	201,800,240	67,140,659
Movement during the year	<u>41,240,912</u>	<u>7,220,655</u>	<u>31,335,398</u>	<u>4,931,175</u>	<u>910,233</u>	<u>346,686</u>
End of the year	<u>275,286,783</u>	<u>79,639,175</u>	<u>234,045,871</u>	<u>72,418,520</u>	<u>202,710,473</u>	<u>67,487,345</u>

Details of share issuances are as follows:

Date	Details	Notes	Number	Issue Price	\$
Year ended June 30, 2009			910,233		346,686
July 15, 2009	Exercise of options – employees		2,000	–	460
July 15, 2009	Exercise of options – employees		45,333	–	9,973
July 15, 2009	Exercise of options – consultants		80,000	–	15,200
July 15, 2009	Exercise of options – employees		53,333	–	11,733
September 2, 2009	Exercise of options – employees		54,500	–	11,990
October 8, 2009	Exercise of options – employees		30,000	–	6,600
October 8, 2009	Exercise of options – employees		75,232	–	16,551
November 9, 2009	Shares to investors as part of private placement		30,000,000	0.17	5,017,421
November 27, 2009	Shares to investors as part of private placement		750,000	0.17	125,436
March 2, 2010	Non cash share issue in consideration for services provided by consultants	(i)	165,000	0.15	24,750
March 2, 2010	Exercise of options – consultants		80,000	–	17,600
	Proposed Non cash share issue in consideration for services provided by consultants		–	0.32	17,517
	Security issuance costs				(344,056)
Year ended June 30, 2010			<u>31,335,398</u>		<u>4,931,175</u>
July 1, 2010	Reversal of Proposed Non cash share issue in consideration for services provided by consultants		–	0.32	(17,517)
July 19, 2010	Shares to investors as part of private placement		7,064,749	0.16	1,150,000
September 27, 2010	Non cash share issue in consideration for services provided by consultants	(i)	110,000	0.13	14,300
September 27, 2010	Exercise of options – employees		84,333	–	18,553
October 8, 2010	Exercise of options – employees		112,250	–	24,695
November 4, 2010	Exercise of options – employees		120,000	–	26,400
November 4, 2010	Exercise of options – consultants		500,000	–	120,000
March 4, 2011	Non cash share issue in consideration for services provided by consultants	(i)	55,000	0.16	8,800
April 8, 2011	Shares to investors as part of private placement		27,200,000	0.19	5,245,714
June 30, 2011	Shares to investors as part of private placement		5,694,580	0.20	1,141,735
June 30, 2011	Non cash share issue in consideration for services provided by consultants	(i)	300,000	0.17	51,000
	Security issuance costs				(563,025)
Year ended June 30, 2011			<u>41,240,912</u>		<u>7,220,655</u>

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

13. ISSUED CAPITAL (continued)

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

March 2, 2010, September 27, 2010, March 4, 2011 and June 27, 2011

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

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

(c) Movements in Options

	2011		June 30, 2010		2009	
	Number of Options	\$	Number of Options	\$	Number of Options	\$
Beginning of the year	–	2,701,644	14,279,133	2,701,644	14,279,133	2,701,644
Movement during the year	–	–	(14,279,133)	–	–	–
End of the year	–	2,701,644	–	2,701,644	14,279,133	2,701,644

Details of option grants are as follows:

Date	Details	Exercise Price	Number	Fair Value	\$
Year ended June 30, 2009		–	–	–	–
November 30, 2009	Options to investors expired unexercised	\$ 0.446	14,279,133	–	–
Year ended June 30, 2010			14,279,133		–

There was no movement in options during the financial year ended June 30, 2011.

(d) Terms and Conditions of Issued Capital

Ordinary shares

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

Options

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

(e) Shares Issued after Reporting Date

After reporting date the following equity issues occurred:

Date	Details	Notes	Number	Issue Price	\$
September 19, 2011	Shares to investors as part of at-the-market facility		196,000	0.18	35,579
September 21, 2011	Shares to investors as part of at-the-market facility		4,913,630	0.20	986,961
September 22, 2011	Shares to investors as part of at-the-market facility		1,211,970	0.18	216,719
			<u>6,321,600</u>		<u>1,239,259</u>

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

14. RESERVES

		Years Ended June 30,		
	Notes	2011	2010	2009
(a) Share Based Payments				
26,043,956 (2010: 26,419,378) options for fully paid ordinary shares	14(b)	7,525,998	6,613,582	5,158,335
380,000 (2010: 380,000) options for ADRs	14(c)	1,515,434	1,515,434	1,515,434
612,397 (2010: Nil) warrants for ADRs	14(d)	453,563	453,563	453,563
		9,494,995	8,582,579	7,127,332

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

(b) Movements in Options for Fully Paid Ordinary Shares

	Years Ended June 30,					
	2011		2010		2009	
	Number of Options	Comp. Expense (\$)	Number of Options	Comp. Expense (\$)	Number of Options	Comp. Expense (\$)
Beginning of the year	26,419,378	6,613,582	13,335,167	5,158,335	11,051,832	4,098,743
Issued during the year	8,712,645	1,063,032	15,704,609	1,330,403	3,099,818	760,913
Expired during the year	(8,191,484)	–	(2,200,000)	–	–	–
Forfeited during the year	(80,000)	(2,266)	–	–	–	–
Amortization of option expenses	–	41,298	–	214,951	–	–
Exercised during the year (Note 14(b))	(816,583)	(189,648)	(420,398)	(90,107)	(816,483)	(217,754)
End of the year	<u>26,043,956</u>	<u>7,525,998</u>	<u>26,419,378</u>	<u>6,613,582</u>	<u>13,335,167</u>	<u>5,158,335</u>

Details of option grants are summarized as follows.

Year ended June 30, 2009:

- On October 17, 2008, the Company granted options to purchase 2,000,000 ordinary shares to consultants under the 2004 ASX Plan (see Note 18) in recognition of services rendered to the Company. The options are exercisable at A\$nil consideration and expire on June 30, 2010. The fair value of the options is A\$0.28.
- On June 16, 2009, the Company granted options to purchase 330,000 ordinary shares to consultants under the 2004 ASX Plan (see Note 18) in recognition of services rendered to the Company. The options are exercisable at A\$nil consideration and expire on October 31, 2010. The fair value of the options is A\$0.22.
- On June 16, 2009, the Company granted options to purchase 574,981 ordinary shares to employees under the 2004 ASX Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are exercisable at A\$nil consideration and expire on October 31, 2010. The fair value of the options is A\$0.19.
- On June 16, 2009, the Company granted options to purchase 194,837 ordinary shares to employees under the 2004 ASX Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are exercisable at A\$nil consideration and expire on August 7, 2014. The fair value of the options is A\$0.18.

Year ended June 30, 2010:

- On September 2, 2009, the Company granted options to purchase 80,000 ordinary shares to consultants under the 2004 ASX Plan (see Note 18) in recognition of services rendered to the Company. The options are exercisable at A\$nil consideration and expire on October 31, 2010. The fair value of the options is A\$0.22.
- On November 27, 2009, the Company granted options to purchase 10,000,000 ordinary shares to investors as part of a capital raising. The options are exercisable at A\$0.30 consideration and expire on September 11, 2013. The fair value of the options is A\$0.09.
- On November 27, 2009, the Company granted options to purchase 3,500,000 ordinary shares to consultants in recognition of services rendered to the Company. The options are exercisable at A\$0.30 consideration and expire on September 23, 2012. The fair value of the options is A\$0.08.
- On June 8, 2010, the Company granted options to purchase 645,853 ordinary shares to employees under the 2004 ASX Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are exercisable at A\$nil consideration and expire on August 7, 2014. The fair value of the options is A\$0.14.

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

14. RESERVES (continued)

Year ended June 30, 2010 (continued):

- On June 8, 2010, the Company granted options to purchase 60,000 ordinary shares to consultants under the 2004 ASX Plan (see Note 18) in recognition of services rendered to the Company. The options are exercisable at A\$nil consideration and expire on August 7, 2014. The fair value of the options is A\$0.14.
- On June 8, 2010, the Company granted options to purchase 418,756 ordinary shares to employees under the 2004 ASX Plan (see Note 18) in recognition of future contributions to the growth and success of the Company. The options are exercisable at A\$0.15 consideration and expire on March 31, 2014. The fair value of the options is A\$0.13.
- On June 8, 2010, the Company granted options to purchase 1,000,000 ordinary shares to consultants under the 2004 ASX Plan (see Note 18) in recognition of services rendered to the Company. The options are exercisable at A\$0.15 consideration and expire on March 31, 2014. The fair value of the options is A\$0.11.

Year ended June 30, 2011:

- On October 8, 2010, the Company granted options to purchase 200,000 ordinary shares to consultants under the 2004 ASX Plan (see Note 18) in recognition of services rendered to the Company. The options are exercisable at A\$nil consideration and expire on August 7, 2014. The fair value of the options is A\$0.12.
- On April 8, 2011, the Company granted options to purchase 6,800,000 ordinary shares to investors as part of a capital raising. The options are exercisable at A\$0.225 consideration and expire on March 24, 2015. The fair value of the options is A\$0.13.
- On April 8, 2011, the Company granted options to purchase 289,000 ordinary shares to investors as part of a capital raising. The options are exercisable at A\$0.225 consideration and expire on March 24, 2015. The fair value of the option is A\$0.15.
- On June 30, 2011, the Company granted options to purchase 1,423,645 ordinary shares to investors as part of a capital raising. The options are exercisable at A\$0.225 consideration and expire on March 24, 2015. The fair value of the option is A\$0.10.

(c) Movements in Options for ADRs

	Years Ended June 30,					
	2011		2010		2009	
	Number of Options	Comp. Expense (\$)	Number of Options	Comp. Expense (\$)	Number of Options	Comp. Expense (\$)
Beginning of the year	380,000	1,515,434	380,000	1,515,434	380,000	1,515,434
End of the year	380,000	1,515,434	380,000	1,515,434	380,000	1,515,434

(d) Movement in Warrants for ADRs

	Years Ended June 30,					
	2011		2010		2009	
	Number of Warrants	Comp. Expense (\$)	Number of Warrants	Comp. Expense (\$)	Number of Warrants	Comp. Expense (\$)
Beginning of the year	–	453,563	–	453,563	320,000	453,563
Issued during the year ¹	612,397	–	–	–	–	–
Expired during the year	–	–	–	–	(320,000)	–
End of the year	612,397	453,563	–	453,563	–	453,563

¹On June 30, 2011, the Company granted warrants to purchase 612,397 ordinary shares to ADDF. The warrants are exercisable at A\$0.17 consideration and expire on February 25, 2016. The fair value of the warrant is A\$0.11.

(e) Terms and Conditions of Reserves

Options and warrants

Option holders and warrant holders do not have the right to receive dividends and are not entitled to vote at a meeting of the Company's shareholders. Options and warrants may be exercised at any time from the date they vest to the date of their expiration. Share options are exercisable into ordinary shares on a one for one basis on the date they are exercised. Options granted under the 2004 ADS Plan are exercisable into ADRs, being one option for one ADR, which equals ten ordinary shares, on the date they are exercised.

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

(f) Options and Warrants Issued after Reporting Date

No option issues have occurred after reporting date. There have been no warrants granted after reporting date.

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

	Years Ended June 30,	
	2011	2010
15. ACCUMULATED DEFICIT DURING DEVELOPMENT STAGE		
Balance at beginning of year	(78,473,427)	(73,566,505)
Net loss for the year	(6,431,185)	(4,906,922)
Balance at end of year	(84,904,612)	(78,473,427)

	Years Ended June 30,		
	2011	2010	2009

16. CASH FLOW INFORMATION

(a) Reconciliation of Net Loss to Net Cash Flows From Operations

Net loss	(6,431,185)	(4,906,922)	(7,522,789)
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Non-cash items

Depreciation of property and equipment	31,577	35,290	34,190
Non-cash issue of equity in consideration of operating expenses	144,569	730,478	1,305,471
Foreign exchange (gain) loss	149,532	2,017	(15,501)
(Gain) loss on fair value of financial liabilities	8,791	–	(772,430)

Changes in assets and liabilities

Decrease (increase) in trade and other receivables	(2,548)	(299)	120,115
Decrease (increase) in other current assets	1,389,015	(1,294,170)	68,892
(Decrease) increase in trade and other payables	155,167	640,275	(244,971)
Decrease (increase) in provision for employee entitlements	(3,333)	84,392	32,849

Net cash flows used in operating activities	(4,558,415)	(4,708,939)	(6,994,174)
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(b) Reconciliation of Cash and Cash Equivalents

Cash and cash equivalents balance comprises:

- cash and cash equivalents on hand	8,838,245	5,227,298	4,304,977
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Closing cash and cash equivalents balance	8,838,245	5,227,298	4,304,977
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(c) Non-Cash Financing and Investing Activities

During the years ended June 30, 2011, 2010 and 2009, the Company issued shares and granted options in connection with non-cash transactions. See Notes 13(b) and 14(b).

17. EXPENDITURE COMMITMENTS

The Company has a non-cancelable operating lease contracted for but not capitalized in the financial statements. The Company has commitments under this contract within one year of A\$33,021. The property lease is a non-cancellable lease with a 12 month term, with rent payable monthly in advance. The property lease commenced November 1, 2010 and expires on October 31, 2011.

Details in relation to commitments under employee service agreements with Directors and Key Management Personnel are outlined in Note 21.

The Company has commitments under research and development contracts within one year of A\$801,663 and greater than one year but less than three years of A\$53,398. For the fiscal year ended June 30, 2010, commitments under research and development contracts within one year were A\$2,151,895 and greater than one year but less than three years were A\$86,335. For the fiscal year ended June 30, 2009, commitments under research and development contracts within one year were A\$485,861 and greater than one year but less than three years were A\$43,028.

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

18. SHARE BASED PAYMENTS

(a) Employee and Consultant Plans

At the Annual General Meeting held on November 17, 2004, the shareholders approved the establishment of employee and consultant plans designed to reward directors, employees and/or consultants for their contributions to the Company. The plans are to be used as a method of retaining key personnel for the growth and development of the Company. Due to Prana's U.S. presence, a U.S. plan (the 2004 ADS Plan) and an Australian plan (the 2004 ASX Plan) were developed.

At June 30, 2011, equity had been issued to one former Director under the 2004 ADS Plan and five Directors, three key management personnel, 16 employees and 16 consultants under the 2004 ASX Plan. At June 30, 2010, equity had been issued to one former Director under the 2004 ADS Plan and five Directors, three key management personnel, 16 employees and 16 consultants under the 2004 ASX Plan. At June 30, 2009, equity had been issued to one former Director under the 2004 ADS Plan and five Directors, three key management personnel, 16 employees and 16 consultants under the 2004 ASX Plan.

At the 2004 Annual General Meeting shareholders authorized the Company to issue in the aggregate up to 12 million ordinary shares under the two plans. This was increased to 22 million ordinary shares at the 2005 Annual General Meeting. This was further increased to 30 million ordinary shares at the 2007 Annual General Meeting, 45 million ordinary shares at the 2008 Annual General Meeting and 60 million ordinary shares at the 2009 Annual General Meeting. The Share Plan Committee, a sub-committee of the Remuneration Committee administers the two plans and is able to change the terms of the equity issued under them from the default terms.

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

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

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

	Years Ended June 30,					
	2011		2010		2009	
	Number of Options	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)
Beginning of the year	12,055,394	0.16	12,471,183	0.14	10,187,848	0.08
Issued during the year	200,000	Nil	2,204,609	0.10	3,099,818	0.32
Exercised during the year	(816,583)	Nil	(420,398)	Nil	(816,483)	0.14
Expired during the year	(7,327,500)	0.23	(2,200,000)	Nil	–	Nil
Forfeited during the year	(80,000)	Nil	–	Nil	–	Nil
Outstanding at year end	4,031,311	0.05	12,055,394	0.16	12,471,183	0.14
Exercisable at year end	3,010,621	0.07	8,477,204	0.23	7,398,846	0.23

The range of exercise prices of options outstanding at period end is nil to A\$0.15. These options have a weighted average remaining contractual life of 2.76 years. The weighted average fair value of options granted during the period was determined in accordance with Note 1(p) as A\$0.12, A\$0.12 and A\$0.25 for the years ended June 30, 2011, 2010 and 2009, respectively. The weighted average assumptions in calculating fair value were as follows:

- risk-free interest rate of 4.63% for 2011 and 5.13% for 2010;
- no dividends;
- expected volatility of 111% for 2011 and 120% for 2010; and
- expected life of 3.91 years for 2011 and 3.98 for 2010.

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

Dividend yield – Prana has never declared or paid dividends on its ordinary shares and does not anticipate paying any dividends in the foreseeable future.

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

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

18. SHARE BASED PAYMENTS (continued)

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

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

	Years Ended June 30,		
	2011	2010	2009
	Number of Shares	Number of Shares	Number of Shares
Beginning of the year	5,661,883	5,076,485	4,166,252
Issued during the year ¹	981,583	585,398	910,233
End of the financial year	6,643,466	5,661,883	5,076,485

¹ In the years ended June 30, 2011, 2010 and 2009 this includes options to purchase 816,583, 420,398 and 816,483 ordinary shares, respectively granted under the 2004 ASX Plan that were exercised.

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

	Years Ended June 30,					
	2011		2010		2009	
	Number of Options	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)
Beginning of the year		US\$5.00 (A\$5.84)		US\$5.00 (A\$5.84)		US\$5.00 (A\$6.22)
Issued during the year ¹	380,000	(A\$5.84)	380,000	(A\$5.84)	380,000	(A\$6.22)
Outstanding at year end	380,000	US\$5.00 (A\$5.84)	380,000	US\$5.00 (A\$5.84)	380,000	US\$5.00 (A\$6.22)
Exercisable at year end ¹	380,000	US\$5.00 (A\$5.84)	380,000	US\$5.00 (A\$5.84)	380,000	US\$5.00 (A\$6.22)

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

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

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

19. SUBSEQUENT EVENTS

On July 14, 2011, the Company announced that it had filed a prospectus supplement to sell up to an aggregate 50,000,000 ordinary shares, represented by 5,000,000 ADSs through an “at-the-market” (ATM) offering. If utilised, the ADSs would be offered through MLV as sales agent who, at Prana’s discretion and instruction, will use its commercially reasonable efforts to sell the ADSs at market prices from time to time, including sales made by means of ordinary brokers’ transactions on the NASDAQ Capital Market.

On August 8, 2011 the Company announced that Lawrence Gozlan, a leading biotechnology investor and advisor, has joined the Company’s Board of Directors. Mr. Gozlan is the Chief Investment Officer and Founder of Scientia Capital, a specialised global investment fund focused exclusively in life sciences. The Company was founded to provide high level expertise and to manage investments for high net worth individuals, family offices and institutional investors wanting exposure to the biotechnology industry.

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

	Years Ended June 30,		
	2011	2010	2009
20. LOSS PER SHARE			
Basic and diluted loss per share (cents per share)	(2.60)	(2.16)	(3.72)
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted loss per share	247,578,570	227,527,388	202,357,885

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

21. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) The Directors of Prana during the year:

Geoffrey Kempler	Executive Chairman
Brian Meltzer	Chief Executive Officer
George Mihaly	Non-Executive Independent Director
Peter Marks	Non-Executive Independent Director
Paul Marks	Non-Executive Independent Director
Lawrence Gozlan	Non-Executive Independent Director (resigned January 4, 2011)
	Non-Executive Independent Director (appointed August 8, 2011)

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

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

(c) Key Management Personnel Remuneration

Remuneration of all key management personnel of the Company is determined by the Board following recommendation by the Remuneration Committee.

The Company is committed to remunerating senior executives in a manner that is market competitive and consistent with 'best practice' including the interests of shareholders. Remuneration packages are based on fixed and variable components, determined by the executive's position, experience and performance, and may be satisfied via cash or equity.

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

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

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

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

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.

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

21. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

2011	Short Term Benefits		Post-Employment	Equity	Total
	Base Fee	Bonus	Superannuation Contribution	Options	
Directors' remuneration	\$	\$	\$	\$	\$
Geoffrey Kempler ¹	363,865	–	39,537	–	403,402
Brian Meltzer	82,569	–	7,431	–	90,000
George Mihaly	75,000	–	–	–	75,000
Peter Marks	55,000	–	–	–	55,000
Paul Marks ²	18,349	–	1,651	–	20,000
	594,783	–	48,619	–	643,402

¹ In accordance with his employment contract, long service leave has been accrued for Mr. Kempler. At June 30, 2011, A\$39,274 had been accrued to date. No amounts were paid in the June 30, 2011 financial year.

² Mr. Paul Marks resigned from the Board on January 4, 2011.

2010	Short Term Benefits		Post-Employment	Equity	Total
	Base Fee	Bonus	Superannuation Contribution	Options	
Directors' remuneration	\$	\$	\$	\$	\$
Geoffrey Kempler ^{1 & 2}	366,729	–	36,673	92,724	496,126
Brian Meltzer ¹	82,569	–	7,431	27,817	117,817
George Mihaly ¹	75,000	–	–	27,817	102,817
Peter Marks ¹	55,000	–	–	12,328	67,328
Paul Marks	16,820	–	1,514	–	18,334
	596,118	–	45,618	160,686	802,422

¹ This includes equity issued as per the Annual General Meetings held on November 30, 2006, November 30, 2005 and November 30, 2004. As per Australian accounting standards the options issued to Directors were valued at grant date and are being expensed over the anticipated life of the options. As a result, the value does not reflect the current market price of the Company's shares. The Board believes that if the options issued in 2004 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 A\$1.00 for five consecutive trading days.

The option price of options approved at the November 30, 2004 AGM was calculated using the Barrier Pricing Model applying the following inputs:

Grant Date: November 17, 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 November 30, 2005 AGM was calculated using the Barrier Pricing Model applying the following inputs:

Grant Date: November 30, 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

² In accordance with his employment contract, long service leave has been accrued for Mr. Kempler. At June 30, 2010, A\$27,134 had been accrued to date. No amounts were paid in the June 30, 2010 financial year.

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

21. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

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

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

² On March 1, 2009, Mr. Kempler voluntarily elected to reduce his salary to A\$329,896 from A\$403,380, a decrease of A\$73,484.

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

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

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

2011	Short Term Benefits		Post-Employment	Equity	Total
	Base Fee \$	Other \$	Superannuation Contribution \$	Options \$	
Executives' Remuneration					
Richard Revelins	80,000	–	–	–	80,000
Dianne Angus ^{1 & 2}	315,637	150,000	41,907	–	507,544
	<u>395,637</u>	<u>150,000</u>	<u>41,907</u>	<u>–</u>	<u>587,544</u>

¹ In accordance with her employment contract, long service leave has been accrued for Ms Dianne Angus. At June 30, 2011, A\$56,334 had been accrued to date. No amounts were paid in the June 30, 2010 financial year.

² During the year ended June 30, 2011, Ms Angus received a payment of A\$150,000 in consideration of reducing her termination payment by nine (9) months.

2010	Short Term Benefits		Post-Employment	Equity	Total
	Base Fee \$	Bonus \$	Superannuation Contribution \$	Options \$	
Executives' Remuneration					
Richard Revelins ¹	80,000	–	–	–	80,000
Dianne Angus ^{2,3,4 & 5}	296,153	50,000	31,154	52,662	429,969
	<u>376,153</u>	<u>50,000</u>	<u>31,154</u>	<u>52,662</u>	<u>509,969</u>

¹ This includes equity issued as per the Annual General Meetings held on November 30, 2005 and November 30, 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 2004 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 A\$1.00 for five consecutive trading days.

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

21. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

² This includes equity issued to Ms Angus in the 2009 financial year. As per Australian accounting standards the options issued to Ms Angus were valued at grant date and are being expensed over the anticipated life of the options. See the 2009 remuneration table below for valuations of the options issued to Ms Angus during the 2009 year.

³ Ms Angus received unlisted options during the year ended June 30, 2010. The option prices were calculated using the Black-Scholes Model applying the following inputs:

Grant Date: May 27, 2010	Volatility: 88%
Exercise Price: A\$0.15	Risk-free Interest Rate: 4.75%
Stock Price: A\$0.15	Dividend Yield: 0%
Years to Expiry: 3.85	Option Price: \$0.10

⁴ Ms Angus received a salary increase during the year ended June 30, 2010 to A\$315,637 plus 9% superannuation, which is an increase from A\$292,256 plus 9% superannuation. During the year Ms Angus received a cash bonus of A\$50,000 in accordance with her employment contract in relation to her performance during 2009 and continued commitment to the Company.

⁵ In accordance with her employment contract, long service leave has been accrued for Ms Dianne Angus. At June 30, 2010, A\$49,517 had been accrued to date. No amounts were paid in the June 30, 2010 financial year.

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

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

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

³ Ms Angus received unlisted options during the year ended June 30, 2009. The option prices were calculated using the Barrier Pricing Model applying the following inputs:

Grant Date: May 26, 2009	Barrier: A\$0.40
Pricing Model: American	Days to Expiry: 1,898
Option Type: Call	Volatility: 52%
Barrier Type: Up and In	Risk-free Interest Rate: 3.56%
Strike Price: A\$0.00	Expected Dividends: A\$0.00
Spot Price: A\$0.22	Option Price: A\$0.18

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

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

21. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

The following Director was under contract at June 30, 2011:

Directors	Duration	Notice Requirements	Termination
Mr. Geoffrey Kempler	Until termination by either party Signed September 21, 2007	<p>For Good Reason Mr. Kempler may terminate with 30 days notice Or Without Cause the Company may terminate with 90 days notice</p> <p>Without Good Reason Mr. Kempler may terminate with 90 days notice Or With Cause the Company may terminate with 30 days notice</p>	<ul style="list-style-type: none"> • Pay Mr. Kempler within ninety (90) days of the termination date \$1,000,000 provided the Company has sufficient capital requirements to fulfill this clause • Accrued entitlements including all unreimbursed business expenses • Accelerate the vesting of any unvested options • Bonus pro-rate only if termination occurs in 1st year

21. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

Key Management Personnel	Duration	Notice Requirements	Termination
Ms Dianne Angus	Until termination by either party Signed October 2, 2006 Letter Agreement signed June 12, 2007	For Good Reason Ms Angus may terminate with 30 days notice Or Without Cause the Company may terminate with 120 days notice Without Good Reason Ms Angus may terminate with 120 days notice Or With Cause the Company may terminate without notice	<ul style="list-style-type: none"> • Pay remuneration entitlements three months from the time of termination (less any payout made for the notice period). The Company can elect to pay such sum as cash, equity in the Company or as a combination of both cash and equity • Accrued entitlements including all unreimbursed business expenses • Accelerate the vesting of any unvested options • Permitted to keep and/or exercise options that have vested at the time of termination • Accrued entitlements including all unreimbursed business expenses
Years Ended June 30,			
			2011 2010 2009

- audit fees: current year	132,000	140,672	120,951
- audit fees: internal control*	—	45,000	—
- audit fees: other public filings	85,000	26,637	—
	217,000	212,309	120,951

* In 2010, work was performed prior to the exemption provided by the Dodd-Frank Act that exempted the Company from having auditor attestation over the effectiveness of internal controls. This same exemption applied for the 2011 year.

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

23. RELATED PARTY TRANSACTIONS

a. Equity Interests in Subsidiaries

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

b. Key Management Personnel Remuneration

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

c. Key Management Personnel Equity Holdings

Fully Paid Ordinary Shares of the Company	Balance July 1, 2010 No.	Received as Remuneration No.	Received on Exercise of Options No.	Net Change Other ¹ No.	Balance June 30, 2011 No.
Geoffrey Kempler	17,055,000	–	–	–	17,055,000
Brian Meltzer	326,666	–	–	–	326,666
George Mihaly	226,666	–	–	–	226,666
Peter Marks	43,111	–	–	–	43,111
Paul Marks ³	8,589,361	–	–	–	8,589,361
Richard Revelins	20,308	–	–	–	20,308
Dianne Angus	250,000	–	–	(150,000)	100,000
	<u>26,511,112</u>	<u>–</u>	<u>–</u>	<u>(150,000)</u>	<u>26,361,112</u>
Fully Paid Ordinary Shares of the Company	Balance July 1, 2009 No.	Received as Remuneration No.	Received on Exercise of Options No.	Net Change Other ¹ No.	Balance June 30, 2010 No.
Geoffrey Kempler	17,055,000	–	–	–	17,055,000
Brian Meltzer	326,666	–	–	–	326,666
George Mihaly	226,666	–	–	–	226,666
Peter Marks	43,111	–	–	–	43,111
Paul Marks ²	8,589,361	–	–	–	8,589,361
Richard Revelins	20,308	–	–	–	20,308
Dianne Angus	250,000	–	–	–	250,000
	<u>26,511,112</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>26,511,112</u>
Fully Paid Ordinary Shares of the Company	Balance July 1, 2008 No.	Received as Remuneration No.	Received on Exercise of Options No.	Net Change Other ¹ No.	Balance June 30, 2009 No.
Geoffrey Kempler	17,055,000	–	–	–	17,055,000
Brian Meltzer	326,666	–	–	–	326,666
George Mihaly	226,666	–	–	–	226,666
Peter Marks	43,111	–	–	–	43,111
Richard Revelins	20,308	–	–	–	20,308
Dianne Angus	250,000	–	–	–	250,000
	<u>17,921,751</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>17,921,751</u>

¹ These options were sold on market.

² Balance at date of appointment, January 14, 2010.

³ Balance at date of retirement, January 4, 2011.

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

23. RELATED PARTY TRANSACTIONS (continued)

Share Options of the Company	Balance July 1, 2010 No.	Granted as Remuneration No.	Options Exercised No.	Options Forfeited No.	Options Expired No.	Options Vested During 2009 fiscal year	Balance June 30, 2011 No.	Total Vested and Exercisable June 30, 2010 No.	Total Unvested June 30, 2011 No.
Geoffrey Kempler	2,000,000	–	–	–	(2,000,000)	–	–	–	–
Brian Meltzer	650,000	–	–	–	(650,000)	–	–	–	–
George Mihaly	650,000	–	–	–	(650,000)	–	–	–	–
Peter Marks	650,000	–	–	–	(650,000)	–	–	–	–
Paul Marks ²	701,754	–	–	–	(701,754)	–	–	–	–
Richard Revelins	350,000	–	–	–	(350,000)	–	–	–	–
Dianne Angus	1,987,093	–	–	–	(250,000)	–	1,737,093	1,542,256	194,837
	6,988,847	–	–	–	(5,251,754)	–	1,737,093	1,542,256	194,837

Share Options of the Company	Balance July 1, 2009 No.	Granted as Remuneration No.	Options Exercised No.	Options Forfeited No.	Options Expired No.	Options Vested During 2009 fiscal year	Balance June 30, 2010 No.	Total Vested and Exercisable June 30, 2010 No.	Total Unvested June 30, 2010 No.
Geoffrey Kempler	3,000,000	–	–	–	(1,000,000)	–	2,000,000	1,000,000	1,000,000
Brian Meltzer	950,000	–	–	–	(300,000)	–	650,000	350,000	300,000
George Mihaly	950,000	–	–	–	(300,000)	–	650,000	350,000	300,000
Peter Marks	950,000	–	–	–	(300,000)	–	650,000	350,000	300,000
Paul Marks ¹	701,754	–	–	–	–	–	701,754	701,754	–
Richard Revelins	650,000	–	–	–	(300,000)	–	350,000	350,000	–
Dianne Angus	1,694,837	292,256	–	–	–	–	1,987,093	1,792,256	194,837
	8,896,591	292,256	–	–	(2,200,000)	–	6,988,847	4,894,010	2,094,837

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

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

¹ Balance at date of appointment, January 14, 2010.

² Balance at date of retirement, January 4, 2011.

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

24. SEGMENT INFORMATION

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

25. FINANCIAL INSTRUMENTS

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

(a) Market Risk

(i) Foreign Currency Risk

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

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

	Consolidated Entity	
	2011	2010
	\$	\$
Cash and cash equivalents (\$USD)	2,199,896	105,940
Cash and cash equivalents (€EUR)	264,165	700,969
Cash and cash equivalents (£GBP)	514	1,153
Trade and other payables (\$USD)	(124,568)	(6,898)
Trade and other payables (€EUR)	–	(130,110)
Trade and other payables (£GBP)	–	–
Total exposure	2,340,007	671,054

The consolidated entity has conducted a sensitivity analysis of its exposure to foreign currency risk. The consolidated entity is currently exposed to the US dollar (USD), Euro (EUR) and Great British Pound (GBP). The sensitivity analysis below is conducted on a currency by currency basis using the sensitivity analysis variable, which has been based on the average annual movement in the AUD/USD, AUD/EUR and AUD/GBP exchange rates over the past five years based on the year-end spot rates. The variables for USD, EUR and GBP being 9%, 7% and 20% respectively.

Based on the financial instruments held at 30 June 2010, had the Australian dollar depreciated/appreciated by 9% against the US dollar and 7% against the EURO with all other variables held constant, the consolidated entity's post-tax profit for the year would have been A\$188,644 lower/A\$225,141 higher (2010: A\$45,511 lower/A\$52,748 higher), mainly as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table. The consolidated entity's exposure to other foreign exchange movements is not material.

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

25. FINANCIAL INSTRUMENTS (continued)

(ii) Interest Rate Risk

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

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

At June 30, 2011, the consolidated entity had the following cash accounts:

- A\$230,617 in Australia dollar cheque accounts at variable interest rates ranging from 0% to 2.11% as of June 30, 2011;
- A\$126,482 in Australia dollar transaction accounts at variable rates ranging from 0% to 0.85% as of June, 2011.
- A\$6,016,019 in Australia Business Cash High Interest accounts at an interest rate of 4.75% as of June 2011;
- US\$2,330,402 (A\$2,199,433) in a U.S. checking account at a interest rate of 0% as of June 30, 2011;
- EUR\$194,402 (A\$264,056) in a EUR cheque account at a variable interest rate of 0% as of June 30, 2011;
- A\$37,837 in a six month term deposit at a fixed interest rate of 5.90% which matures on 11 October 2011;
- A\$200 in petty cash which does not earn any interest;
- GBP\$340 (A\$514) in petty cash which does not earn any interest;
- SEK\$970 (A\$145) in petty cash which does not earn any interest;
- INR\$9,930 (A\$207) in petty cash which does not earn any interest;
- US\$491 (A\$463) in petty cash which does not earn any interest; and
- EUR\$80 (A\$109) in petty cash which does not earn any interest.

The weighted average interest rate is 3.30% for cash and cash equivalents and 1.74% for terms deposits over three months and apart from usual variances in general rates of interest the consolidated entity is not exposed to any significant interest rate risk.

At June 30, 2010, the consolidated entity had the following cash accounts:

- A\$40,140 in Australia dollar cheque accounts at variable interest rates ranging from 0% to 1.11% as of June 30, 2010;
- A\$5,084 in Australia dollar savings accounts at an interest rate of 3.5% as of June 30, 2010;
- A\$203,745 in Australia dollar transaction accounts at variable rates ranging from 0% to 1.72% as of June, 2010.
- A\$4,169,347 in Australia Business Cash High Interest accounts at an interest rate of 4.5% as of June 2010;
- A\$325 in Australia dollar Business Cash accounts at an interest rate of 4.45% as of June 2010;
- US\$89,150 (A\$104,109) in a U.S. checking account at a interest rate of 0% as of June 30, 2010;
- EUR\$491,157 (A\$700,242) in a EUR cheque account at a variable interest rate of 0% as of June 30, 2010;
- A\$35,164 in a six month term deposit at a fixed interest rate of 5.80% which matures on 11 September 2010;
- A\$200 in petty cash which does not earn any interest;
- GBP\$655 (A\$1,153) in petty cash which does not earn any interest;
- SEK\$970 (A\$145) in petty cash which does not earn any interest;
- INR\$9,930 (A\$250) in petty cash which does not earn any interest;
- US\$1,568 (A\$1,831) in petty cash which does not earn any interest; and
- EUR\$510 (A\$727) in petty cash which does not earn any interest.

The weighted average interest rate is 3.67% for cash and cash equivalents and 0.13% for terms deposits over three months and apart from usual variances in general rates of interest the consolidated entity is not exposed to any significant interest rate risk.

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

25. FINANCIAL INSTRUMENTS (continued)

Receivables and payables are non-interest bearing.

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

<u>June 30, 2011</u>	<u>Floating Interest Rate</u>	<u>Fixed Interest Maturing in</u>		<u>Non-Interest bearing</u>	<u>Total</u>	<u>Average Interest Rate</u>
		<u>1 year or less</u>	<u>1-5 years</u>			
Financial Assets						
Cash and cash equivalents	\$ 8,836,607	–	–	\$ 1,638	\$ 8,838,245	3.30%
Trade and other receivables	–	–	–	\$ 3,373	\$ 3,373	
Other current assets	–	\$ 37,837	–	\$ 90,588	\$ 128,425	1.74%
Total Financial Assets	\$ 8,836,607	\$ 37,837	–	\$ 95,599	\$ 8,970,043	
Financial Liabilities						
Payables	–	–	–	\$ 1,399,584	\$ 1,399,584	
Other financial liabilities	–	–	–	\$ 355,815	\$ 355,815	
Total Financial Liabilities	–	–	–	\$ 1,755,399	\$ 1,755,399	
<hr/>						
<u>June 30, 2010</u>	<u>Floating Interest Rate</u>	<u>Fixed Interest Maturing in</u>		<u>Non-Interest bearing</u>	<u>Total</u>	<u>Average Interest Rate</u>
		<u>1 year or less</u>	<u>1-5 years</u>			
Financial Assets						
Cash and cash equivalents	\$ 5,222,992	–	–	\$ 4,306	\$ 5,227,298	3.67%
Trade and other receivables	–	–	–	\$ 825	\$ 825	
Other current assets	–	\$ 35,164	–	\$ 1,479,603	\$ 1,514,767	0.13%
Total Financial Assets	\$ 5,222,992	\$ 35,164	–	\$ 1,484,734	\$ 6,742,890	
Financial Liabilities						
Payables	–	–	–	\$ 1,244,417	\$ 1,244,417	
Other financial liabilities	–	–	–	–	–	
Total Financial Liabilities	–	–	–	\$ 1,244,417	\$ 1,244,417	

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

25. FINANCIAL INSTRUMENTS (continued)

(b) Credit Risk

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

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

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

(c) Liquidity Risk

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

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

Maturities of Financial Liabilities

	<u>Less than 6 months</u>	<u>6-12 months</u>	<u>Total contracted cash flows</u>	<u>Carrying amounts</u>
2011				
		<u>Consolidated Entity</u>		
Trade and other payables	1,399,584	–	1,399,584	1,399,584
2010				
		<u>Consolidated Entity</u>		
Trade and other payables	1,244,417	–	1,244,417	1,244,417

(d) Capital Risk Management

The consolidated entity's objectives when managing capital are to safeguard the consolidated entity's ability to continue as a going concern and to maintain an optimal capital structure so as to maximize shareholder value. In order to maintain or achieve an optimal capital structure, the consolidated entity may issue new shares or reduce its capital, subject to the provisions of the Company's constitution. The capital structure of the consolidated entity consists of equity attributed to equity holders of the consolidated entity, comprising contributed equity, reserves and accumulated losses disclosed in Notes 13, 14 and 15. By monitoring undiscounted cash flow forecasts and actual cash flows provided to the Board by the Company's Management the Board monitors the need to raise additional equity from the equity markets.

(e) Fair Value Estimation

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

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

26. ADDITIONAL COMPANY INFORMATION

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

Registered Office

Suite 2
1233 High Street
Armadale Vic 3143
Australia

Tel: +61 (03) 9824 8166

Principal Place of Business

Level 2
369 Royal Parade
Parkville Vic 3052
Australia

Tel: +61 (03) 9349 4906

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this report on its behalf.

Prana Biotechnology Limited

By: /s/ Geoffrey P. Kempler
Geoffrey P. Kempler
Chief Executive Officer

Dated: September 30, 2011

Amendment 10 to Agreement dated 26th Dec'08 signed by and between

Dr. Reddy's Laboratories Limited
Bollaram Road, Miyapur,
Hyderabad 500 049
India
(Hereinafter referred to as "Dr. Reddy's")

And

Prana Biotechnology Ltd
Level 2, 369 Royal Parade, Parkville Victoria, 3052
Australia
(Hereinafter referred to as "Prana")

Dr. Reddy's and Prana are collectively referred to as the "PARTIES"

This amendment will include the following additional and amended clauses in the above mentioned agreement (plus amendments) and will be in effect from 21/10/2010 onwards.

1. Terms to be included

i. The following clause-10 in Appendix A of the agreement:

"10. Sub-Project 5C: RC1 & RC2 ML (Mother Liquor) Distillation and Analysis:

- a) Dr. Reddy's will collect RC1 & RC2 MLs (Mother Liquors) from the plant campaign covered under Sub-Project 5B.
- b) Both the MLs as described above will be distilled-off through two separate batches and resulting residues (Crude PBT2) with distinct batch numbers, will be stored separately under cGMP.
- c) Each of the two residue batches as obtained above will be subjected to following analytical tests;
 - i. HPLC Purity & Assay
 - ii. LC-MS for genotoxic impurities
- d) Dr Reddy's will share analytical test results for both the residue batches with Prana.
- c) The over-all time-line for this sub-project is expected to be 3-4 weeks including analysis.
- f) Dr Reddy's would continue storing the residues maximum up to 90 days from the date of completion of testing under cGMP. With-in this period it is expected that the Parties to agree on either utilizing the residues for further recovery of pure PBT2 or Prana to request further storage in the Dr. Reddy's facilities at a cost to Prana agreed to by Parties or have these materials destroyed or disposed-off by Dr. Reddy's according to their regular procedures and at cost to Prana.



11. Sub-Project 5D: Process Development for the recovery of PBT2 API from the two residue batches obtained under Sub-Project 5C:

This Sub-Project will involve following set of activities:-

- a) Objective of further process development on two separate residue batches as obtained under Sub-Project 5C would be to establish a suitable process for the recovery of PBT2 meeting pre-established specifications.
- b) As a matter of priority, Dr. Reddy's will first undertake R&D trials involving successive recrystallizations on the residue batch obtained via distillation of RC2 ML under Sub-Project 5C. If results from these trials are encouraging, than upon Prana's confirmation, Dr. Reddy's will proceed further with similar trials on the residue obtained via distillation of RC1 ML under Sub-Project 5C.
- c) Dr. Reddy's will perform laboratory assurance batches with the finalized procedure in each or either of the two cases as described above.
- d) For all the intermediate stages of the process, both in case of trials and laboratory assurance batches, Dr Reddy's would perform analytical testing involving;
 - i. HPLC Purity & Assay
 - ii. LC-MS for genotoxic impurities
- e) For the final stage samples, both in case of trials and laboratory assurance batches, Dr. Reddy's would perform complete analysis as per agreed specification for PBT2.

The over-all time-line for this Sub-Project is expected to be approximately 4-6 weeks that includes SSNMR analysis on final samples.

Dr Reddy's will issue a formal process development report to Prana towards the end of the Sub-Project.

In the event desired outcome from the Sub-Project is not achieved, then both the parties would mutually agree on the way forward for the residues stored under Sub-project 5C."

ii. The following description of Sub-Project 5C & Sub-Project 5D under Sub-Project Pricing in clause 3 of the Agreement

"Sub-Project 5C: RC1 & RC2 ML (Mother Liquor) Distillation and Analysis - USD 15,000/-

Sub-Project 5D: Process Development for the recovery of PBT2 API from residues resulting from Sub-Project 5C: - USD 45,000/-

iii. The following description of Sub-Project payment terms in clause 3 of the Agreement

"Sub-Project 5C:

- 100% upon sharing analytical test results on RC1 & RC2 residues to Prana (USD 15,000/-)

Sub-Project 5D:

- 50% will be paid as advance upon authorization of the Sub-Project (USD 22,500)



- 80% will be paid after completion of all the laboratory experiments and upon sharing process yield & initial analytical results on laboratory assurance batches including SSNMR results. This includes 50% advance already paid (USD 22,500 + USD 13,500 = USD 36,000/-)
- Remaining 20% will be paid upon issuance of process development report to Prana (USD 9,000/-)"

2. Terms to be varied

i. The numbering of the following clause heading in Appendix A of the Agreement, as amended in Amendment 9:

"10. Sub-Project 6: Stability Study (48 months)"

is amended as follows

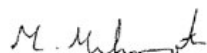
"12. Sub-Project 6: Stability Study (48 months)"

All other terms and conditions of the original Agreement dated 26th Dec'08 and those included in Amendment 9 remain unchanged.

In witness whereof, the parties hereto have signed this Agreement

**Signed for and on behalf of
Dr. Reddy's Laboratories Limited**

**Signed for and on behalf of
Prana Biotechnology Ltd.**



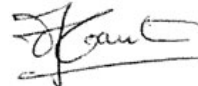
Signature
Name: Manoj Mehrotra



Signature
Name: Dianne Angus



Witness Signature
Witness Name: Ruturaj Kulkarni



Witness Signature
Witness Name: Elisabeth Gautier

Amendment 11 to Agreement dated 26th Dec'08 signed by and between

Dr. Reddy's Laboratories Limited
Bollaram Road, Miyapur,
Hyderabad 500 049
India

(Hereinafter referred to as "Dr. Reddy's")
and

Prana Biotechnology Ltd
Level 2, 369 Royal Parade, Parkville Victoria, 3052
Australia

(Hereinafter referred to as "Prana")

Dr. Reddy's and Prana are collectively referred to as the "PARTIES"

This amendment will supersede the mentioned clauses contained in above mentioned agreement (plus amendment) and will be in effect from 21st March 2011.

Both parties agree to include following clause in the amendment 11 and this will supersede the clause 1/sub-clause v (Sub-Project 5A and Sub-Project 5B) to the amendment 9 signed on 20 May 2010.

- Prana will pay US \$ 430,000 upon completion of PBT2 campaign manufacturing and receipt of final individual batch (four batches) Certificates of Analysis.
- Prana will pay US \$ 120,000 upon completion of PBT2 campaign manufacturing and receipt of final blend batch Certificates of Analysis.
- Prana will pay US \$ 172,000 upon (1) review and acceptance of campaign reports and other related documents and (2) delivery of the PBT2 API to Prana's designated locations in accordance with Prana's requirements.

Remaining clauses will continue to hold as is.

In witness whereof, the parties hereto have signed this Agreement

Signed for and on behalf of
Dr. Reddy's Laboratories Limited

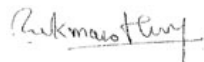
Signed for and on behalf of
Prana Biotechnology Ltd.



Signature
Name: Manoj Mehrotra



Signature
Name: Dianne Angus



Witness Signature
Witness Name: Manish Marotkar



Witness Signature
Witness Name: Elisabeth Gautier

Amendment 12 to Agreement dated 26th Dec' 08 signed by and between
Dr. Reddy's Laboratories Limited
Bollaram Road, Miyapur,
Hyderabad 500 049
India
(Hereinafter referred to as "Dr. Reddy's")
and
Prana Biotechnology Ltd
Level 2, 369 Royal Parade, Parkville Victoria, 3052
Australia
(Hereinafter referred to as "Prana")
Dr. Reddy's and Prana are collectively referred to as the "PARTIES"

This amendment will be in effect from 18 May 2011.

Both parties agree to create a Sub-Project 5E. Scope of this project is to store residue (Crude PBT2) from Sub-Project 5C under cold storage cGMP condition for the period of 1 year. Following are the details of the agreement.

- It is agreed that within this period Prana will either utilize this residue for further recovery of pure PBT2 or request for further storage or dispose the material at its own cost.
- Term of this agreement is 1 year.
- Prana agree to pay USD \$150/month for storage. Prana will make the payment every six month or ending of the contract whichever is earlier.
- If Prana decided to dispose this material or ship to any location, complete cost of shipment/disposal will be borne by Prana.

Remaining clauses will continue to hold as is.

In witness whereof, the parties hereto have signed this Agreement

Signed for and on behalf of
Dr. Reddy's Laboratories Limited

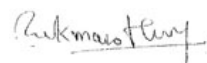
Signed for and on behalf of
Prana Biotechnology Ltd.



Signature
Name: Manoj Mehrotra



Signature
Name: Dianne Angus



Witness Signature
Witness Name: Manish Marotkar



Witness Signature
Witness Name: Ashley Turner

LIST OF SUBSIDIARIES

We have the following wholly-owned subsidiaries, both of which are currently inactive:

Prana Biotechnology Inc., incorporated in the United States

Prana Biotechnology UK plc, incorporated in the United

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended

I, Geoffrey P. Kempler, certify that:

1. I have reviewed this annual report on Form 20-F of Prana Biotechnology Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 30, 2011

/s/ Geoffrey P. Kempler *
Geoffrey P. Kempler
Chief Executive Officer

* The originally executed copy of this Certification will be maintained at the Registrant's offices and will be made available for inspection upon request.

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended

I, Richard Revelins, certify that:

1. I have reviewed this annual report on Form 20-F of Prana Biotechnology Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 30, 2011

/s/ Richard Revelins *

Richard Revelins
Chief Financial Officer

* The originally executed copy of this Certification will be maintained at the Registrant's offices and will be made available for inspection upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Prana Biotechnology Limited (the "Company") on Form 20-F for the period ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Geoffrey P. Kempler, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

September 30, 2011

/s/ Geoffrey P. Kempler *
Geoffrey P. Kempler
Chief Executive Officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

**18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Prana Biotechnology Limited (the "Company") on Form 20-F for the period ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Revelins, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Richard Revelins*

Richard Revelins
Chief Financial Officer

September 30, 2011

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form F-3 (File No. 333-173375 and 333-174278) and on Form S-8 (File No. 333-153669) of Prana Biotechnology Limited (the "Company") of our report dated September 30, 2011, relating to the Company's consolidated financial statements, which appears in this Form 20-F.

A handwritten signature in blue ink that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers
Melbourne, Victoria, Australia
September 30, 2011
