SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of September 2005

PRANA BIOTECHNOLOGY LIMITED
(Name of Registrant)

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

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F X **Form 40-F __**

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): __

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): __

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes __ **No X**

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____

This Form 6-K is being incorporated by reference into the Registrant's Registration Statement on Form F-3 File No. 333-116232.

PRANA BIOTECHNOLOGY LIMITED

6-K Items

1. Consolidated Financial Statements of Prana Biotechnology Limited as of June 30, 2005 and 2004 and for Each of the Three Years in the Period Ended June 30, 2005.

2. Operating and Financial Review and Prospects.

3. Consent of Deloitte Touche Tohmatsu, Independent Registered Public Accounting Firm.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2005
IN AUSTRALIAN DOLLARS

INDEX

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
DELOITTE TOUCHE TOHMATSU

To The Board of Directors and Shareholders of Prana Biotechnology Limited

We have audited the accompanying consolidated statements of financial position of Prana Biotechnology Limited and subsidiaries (a development stage company) (the "Company") as of June 30, 2005 and 2004 and the related consolidated statements of financial performance, cash flows and changes in stockholders' equity for each of the three years in the period ended June 30, 2005, and for the period from November 11, 1997 (date of inception) to June 30, 2005. 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 in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Prana Biotechnology Limited and subsidiaries as of June 30, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2005, and for the period from November 11, 1997 (date of inception) to June 30, 2005, in conformity with accounting principles generally accepted in Australia.

Accounting principles generally accepted in Australia vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 25 to the consolidated financial statements.

/s/ Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU
Chartered Accountants

Melbourne, Australia
September 30, 2005

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in Australian dollars)

	Notes	June 30, 2005	June 30, 2004
Current Assets			
Cash assets		21,453,304	29,580,398
Receivables	5	174,476	92,917
Other	6	495,165	72,769
Total Current Assets		22,122,945	29,746,084
Non Current Assets			
Property and equipment	7	166,214	180,971
Intangible assets	8	-	11,488,343
Total Non Current Assets		166,214	11,669,314
Total Assets		22,289,159	41,415,398
Current Liabilities			
Payables	9	2,571,181	2,661,950
Provisions	10	78,602	42,597
Total Current Liabilities		2,649,783	2,704,547
Non-Current Liabilities			
Provisions	10	45,200	8,292
Total Non-Current Liabilities		45,200	8,292
Total Liabilities		2,694,983	2,712,839
Net Assets		19,594,176	38,702,559
Equity			
Contributed equity	11	55,405,707	49,505,493
2005: 127,319,260 fully paid ordinary shares			
2004: 115,984,380 fully paid ordinary shares			
Reserve	12	14,661,942	14,661,942
Accumulated deficit during the development stage	12	(50,473,473)	(25,464,876)
Total Equity		19,594,176	38,702,559

See notes to the consolidated financial statements.

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF FINANCIAL PERFORMANCE
(in Australian dollars)

	Notes	Years ended June 30, 2005	2004	2003	Period from Inception (November 11, 1997) to June 30, 2005
Revenue from ordinary activities	2	2,653,113	2,321,227	1,816,478	8,179,728
Depreciation and amortization expense	3	(1,165,227)	(1,195,006)	(1,185,973)	(6,502,436)
Patents, research and development expense	3	(7,109,839)	(4,853,536)	(1,386,006)	(17,797,596)
Patents, research and development expense – related parties	3, 21	(577,757)	(379,045)	(475,289)	(2,280,699)
Legal expense		(1,047,448)	(1,650,467)	(848,660)	(4,736,148)
Employee benefits expense		(2,438,303)	(1,060,730)	(760,980)	(4,684,831)
Consulting fee expense		(1,607,892)	(1,706,809)	(567,730)	(4,973,832)
Corporate compliance expense		(562,123)	(419,708)	(395,604)	(1,989,446)
Foreign exchange loss		(1,362,572)	(182,768)	(12,481)	(1,557,821)
Impairment of intangible assets		(10,388,339)	-	-	(10,388,339)
Other expenses from ordinary activities – related parties	21	-	(81,470)	(114,247)	(268,217)
Other expenses from ordinary activities		(1,402,210)	(677,302)	(654,346)	(3,473,836)
Loss from ordinary activities before income tax expense		(25,008,597)	(9,885,614)	(4,584,838)	(50,473,473)
Income tax expense relating to ordinary activities	4	-	-	-	-
Net loss	12(b)	(25,008,597)	(9,885,614)	(4,584,838)	(50,473,473)
Loss per share (basic and diluted)	18	(0.20)	(0.13)	(0.08)	N/A

See notes to the consolidated financial statements.

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Australian dollars)

	Notes	Years Ended June 30, 2005	2004	2003	Period from Inception (November 11, 1997) to June 30, 2005
Cash Flows from Operating Activities					
Payments to suppliers and employees		(13,959,679)	(7,896,711)	(5,271,577)	(35,638,125)
Interest received		883,583	176,845	106,835	1,741,413
Government grant received		532,283	909,946	836,575	3,122,518
Nasdaq reimbursements received		-	-	231,304	231,304
Neuroscience Victoria monies received		1,125,000	1,462,500	506,250	3,093,750
Net cash flows used in operating activities	13 (a)	(11,418,813)	(5,347,420)	(3,590,613)	(27,449,140)
Cash Flows from Investing Activities					
Payments for purchase of equipment		(50,466)	(134,362)	(87,929)	(356,989)
Net cash flows used in investing activities		(50,466)	(134,362)	(87,929)	(356,989)
Cash Flows from Financing Activities					
Proceeds from issue of shares		-	33,853,606	-	46,854,565
Payment of share issue costs		(48,576)	(2,834,941)	-	(3,667,054)
Proceeds from exercise of options		4,753,333	762,500	3,713,792	9,812,471
Payment of underwriting costs		-	-	(144,000)	(144,000)
Repayment of borrowings		-	-	-	(2,038,728)
Net cash flows provided by financing activities		4,704,757	31,781,165	3,569,792	50,817,254
Net (decrease)/ increase in cash held		(6,764,522)	26,299,383	(108,750)	23,011,125
Opening cash brought forward		29,580,398	3,463,783	3,585,014	-
Exchange rate adjustments on cash held in foreign currencies		(1,362,572)	(182,768)	(12,481)	(1,557,821)
Closing cash carried forward	13 (b)	21,453,304	29,580,398	3,463,783	21,453,304

See notes to the consolidated financial statements.

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

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

	Number of Shares	Contributed Equity	Accumulated Deficit During Development Stage	Asset Revaluation Reserve	Total
Balance, November 11, 1997 (Inception)	-	-	-	-	-
Net loss	-	-	(690)	-	(690)
Issuance of shares to founders	20	20	-	-	20
Balance, June 30, 1998	20	20	(690)	-	(670)
Net loss	-	-	(80,000)	-	(80,000)
Balance, June 30, 1999	20	20	(80,690)	-	(80,670)
Net loss	-	-	(1,326,288)	-	(1,326,288)
Revaluation of intangible assets to directors' valuation	-	-	-	14,661,942	14,661,942
297 for 1 share split	5,920	-	-	-	-
Issuance of shares in connection with private placement	960	960	-	-	960
5,000 for 1 share split	34,493,100	-	-	-	-
Issuance of shares in connection with initial public offering, net of issue costs	16,000,000	7,470,863	-	-	7,470,863
Issuance of shares in connection with exercise of options	5,000	2,500	-	-	2,500
Balance, June 30, 2000	50,505,000	7,474,343	(1,406,978)	14,661,942	20,729,307
Net loss	-	-	(4,138,979)	-	(4,138,979)
Issuance of shares in connection with private placements, net of issue costs	6,666,666	4,745,599	-	-	4,745,599
Non-cash issuance of shares to consultants	88,600	48,950	-	-	48,950
Non-cash issuance of options to consultants	-	8,000	-	-	8,000
Balance, June 30, 2001	57,260,266	12,276,892	(5,545,957)	14,661,942	21,392,877
Net loss	-	-	(5,448,467)	-	(5,448,467)
Issuance of shares in connection with exercise of options	1,160,690	580,346	-	-	580,346
Non-cash issuance of shares to consultants	191,794	144,230	-	-	144,230
Balance, June 30, 2002	58,612,750	13,001,468	(10,994,424)	14,661,942	16,668,986

PRANA BIOTECHNOLOGY LIMITED
(A Development Stage Enterprise)

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

	Number of Shares	Contributed Equity	Accumulated Deficit During Development Stage	Asset Revaluation Reserve	Total
Net loss	-	-	(4,584,838)	-	(4,584,838)
Issuance of shares in connection with exercise of options, net of underwriting costs	7,427,584	3,569,792	-	-	3,569,792
Non-cash issuance of shares to consultants	146,969	169,763	-	-	169,763
Balance, June 30, 2003	66,187,303	16,741,023	(15,579,262)	14,661,942	15,823,703
Net loss	-	-	(9,885,614)	-	(9,885,614)
Issuance of shares in connection with private placements, net of issue costs	47,102,853	31,018,665	-	-	31,018,665
Issuance of shares in connection with exercise of options	1,325,000	762,500	-	-	762,500
Non-cash issuance of shares to consultants and directors	1,369,224	983,305	-	-	983,305
Balance, June 30, 2004	115,984,380	49,505,493	(25,464,876)	14,661,942	38,702,559
Net loss	-	-	(25,008,597)	-	(25,008,597)
Issuance of shares in connection with exercise of options, net of issue costs	9,506,666	4,708,574	-	-	4,708,574
Non-cash issuance of shares to consultants and directors	478,214	255,141	-	-	255,141
Non-cash issuance of shares for settlement of litigation	1,350,000	756,000	-	-	756,000
Non-cash issuance of options to consultants	-	180,499	-	-	180,499
Balance, June 30, 2005	127,319,260	55,405,707	(50,473,473)	14,661,942	19,594,176

See notes to the consolidated financial statements.

1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Prana Biotechnology Limited, Prana Biotechnology Inc. and Prana Biotechnology UK Limited ("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 US subsidiaries were incorporated in August 2004.

On March 28, 2000, the Company completed its initial public offering in Australia and listed on the Australian Stock Exchange ("ASX"). In September 2002, the Company's shares were approved for listing on the NASDAQ SmallCap Market (symbol: PRAN).

Financial Reporting Framework

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Urgent Issues Group Consensus Views and complies with other requirements of the law.

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

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 cessation of Prana's operations.

Significant Accounting Policies

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

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

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

1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its controlled entities as defined in Accounting Standard AASB 1024: *Consolidated Accounts*. The companies comprising the consolidated entity are disclosed above. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealized profits arising within the consolidated entity are eliminated in full.

(b) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and money market investments readily convertible to cash.

(c) Recoverable amount of non-current assets

Each reporting period, the directors assess the recoverable amount of all non-current assets. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is revalued down to its recoverable amount. The recoverable amount is estimated based on expected net cash flows discounted to their present values using a market-determined, risk-adjusted discounted rate.

(d) Property and equipment

Property and equipment consists of laboratory equipment, computer equipment, furniture and fittings and leasehold improvements attributable to the Company's premises at Parkville, Victoria, Australia and is recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of three to 14 years.

Laboratory equipment	10%-33%
Computer equipment	33%
Furniture and fittings	7.5%-33%
Leasehold improvements	7.5%

(e) Intangible assets and patents, research and development expense

Until December 1999, costs associated with the acquisition and development of the consolidated entity's core intellectual property were capitalized as intangible assets. After considering an independent valuation of the consolidated entity's core intellectual property at December 1999, the directors revalued the assets upwards by $14,661,942 to $16,500,000. The revaluation was recorded in the asset revaluation reserve in equity. Subsequent to the revaluation, all costs associated with the acquisition and development of core intellectual property are charged to patents, research and development expense.

In accordance with Australian Accounting Standard AASB 1041: *Revaluation of Non-Current Assets* ("AASB 1041"), on July 1, 2000 the directors deemed the revalued carrying amount of core intellectual property to be cost for financial reporting purposes.

Core intellectual property was amortized on a straight-line basis over a period of 15 years, being the period in which the future benefits are expected to arise. The directors regularly reviewed the carrying value of core intellectual property to ensure its carrying value did not exceed its recoverable amount.

1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a result of the cancellation of a clinical study for the compound PBT-1 in April 2005 due to toxicity issues, the consolidated entity reviewed the carrying value of the core intellectual property and resolved to impair the value to $nil as of June 30, 2005.

(f) Payables

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

Payables to related parties are carried at the principal amount.

(g) Share capital

Ordinary share capital is recognized at the fair value of the consideration received by the consolidated entity, as determined by the directors.

(h) Revenue recognition

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.

Interest

Interest income is recognized as earned when collectibility is reasonably assured.

Government grants

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

Reimbursements

Reimbursements of expenses are recognized as revenue when the reimbursement is received and the related expenses have been incurred.

Corporate partner revenues

Corporate partner revenues are comprised of amounts earned under agreements with Schering A.G. and Neuroscience Victoria Ltd. for certain research and development activities. Revenues are recognized as earned on a straight line basis over the lives of the relevant agreements. The straight line basis is considered appropriate as the agreements do not contain clearly defined milestones. Such agreements are performed on a "best efforts" basis with no guarantee of either technological or commercial success.

1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Income tax

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

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

(j) Employee entitlements

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

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

- Wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- Other types of employee entitlements;

are charged against profits on a net basis in their respective categories.

The value of the options issued under the Employee and Consultants Option Plans described in Note 15(b) are not being charged as an expense when they have been issued to an employee or director.

(k) Loss per share

Basic loss per share is determined by dividing the loss from ordinary activities after income tax by the weighted average number of ordinary shares outstanding during the period. The computation of diluted loss per share is similar to basic loss per share, except that it assumes the potentially dilutive securities, such as share options and warrants, were converted to shares as of the beginning of the 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. See Note 18.

(l) Financial instruments issued by the consolidated entity

Debt and equity instruments

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

Transaction costs on the issue of equity instruments

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

1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest and dividends

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

(m) Goods and services tax

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

i. Where the amount of GST incurred is not recoverable from the taxation authority, it is recognized as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. For receivables and payables which are recognized inclusive of GST.

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

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

(n) Receivables

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

(o) Foreign currency

Foreign currency transactions
All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Accounts payable and receivable balances at reporting date are translated at the exchange rate in effect at that date. Exchange rate differences are recognized in net profit and loss in the period in which they arise.

Foreign operations
Financial statements of integrated foreign operations are translated at reporting date using the temporal method with exchange differences being taken to net profit or loss for the period.

(p) Start-up and organization costs

Costs of start-up activities and organizational costs are expensed as incurred.

(q) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Leased assets

A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property. Leased assets classified as finance leases are recognized as assets. The amount initially brought to account is the present value of minimum lease payments. Finance leased assets are amortized on a straight line basis over the estimated useful life of the asset. Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

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

(s) 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.

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 probable that recovery will be received and the amount of the receivable 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.

(t) Adoption of Australian Equivalents to International Financial Reporting Standards (Unaudited)

The consolidated entity will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS") for reporting periods beginning on or after January 1, 2005. Accordingly, the consolidated entity's first half-year report prepared under A-IFRS will be for the half-year reporting period ending December 31, 2005, and its first annual financial report prepared under A-IFRS will be for the year ending June 30, 2006.

The consolidated entity has completed an A-IFRS impact study, including the formulation of the A-IFRS accounting polices that are intended to be adopted from July 1, 2005. The likely impact of the accounting policy changes on the results and financial position of the consolidated entity has been determined.

The following Pro Forma Consolidated Statements of Financial Performance and Financial Position outline the impact on the current year result and financial position of the consolidated entity had the financial statements been prepared using A-IFRS, based on the directors' accounting policy decisions current at the date of this financial report. Users of the financial reports should note that further developments in A-IFRS (for example, the release of further pronouncements by the Australian Accounting Standards Board and the Urgent Issues Group), if any, may result in changes to the accounting policy decisions made by the directors to date, and, consequently, the likely impacts outlined in the following pro forma financial statements.

The directors may, at any time until the completion of the consolidated entity's first A-IFRS compliant financial report, elect to revisit and, where considered necessary, revise the accounting policies applied in preparing the pro forma financial statements.

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

1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
(t) Adoption of Australian Equivalents to International Financial Reporting Standards (Unaudited) (continued)

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED JUNE 30, 2005

	Note	Historical A-GAAP Consolidated	AASB 2: Share-Based Payments	AASB 138: Intangible Assets	Pro Forma A-IFRS Consolidated
Revenues From Ordinary Activities		2,653,113	-	-	2,653,113
Depreciation and amortization expense	B	(1,165,227)	-	1,016,804	(148,423)
Patents, research and development expense		(7,109,839)	-	-	(7,109,839)
Patents, research and development expense- related parties		(577,757)	-	-	(577,757)
Legal expense		(1,047,448)	-	-	(1,047,448)
Employee benefits expense	A	(2,438,303)	(1,704,734)	-	(4,143,037)
Consulting fee expense		(1,607,892)	-	-	(1,607,892)
Corporate compliance expense		(562,123)	-	-	(562,123)
Foreign exchange loss		(1,362,572)	-	-	(1,362,572)
Impairment of intangible assets	B	(10,388,339)	-	9,602,099	(786,240)
Other expenses from ordinary activities – related parties		-	-	-	-
Other expenses from ordinary activities		(1,402,210)	-	-	(1,402,210)
Loss From Ordinary Activities Before Income Tax Expense		(25,008,597)	(1,704,734)	10,618,903	(16,094,428)
Income Tax Expense Relating To Ordinary Activities		-	-	-	-
Net Loss		(25,008,597)	(1,704,734)	10,618,903	(16,094,428)

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

1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
(t) Adoption of Australian Equivalents to International Financial Reporting Standards (Unaudited) (continued)

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2005

	Note	Historical A-GAAP Consolidated	AASB 2: Share-Based Payments	AASB 138 Intangible Assets	Pro Forma A-IFRS Consolidated
Current Assets					
Cash assets		21,453,304	-	-	21,453,304
Receivables		174,476	-	-	174,476
Other		495,165	-	-	495,165
Total Current Assets		22,122,945	-	-	22,122,945
Non-current Assets					
Property and equipment		166,214	-	-	166,214
Total Non-current Assets		166,214	-	-	166,214
Total Assets		22,289,159	-	-	22,289,159
Current Liabilities					
Payables		2,571,181	-	-	2,571,181
Provisions		78,602	-	-	78,602
Total Current Liabilities		2,649,783	-	-	2,649,783
Non-current Liabilities					
Provisions		45,200	-	-	45,200
Total Non-current Liabilities		45,200	-	-	45,200
Total Liabilities		2,694,983	-	-	2,694,983
Net Assets		19,594,176	-	-	19,594,176
Equity					
Contributed equity	A	55,405,707	1,704,734	-	57,110,441
Reserves	B	14,661,942	-	(14,661,942)	-
Accumulated deficit during the development stage	A&B	(50,473,473)	(1,704,734)	14,661,942	(37,516,265)
Total Equity		19,594,176	-	-	19,594,176

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

1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
(t) Adoption of Australian Equivalents to International Financial Reporting Standards (Unaudited) (continued)

The following explanatory notes relate to the unaudited pro forma consolidated financial statements above and describe the differences between the accounting polices under A-IFRS and the current treatment of those items under Australian Generally Accepted Accounting Principles ("A-GAAP").

A. Share-based Payments
Under A-GAAP, the consolidated entity does not recognize an expense for share-based compensation granted to employees or directors. Under A-IFRS, the fair value of share options issued to employees and directors is determined at the grant date and expensed over the expected vesting period of the options. As permitted under A-IFRS first time adoption, the consolidated entity will not retrospectively recognize share-based payments that have vested before January 1, 2005.

For the year ended June 30, 2005, under A-IFRS, contributed equity will increase by $1,704,734 and an additional employee benefits expense of the same amount will be recognized in profit and loss in relation to the options issued during the year.

B. Intangible Assets
Under A-GAAP, the consolidated entity revalued the core intellectual property to fair value in December 1999. Under A-IFRS, the revaluation is permissible only if there is an active market for the asset. As a consequence, upon transition to A-IFRS at July 1, 2004, intangible assets will decrease by $10,208,582 with an associated decrease in the asset revaluation reserve of $14,661,942 and accumulated losses of $4,453,360 at that date.

Under A-IFRS, internally generated intangible assets from expenditure on research activities are not recognizable. As a consequence, upon transition to A-IFRS at July 1, 2004, intangible assets will decrease by $410,321 with a corresponding increase in accumulated deficit at that date.

As a result of the above transition adjustments, the carrying value of the intangible assets at 1 July 2004 was $869,440.

The impact of the above transition adjustment to A-IFRS for the year ended June 30, 2005 is that the amortization expense will decrease by $1,016,804 and the impairment of intangible assets will decrease by $9,602,099. In addition, the asset revaluation reserve as at June 30, 2005 will decrease by $14,661,942.

C. Financial Instruments
The directors have elected not to apply the first-time adoption exemption available to Prana to defer the date of transition of AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement'* to July 1, 2005. This has nil effect on the consolidated financial statements.

D. Reconciliation of Accumulated Deficit as at July 1, 2004

	Consolidated
Accumulated deficit under A-GAAP	(25,464,876)
Intangible assets – reversal of amortization from revaluation	4,453,360
Intangible assets – derecognition of research expenditure	(410,321)
Accumulated deficit under A-IFRS	(21,421,837)

E. Reconciliation of Contributed Equity as at July 1, 2004
There were no adjustments to the Contributed Equity of the consolidated entity at July 1, 2004. Contributed Equity under A-GAAP and under A-IFRS at July 1, 2004 was $49,505,493.

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

1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
(t) Adoption of Australian Equivalents to International Financial Reporting Standards (Unaudited) (continued)

F. Reconciliation of the Asset Revaluation Reserve as at July 1, 2004

	Consolidated
Asset revaluation reserve under A-GAAP	14,661,942
Intangible assets – reversal of revaluation	(14,661,942)
Asset revaluation reserve under A-IFRS	-

	Years Ended June 30,		
	2005	**2004**	**2003**
2 REVENUE FROM ORDINARY ACTIVITIES			
Interest - Other persons/corporations	892,135	211,327	111,686
Government grant (i)	629,692	647,400	967,000
Nasdaq reimbursements (ii)	-	-	231,304
Corporate partner revenues (iii)	1,125,000	1,462,500	506,250
Other revenues	6,286	-	238
Total revenues from ordinary activities	2,653,113	2,321,227	1,816,478

(i) On July 26, 2001, the consolidated entity announced the grant of a $1.74 million START grant from the Australian Industry Research and Development Board to expand the consolidated entity s core intellectual property for drug treatment of neurodegenerative diseases. During the year ended June 30, 2003, the consolidated entity met the revenue recognition criteria to record $967,000 of the grant as revenue. This grant was completed ahead of schedule on June 30, 2003. At June 30, 2003, revenue was over accrued by $21,750.

On May 5, 2003, the consolidated entity announced a Biotechnology Innovation Fund grant of $227,252 from the Australian Industry Research and Development Board to research the development of an immunotherapy from Alzheimer's Disease. During the years ended June 30, 2005 and 2004, the consolidated entity met the revenue recognition criteria to record revenue of $101,689 and $125,515, respectively. This grant was completed in January 2005.

On February 18, 2004, the consolidated entity announced a further START grant of $1.35 million from the Australian Industry Research and Development Board to take its second generation drug candidate for Alzheimer's disease, PBT-2, through safety testing and Phase 1 Clinical Trials. During the years ended June 30, 2005 and 2004, the Company met the revenue recognition criteria to record revenue of $528,003 and $543,635, respectively.

(ii) In September 2002, the Company listed on the Nasdaq SmallCap Market. Under an agreement with the Bank of New of York, 50% of the costs associated with the listing were reimbursed. This reimbursement of $231,304 was recognized as revenue in the year ended June 30, 2003.

(iii) In March 2003, Prana entered into various agreements with Schering A.G. and Neuroscience Victoria Ltd. for certain research and development activities. The revenue under these agreements is recognized as earned on a straight line basis over the lives of the relevant agreements.

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

	Years Ended June 30,		
	2005	2004	2003
3 EXPENSES FROM ORDINARY ACTIVITIES			
Depreciation of non-current assets			
Equipment	65,223	95,002	85,971
Amortization of non-current assets			
Core intellectual property	1,100,004	1,100,004	1,100,002
Total depreciation and amortization expense	1,165,227	1,195,006	1,185,973
Patents, research and development expense			
Research and development	7,109,839	4,853,536	1,242,481
Research and development – related parties	577,757	379,045	475,289
Patents	-	-	143,525
Total patents, research and development expense	7,687,596	5,232,581	1,861,295
Rental expense under operating leases	105,911	6,947	-
4 INCOME TAX			
(a) Prima facie income tax benefit calculated on the loss from ordinary activities before income tax:			
Income tax benefit calculated at 30%	7,502,579	2,965,684	1,375,451
Effect of lower tax rates of tax on overseas income	(4,567)	-	-
(Over)/under provision of income tax in previous year	2,258,204	1,052,868	-
Non-deductible amortization expense	(330,001)	(330,001)	(330,001)
Other non-deductible expenses	(3,426,262)	(497,360)	(300,312)
Timing differences and tax losses not brought to account as future income tax benefits (Note 4(b))	(5,999,953)	(3,191,191)	(745,138)
Income tax expense relating to ordinary activities	-	-	-
(b) Potential future tax benefits at 30% not brought to account attributable to:			
Tax losses – revenue	11,700,174	6,097,949	3,005,525
Timing differences	506,046	108,318	9,551
	12,206,220	6,206,267	3,015,076

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

4 INCOME TAX (continued)

The consolidated entity has future income tax benefits of tax losses not recognized as assets because recovery is not virtually certain. Such benefits will only be obtained if:

(i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realized;
(ii) the conditions for deductibility imposed by tax legislation continue to be complied with; and
(iii) no changes in tax legislation adversely affect the consolidated entity in realizing the benefit.

The consolidated entity has no franking credits available at year end.

		June 30, 2005	June 30, 2004
5 CURRENT RECEIVABLES			
Government grant receivable (inclusive of GST)		-	1,390
Sundry debtors and other		121,037	39,571
Goods and services tax receivable		53,439	51,956
		174,476	92,917
6 OTHER ASSETS			
Prepayments		495,165	71,609
Withholding tax		-	1,160
		495,165	72,769
7 PROPERTY AND EQUIPMENT			
Gross carrying amount			
Balance at beginning of year		506,523	372,161
Additions		50,466	134,362
Disposals		-	-
Balance at end of year		556,989	506,523
Accumulated depreciation			
Balance at beginning of year		(325,552)	(230,550)
Disposals		-	-
Depreciation expense	3	(65,223)	(95,002)
Balance at end of year		(390,775)	(325,552)
Net book value at end of year		166,214	180,971

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

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

7 PROPERTY AND EQUIPMENT (continued)

	June 30, 2005	June 30, 2004
Laboratory equipment, at cost	325,899	325,899
Less accumulated depreciation	(314,707)	(292,340)
Total laboratory equipment	11,192	33,559
Computer equipment, at cost	116,652	81,109
Less accumulated depreciation	(64,510)	(31,204)
Total computer equipment	52,142	49,905
Furniture and fittings, at cost	43,039	29,304
Less accumulated depreciation	(5,636)	(1,417)
Total furniture and fittings	37,403	27,887
Leasehold improvements, at cost	71,399	70,211
Less accumulated depreciation	(5,922)	(591)
Total leasehold improvements	65,477	69,620
Total	166,214	180,971

8 INTANGIBLE ASSETS

Core intellectual property – at deemed cost	16,500,000	16,500,000
Accumulated amortization	(6,111,661)	(5,011,657)
Impairment of core intellectual property	(10,388,339)	-
	-	11,488,343

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

The Intellectual Property was impaired on June 30, 2005 following the announcement to the market in April 2005 concerning the cessation of the PBT1 clinical trial.

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

	Notes	June 30, 2005	2004
9 PAYABLES (CURRENT)			
Trade creditors		1,235,320	336,779
Accrual for settlement of patent dispute		-	971,764
Accrued patents, research and development expenses		171,031	483,289
Accrued legal expense		189,199	72,059
Accrued employee benefits expense		192,386	5,894
Accrued consulting expense		476,033	90,256
Accrued corporate compliance expense		148,815	96,400
Other accrued expenses		76,934	191,951
Deferred revenue		56,463	155,261
Amounts payable to Directors		25,000	205,258
Amounts payable to Director-related entity	21	-	53,039
		2,571,181	2,661,950
10 PROVISIONS			
Current			
Annual leave	15	78,602	42,597
Non-Current			
Long service leave	15	45,200	8,292

	Notes	June 30, 2005	2004	2003
11 CONTRIBUTED EQUITY				
(a) Contributed equity				
Ordinary shares fully paid	11(b)	54,662,445	49,505,493	16,733,023
Options fully paid	11(c)	289,699	-	8,000
Warrants fully paid	11(d)	453,563	-	-
		55,405,707	49,505,493	16,741,023

(b) Movements in shares on issue

	June 30, 2005		2004		2003	
	Number of Shares	$	Number of Shares	$	Number of Shares	$
Beginning of the year	115,984,380	49,505,493	66,187,303	16,733,023	58,612,750	12,993,468
Movement during the year	11,334,880	5,156,952	49,797,077	32,772,470	7,574,553	3,739,555
End of the year	127,319,260	54,662,445	115,984,380	49,505,493	66,187,303	16,733,023

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

11 CONTRIBUTED EQUITY (continued)

Details of share issuances are as follows:

Date	Details	Notes	Number	Issue Price	$
July 8, 2002	Exercise of options		4,000	0.50	2,000
July 10, 2002	Exercise of options		13,274	0.50	6,637
July 12, 2002	Non-cash share issue in consideration for services provided by consultants	(i)	13,550	2.02	27,371
September 18, 2002	Exercise of options		32,000	0.50	16,000
September 30, 2002	Exercise of options		25,000	0.50	12,500
October 15, 2002	Exercise of options		20,081	0.50	10,040
November 20, 2002	Exercise of options		113,000	0.50	56,500
November 22, 2002	Exercise of options		33,072	0.50	16,536
November, 25 2002	Exercise of options		7,000	0.50	3,500
December 4, 2002	Non-cash share issue in consideration for services provided by consultants	(i)	15,318	1.74	26,653
December 12, 2002	Exercise of options		50,000	0.50	25,000
January 8, 2003	Exercise of options		50,000	0.50	25,000
January 22, 2003	Exercise of options		2,620	0.50	1,310
January 30, 2003	Exercise of options		9,700	0.50	4,850
January 30, 2003	Non-cash share issue in consideration for services provided by consultants	(i)	118,101	0.98	115,739
February 14, 2003	Exercise of options		499,403	0.50	249,702
February 20, 2003	Exercise of options		483,746	0.50	241,873
February 28, 2003	Exercise of options		2,530,483	0.50	1,265,242
March 5, 2003	Exercise of options		3,107,891	0.50	1,553,945
March 15, 2003	Exercise of options		25,000	0.50	12,500
March 2003	Underwriting costs	(ii)	-	-	(144,000)
April 3, 2003	Exercise of options		421,314	0.50	210,657
Year ended June30 ,2003	Total		7,574,553		3,739,555
August 11, 2003	Exercise of options		50,000	0.50	25,000
August 13, 2003	Exercise of options		25,000	0.50	12,500
August 27, 2003	Exercise of options		16,000	0.50	8,000
August 27, 2003	Non-cash share issue in consideration for services provided by consultants	(i)	70,768	0.70	49,538
August 29, 2003	Exercise of options		34,000	0.50	17,000
September 16, 2003	Share issue to professional investors for cash		7,102,853	0.70	4,971,997
January 12, 2004	Non-cash share issue to directors	(iii)	249,999	0.48	120,000
January 12, 2004	Non-cash share issue in consideration for services provided by consultants	(i)	67,955	0.64	43,491
February 20, 2004	Non-cash share issue in consideration for services provided by consultants	(i)	155,502	0.55	85,526

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

11 CONTRIBUTED EQUITY (continued)

Date	Details	Notes	Number	Issue Price	$
April 8, 2004	Exercise of options		200,000	0.70	140,000
April 15, 2004	Exercise of options		100,000	0.70	70,000
April 16, 2004	Exercise of options		200,000	0.50	100,000
April 16, 2004	Exercise of options		200,000	0.70	140,000
April 20, 2004	Exercise of options		300,000	0.50	150,000
April 22, 2004	Exercise of options		200,000	0.50	100,000
May 10, 2004	Non-cash share issue to consultant Professor Ashley Bush as per consulting contract (Note 14)	(i)	825,000	0.83	684,750
June 1, 2004	Share issued to US investors for cash		40,000,000	0.72	28,881,609
	Expired options		-	-	8,000
	Capital raising costs		-	-	(2,834,941)
Year ended June 30, 2004	Total		49,797,077		32,772,470
August 9, 2004	Non-cash share issue in settlement of litigation	(iv)	1,350,000	0.56	756,000
September 16, 2004	Non-cash share issue in consideration for services provided by consultants	(i)	49,775	0.82	40,816
December 8, 2004	Exercise of options		9,506,666	0.50	4,753,333
December 17, 2004	Non-cash share issue to directors	(iii)	249,999	0.48	120,000
February 21, 2005	Non-cash share issue in consideration for services provided by consultants	(i)	178,440	0.55	98,142
	Capital raising costs	(v)	-	-	(611,339)
Year ended June 30, 2005			11,334,880		5,156,952

(i) The consolidated entity recognized non-cash compensation expense for shares issued in consideration for services provided by consultants based on either the directors' valuation of the services rendered or the shares issued.

(ii) Underwriters subscribed the balance of the listed options with an expiration date of March 1, 2003 that had not been exercised by existing option holders and charged $144,000 for their services.

(iii) The base fee for three of the Company's directors was paid by the issue of 83,333 shares each as approved at the 2003 and 2004 Annual General Meetings.

(iv) The Company settled a litigation dispute with P.N. Gerolymatos via the issue of 1,350,000 shares valued as of the date the settlement agreement was signed.

(v) The capital raising costs incurred in fiscal year 2005 include the issue of warrants to a consultant as part of the US capital raising that occurred in June 2004. Capital raising costs also include the issue of options to a consultant that assisted Prana with the June 2004 US capital raising and the exercise of options.

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

11 CONTRIBUTED EQUITY (continued)

(c) Movements in share options

	Years Ended June 30,					
	2005		2004		2003	
	Number of Options	Comp. Expense ($)	Number of Options	Comp. Expense ($)	Number of Options	Comp. Expense ($)
Beginning of the year	21,269,167	-	21,085,000	8,000	27,894,310	8,000
Issued during the year	3,080,000	289,699	1,709,167	-	618,274	-
Expired during the year	(11,150,501)	-	(200,000)	(8,000)	-	-
Exercised during the year (Note 11(b))	(9,506,666)	-	(1,325,000)	-	(7,427,584)	-
End of the year	3,692,000	289,699	21,269,167	-	21,085,000	8,000

Details of option issuances are summarized as follows.

2003

- On July 10, 2002, the Company issued 13,274 options to an employee and 100,000 options to an outside consultant under the Employee and Consultants Option Plan 2000 (see Note 15(b)) as a reward for services rendered to the Company. Of the 100,000 options issued to the consultant, one-third are exercisable beginning May 2001, another third May 2002 and the final third May 2003. The options are exercisable until June 30, 2005 at an exercise price of $0.50 per option. These options are forfeited in the event the employee or consultant terminate employment with the Company. 13,274 options were exercised on 10 July 2002. The balance of the options lapsed on June 30, 2005.
- On October 31, 2002, the Company issued 100,000 options to an outside consultant under the Employee and Consultants Option Plan 2000 (see Note 15(b)) as a reward for services rendered to the Company. Such options were exercisable on or before June 30, 2005 at an exercise price of $0.50 per option. These options are forfeited in the event the consultant terminates employment with the Company. These options lapsed on June 30, 2005.
- On October 31, 2002, the Company issued 200,000 options to an outside consultant in consideration for services rendered. Such options are exercisable on or before October 1, 2005 at an exercise price of $0.50 per option.
- On March 1, 2003, the Company issued 55,000 options to underwriters in connection with the underwriters' subscription of the remaining balance of the listed options with an expiration date of March 1, 2003 that had not been exercised by existing option holders. Such options were exercised on the same day at an exercise price of $0.50 per option.
- On June 6, 2003, the Company issued 5,000 options to an outside consultant in consideration for services rendered. Such options are exercisable beginning March 1, 2005 through June 30, 2005 at an exercise price of $1.50 per option. These options lapsed on June 30, 2005.
- On June 6, 2003, the Company issued 145,000 options to employees under the Employee and Consultants Option Plan 2000 (see Note 15(b)) as a reward for services rendered to the Company. Of the 145,000 options, 50,000 options are immediately exercisable, 20,000 options are exercisable beginning August 1, 2003, 25,000 options are exercisable beginning December 25, 2003, and 50,000 options are exercisable beginning May 31, 2004. All options have an exercise price of $0.50 per option and are exercisable until June 30, 2005. These options are forfeited in the event the employees terminate employment with the Company. These options lapsed on June 30, 2005.

11 CONTRIBUTED EQUITY (continued)

2004

- On August 8, 2003, the Company issued 10,000 options to outside consultants under the Employee and Consultants Option Plan 2000 (see Note 15(b)) as a reward for services rendered to the Company. Of the 10,000 options issued to the consultants, half are exercisable beginning December 1, 2003 and the other half are exercisable beginning January 1, 2005. The options are exercisable until June 30, 2005 at an exercise price of $0.50 per option. These options are forfeited in the event the consultants terminate employment with the Company. These options lapsed on June 30, 2005.
- On September 10, 2003, the Company issued 5,000 options to an outside consultant in consideration for services rendered to the Company. Such options are exercisable between March 2, 2005 and June 30, 2005 at an exercise price of $1.50 per option. These options lapsed on June 30, 2005.
- On September 15, 2003, the Company issued 244,667 options to employees and 17,500 options to outside consultants under the Employee and Consultants Option Plan 2000 (see Note 15(b)) as a reward for services rendered to the Company. Of the 244,667 options issued to employees, 58,000 were escrowed until August 1, 2004, 166,667 were escrowed until May 31, 2004 and 20,000 were escrowed until August 31, 2004. Of the options issued to the consultants, 2,500 are exercisable beginning July 1, 2004, 7,500 are escrowed until July 31, 2004 and 7,500 are escrowed until August 31, 2004. The options are exercisable until June 30, 2005 at an exercise price of $0.50 per option. These options are forfeited in the event the employees or consultants terminate employment with the Company. These options lapsed on June 30, 2005.
- On October 31, 2003, the Company issued 500,000 options to an outside consultant in consideration for services rendered to the Company. Such options were exercisable on or before April 23, 2004 at an exercise price of $0.70 per option. The options were exercised in April 2004.
- On November 27, 2003, the Company issued 500,000 options to an outside consultant under the Employee and Consultants Option Plan 2000 (see Note 15(b)) as a reward for services rendered to the Company. Such options are exercisable on or before June 30, 2005 at an exercise price of $0.50 per option. These options lapsed on June 30, 2005.
- On December 5, 2003, the Company issued 20,000 options to employees under the Employee and Consultants Option Plan 2000 (see Note 15(b)) as a reward for services rendered to the Company. The options are exercisable between July 1, 2004 and June 30, 2005 at an exercise price of $0.50 per option. These options are forfeited in the event the employees terminate employment with the Company. These options lapsed on June 30, 2005.
- On May 10, 2004, the Company issued 412,000 options to Professor Ashley Bush, an outside consultant, as per the ten year consulting contract with Professor Bush (see Note 14). Such options are exercisable on or before February 1, 2007 at an exercise price of $0.50 per option.

2005

- On December 17, 2004, the Company issued 1,600,000 options to directors under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 15(b)) in recognition of future contributions to the growth and success of the Company. The options are escrowed for one year from the date of grant and are exercisable once the ASX share price reaches $1.00 for five consecutive trading days. The options are exercisable at $nil consideration and expire on June 30, 2010. This issue was approved by shareholders at the 2004 Annual General Meeting.
- On December 17, 2004, the Company issued 380,000 options to a director under the 2004 ADS Option Plan (see Note 15(b)) as per his employment contract. The options vested on June 14, 2005 following an agreement between Jonas Alsenas and the Company on Jonas stepping down as CEO and director of the Company and are exercisable at US$5.00. The options expire on December 17, 2012 and upon exercise convert to ADRs (1 ADR = 10 Shares). This issue was approved by shareholders at the 2004 Annual General Meeting.
- On December 17, 2004, the Company issued 600,000 options to outside consultants under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 15(b)) in consideration for services rendered to the Company. Of the 600,000 options, 400,000 options vest immediately and 200,000 options vest quarterly until the expiration date. The options are exercisable until December 17, 2007 at an exercise price of $0.50 per option.

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

11 CONTRIBUTED EQUITY (continued)

- On February 21, 2005, the Company issued 500,000 options to the Company Secretary under the 2004 Employees, Directors and Consultants Share and Option Plan (see Note 15(b)) as reward for services rendered to the Company. Such options are exercisable on or before December 17, 2007 at an exercise price of $0.50 per option.

(d) Movement in warrants

	Years Ended June 30,					
	2005		2004		2003	
	Number of Warrants	Comp. Expense ($)	Number of Warrants	Comp. Expense ($)	Number of Warrants	Comp. Expense ($)
Beginning of the year	3,000,000	-	-	-	-	-
Issued during the year	320,000	453,563	3,000,000	-	-	-
End of the year	3,320,000	453,563	3,000,000	-	-	-

Details of warrant issuances are summarized as follows.

2004

- On June 4, 2004, the Company issued 3,000,000 warrants to US investors as part of the 1 June 2004 US capital raising disclosed in (b) above. These warrants are convertible to 30,000,000 shares (3,000,000 ADRs) at an exercise price of US$8.00 per warrant on or before June 4, 2009.

2005

- On December 17, 2004, the Company issued 320,000 warrants to an outside consultant in consideration for services rendered to the Company for the June 1, 2004 US capital raising disclosed in (b) above. The resulting compensation expense was accounted for as an issuance cost and therefore recorded as a deduction of contributed equity in the Statements of Shareholders' Equity. The warrants are convertible to 3,200,000 shares (320,000 ADRs) at an exercise price of US$8.00 per warrant on or before June 4, 2009.

(e) Terms and conditions of contributed equity

Ordinary shares

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

Options 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. Options and warrants may be exercised at any time from the date they vest to the date of their expiry. Share options convert into ordinary shares on a one for one basis on the date they are exercised. Warrants and US options convert into ordinary shares, being one warrant or US option for ten ordinary shares, on the date they are exercised.

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

11 CONTRIBUTED EQUITY (continued)

(f) Shares, options and warrants issued after reporting date

Details of share issuances are as follows:

Date	Details	Number	Issue Price	Comp. Expense ($)
August 10, 2005	Issue of shares to consultant Professor Ashley Bush as per consulting contract (Note 14)	825,000	0.37	305,250
		825,000		305,250

Details of option issuances are as follows:

On August 10, 2005, the Company issued 413,000 options to consultant Professor Ashley Bush in accordance with the ten year consulting contract with same (see Note 14). The options were issued under the 2004 Employees, Directors and Consultants Share and Option Plan. Such options expire on February 1, 2007 and are exercisable at $0.50 per option.

	Notes	June 30, 2005	2004	2003
12 RESERVE AND ACCUMULATED DEFICIT				
Asset revaluation reserve	12(a)	14,661,942	14,661,942	14,661,942
Accumulated deficit during the development stage	12(b)	(50,473,473)	(25,464,876)	(15,579,262)

(a) Asset revaluation reserve

i Nature and purpose of reserve

The asset revaluation reserve is used to record increments and decrements in the value of non-current assets

ii Movements in reserve

Balance at beginning of year	14,661,942	14,661,942	14,661,942
Revaluation of core intellectual property to directors' valuation	-	-	-
Balance at end of year	14,661,942	14,661,942	14,661,942

On July 1, 2000, as allowed by AASB 1041, the directors deemed the carrying value of the consolidated entity's core intellectual property at valuation to be cost. As a result, the asset revaluation reserve is no longer available to absorb any future write-downs of core intellectual property. Subsequent to July 1, 2000, future write-downs of these assets to the recoverable amount must be made through the Statements of Financial Performance.

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

	June 30,		
	2005	2004	2003
12 RESERVE AND ACCUMULATED DEFICIT (continued)			
(b) Accumulated deficit during the development stage			
Balance at beginning of year	(25,464,876)	(15,579,262)	(10,994,424)
Net loss for the year	(25,008,597)	(9,885,614)	(4,584,838)
Balance at end of year	(50,473,473)	(25,464,876)	(15,579,262)

	Years Ended June 30,		
	2005	2004	2003
13 STATEMENTS OF CASH FLOWS			
(a) Reconciliation of the net loss to the net cash flows from operations			
Net loss	(25,008,597)	(9,885,614)	(4,584,838)
Non-cash items			
Depreciation of property, plant and equipment	65,223	95,002	85,971
Amortization of intangible assets	1,100,004	1,100,004	1,100,002
Non-cash issue of shares and options in consideration of operating expenses	439,457	983,305	169,763
Foreign exchange loss	1,362,572	182,768	12,481
Impairment of core intellectual property	10,388,339	-	-
Changes in assets and liabilities			
(Decrease)/increase in payables	665,231	2,120,733	(371,116)
(Increase)/decrease in receivables	(81,559)	50,906	(35,887)
(Increase)/decrease in prepayments	(422,396)	(20,407)	8,005
Increase in provision for employee entitlements	72,913	25,883	25,006
Net cash flows used in operating activities	(11,418,813)	(5,347,420)	(3,590,613)
(b) Reconciliation of cash			
Cash balance comprises:			
- cash on hand	1,163,077	8,531,593	2,263,783
- term deposit/on call	11,290,227	21,048,805	1,200,000
- commercial bill	9,000,000	-	-
Closing cash balance	21,453,304	29,580,398	3,463,783

(c) Non-cash financing and investing activities

During the years ended June 30, 2005, 2004 and 2003, the Company issued shares, options and warrants in connection with non-cash transactions. See Notes 11(b), 11(c), and 11(d).

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

14 EXPENDITURE COMMITMENTS

The Company has entered into a ten year contract with Professor Ashley Bush, commencing February 1, 2003 which includes a payment of US$100,000 per annum for ten years increasing at the rate of the US Consumer Price Index on the anniversary of the contract. The contract also includes the issue of 1,650,000 bonus shares of which 825,000 were issued during the 2004 financial year and 824,000 options at an exercise price $0.50 of which 412,000 were issued during the 2004 year. The balance of 825,000 shares and 413,000 options were issued on August 10, 2005.

The Company moved premises in June 2004 and entered into an operating lease for a three year period totaling $306,781, including rent increases by 3.5% per annum. Outgoing costs are set yearly by the landlord.

Future minimum lease payments under the office lease are as follows as of June 30, 2005:

Fiscal year	
2006	106,569
2007	97,688
2008	-
2009	-
2010	-
Thereafter	-
Total	204,257

The CFO Solution provides administrative support at a rate of $15,000 per month which can be terminated with three months notice by either the Company or The CFO Solution.

The Company has contracts with various consultants that are payable within less than one year.

The Company has also entered into a contract with Geoffrey Kempler. For details refer to Note 19.

15 EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

(a) Employee Entitlements

	Notes		
The aggregate employee entitlement liability is composed of:			
Provisions (current)		78,602	42,597
Provisions (non-current)		45,200	8,292
	10	123,802	50,889

Number of employees: 17 (2004: 12 employees)

(b) Employee and Consultants Option Plans

At the Annual General Meeting held on November 22, 2000, shareholders approved the establishment of the Employee and Consultants Option Plan 2000 designed to reward directors, employees and consultants for their contributions to the Company. It was also proposed as a method of retaining key personnel, for the growth and development of the Company's intellectual property rights. The options could not be transferred and were not quoted on the ASX. At June 30, 2005, there were no directors, seven employees (including three executives), and five consultants participating in the Scheme. All options were issued with an exercise price of $0.50 and expired on June 30, 2005. No further options will be issued under this plan.

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

15 EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS (continued)

At the Annual General Meeting held on November 17, 2004, the shareholders approved the establishment of new Employee and Consultant Plans designed to reward directors, employees and/or consultants for their contributions to the Company. As per the previous plan, the new plans are to be used as a method of retaining key personnel for the growth and development of the Company's intellectual property rights. Due to Prana's US presence, a US plan (the 2004 ADS Option Plan) and an Australian plan (the 2004 Employees, Directors and Consultants Share and Option Plan) were developed. At June 30, 2005, equity had been issued to one previous director while a director under the 2004 ADS Option Plan and four directors and three consultants under the 2004 Employees, Directors and Consultants Share and Option Plan.. At the 2004 Annual General Meeting shareholders authorized the Company to issue in aggregate of up to 12 million ordinary shares under the plans. The Share Plan Committee, a sub-committee of the Remuneration Committee administers the Plans and is able to change the terms of the equity issued under them from the default terms.

Under the 2004 ADS Option Plan, the default exercise price must equal or exceed the fair value of the ADS on the date the options are awarded. The option expiry 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 Employees, Directors and Consultants Share and Option Plan, the default exercise price must be equal or less than the market value of the ordinary shares on ASX on the date of grant. The option expiry 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 Employee and Consultants Option Plan 2000 is as follows:

	Years Ended June 30,					
	2005		2004		2003	
	Number of Options	Exercise Price ($)	Number of Options	Exercise Price ($)	Number of Options	Exercise Price ($)
Beginning of the year	897,167	0.50	555,000	0.50	210,000	0.50
Issued during the year	-	-	792,167	0.50	358,274	0.50
Exercised during the year	-	-	(450,000)	0.50	(13,274)	0.50
Expired during the year	(897,167)	0.50	-	-	-	-
End of the year	-	-	897,167	0.50	555,000	0.50

Information with respect to the number of options granted under the 2004 Employees, Directors and Consultants Share and Option Plan as follows:

	Years Ended June 30,					
	2005		2004		2003	
	Number of Options	Exercise Price ($)	Number of Options	Exercise Price ($)	Number of Options	Exercise Price ($)
Beginning of the year	-	-	-	-	-	-
Issued during the year	1,600,000	-	-	-	-	-
Issued during the year	1,100,000	0.50	-	-	-	-
End of the financial year	2,700,000	0.50	-	-	-	

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

15 EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS (continued)

Information with respect to the number of shares issued under the 2004 Employees, Directors and Consultants Share and Option Plan as follows:

	Years Ended June 30,		
	2005	2004	2003
	Number of Shares	Number of Shares	Number of Shares
Beginning of the year	-	-	-
Issued during the year	428,439	-	-
End of the financial year	428,439	-	-

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

	Years Ended June 30,					
	2005		2004		2003	
	Number of Options	Exercise Price ($)	Number of Options	Exercise Price ($)	Number of Options	Exercise Price ($)
Beginning of the year	-	-	-	-	-	-
Issued during the year[1]	380,000	US$5.00 (A$6.57)	-	-	-	-
End of the year[1]	380,000	US$5.00 (A$6.57)	-		-	

[1] These options are exercisable into ADRs (one US option converts to one NASDAQ ADR = ten ASX shares)

The difference between the total market value of options issued during a financial year at the date of issue, and the total amount received from executives and employees is not recognized in the financial statements except for the purposes of determining director and executive remuneration in respect of that financial year as detailed in the Remuneration Report and Note 19 of the financial statements. The benefit to consultants is recognized in the financial statements over the period in which the services are provided.

Options issued carry no dividend rights or right to vote.

16 CONTINGENT LIABILITIES

The consolidated entity is not involved in any legal or arbitration proceedings and, so far as directors are aware, no such proceedings are pending or threatened against the consolidated entity.

17 SUBSEQUENT EVENTS

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

18 LOSS PER SHARE

	Years Ended June 30,		
	2005	2004	2003
Basic loss per share	(0.20)	(0.13)	(0.08)
Weighted average number of ordinary shares on issue used in the calculation of basic loss per share	122,754,061	75,701,818	61,131,313

The options and warrants in place do not have the effect to dilute the loss per share.

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

19 DIRECTORS' AND EXECUTIVES' REMUNERATION

(a) The directors and executive information has been prepared in accordance with AASB 1046: *Directors and Executives Disclosures by Disclosing Entities*:

Directors of Prana Biotechnology Ltd during the year:		
Geoffrey Kempler	Executive Chairman	Appointed November 11, 1997
	CEO	Re-appointed June 16, 2005
Colin Masters	Executive Director	Appointed December 9, 1999
George Mihaly	Non-Executive Director	Appointed December 9, 1999
Brian Meltzer	Non-Executive Director	Appointed December 9, 1999
Jonas Alsenas	Executive Director	Appointed March 25, 2004
	CEO	Appointed August 9, 2004
		Stepped down June 16, 2005
Specified Executives of Prana Biotechnology Ltd during the year:		
Ross Murdoch	President and COO	Employed September 20, 2002
Dianne Angus	Senior Vice President of IP, Licensing and Research	Employed August 1, 2002
Richard Revelins	Company Secretary	Appointed February 7, 2002
	CFO	Appointed June 2004

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

The Company is committed to remunerating Senior Executives 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 issue of equity. No retirement benefits are payable other than statutory superannuation, if applicable.

(b) Directors and Specified Executives Remuneration

	Base Fee				
2005	Cash	Shares	Superannuation	Equity[3]	Total
Directors:					
Geoffrey Kempler	262,197	-	26,220	49,562	337,979
Colin Masters [1]	75,000	40,000	-	-	115,000
George Mihaly [1]	75,000	40,000	-	14,869	129,869
Brian Meltzer [1]	50,000	40,000	-	14,869	104,869
Jonas Alsenas [2]	696,358	-	-	1,515,434	2,211,792
	726,289	120,000	26,220	1,594,734	2,899,509

[1] The fee includes the issue of 83,333 shares each as approved at the 2004 Annual General Meeting valued at $40,000 at date of issue.

[2] The fee includes payment relating to Jonas Alsenas stepping down as CEO per the Separation Agreement and General Release. See Note 19(c).

[3] The equity was issued as per Annual General Meeting held on November 17, 2004. As per Australian Accounting Standards, the options issued to the Directors have been valued at the grant date. As a result, the value does not reflect the current market price of the Company shares. The Board believe that if the options were valued in today's market, they would have minimal intrinsic value given the exercise price and the current market price of the Company's shares.

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

19 DIRECTORS' AND EXECUTIVES' REMUNERATION (continued)

2005	Base Fee	Superannuation	Equity	Total
Specified Executives				
Ross Murdoch [4]	275,000	24,750	-	299,750
Dianne Angus [1 & 3 & 4]	180,000	16,200	2,670	198,870
Richard Revelins [2]	60,000	-	110,000	170,000
	515,000	40,950	112,670	668,620

[1] The equity amount relates to equity issued in the year ended June 30, 2004 that vested in the current financial year.
[2] The equity amount relates to 500,000 options issued to Mr Revelins for his services as CFO valued at grant date.
[3] Base fee includes additional hours worked above four days per week plus a bonus paid in recognition of additional work not otherwise remunerated in respect of PBT-1 patent dispute and clinical trial advancement.
[4] No equity was received by these executives during the 2005 year.

There were only three executives in the Company and consolidated entity during 2005.

The following Director was under contract at June 30, 2005:

	Duration	Notice Requirements	Termination
Geoffrey Kempler	Until termination by either party	For Good Reason Mr Kempler may terminate with 30 days notice	*pay remuneration entitlements up to June 1, 2010 *accrued entitlements, bonuses and equity issues *accelerate the vesting of any unvested options
		Without Good Reason Mr Kempler may terminate with 90 days notice	*Bonus pro-rated only if termination occurs in 1st year
		Without Cause the Company may terminate with 90 days notice	*pay remuneration entitlements up to June 1, 2010 *accrued entitlements, bonuses and equity issues *accelerate the vesting of any unvested options
		With Cause the Company may terminate without notice	*Bonus pro-rated only if termination occurs in 1st year

The following Senior Executives were under contract at June 30, 2005:

Mr. R. Murdoch has a contract dated May 31, 2004 which provides for a base annual salary of $275,000 plus superannuation at a rate of 9% and options in the Company to the value of 25% of the base salary per annum based on the achievement of performance milestones. The terms and conditions of the issue of options may be subject to change in future years as the Company develops its remuneration policies. The term of the employment contract is for a period of three years commencing on May 29, 2002. As the period has expired, the employment contract will continue until termination by either party. The employment contract can be terminated on four months notice. Accrued entitlements are payable upon termination. In the case of redundancy, nine months salary is payable and all options will vest immediately.

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

19 DIRECTORS' AND EXECUTIVES' REMUNERATION (continued)

Ms D. Angus has a contract dated October 21, 2003, amended in September 2004, which provides for a base annual salary of $165,000 plus superannuation at a rate of 9% and options in the Company to the value of 20% of the base salary per annum based on the achievement of performance milestones. The terms and conditions of the issue of options may be subject to change in future years as the Company develops its remuneration policies. The term of the employment contract is for a period of three years commencing on August 1, 2002. As the period has expired, the employment contract will continue until termination by either party. The employment contract can be terminated on four months notice. Accrued entitlements are payable upon termination. In the case of redundancy, nine months salary is payable and all options will vest immediately.

2004	Base Fee	Consultant Fee	Superannuation	Equity	Total
Directors:					
Geoffrey Kempler	266,818	-	18,182	-	285,000
Jonas Alsenas	32,365	-	-	-	32,365
Colin Masters [1]	40,000	8,333	-	-	48,333
George Mihaly [1]	40,000	78,858	347	-	119,205
Brian Meltzer [1]	40,000	50,000	-	-	90,000
	419,183	137,191	18,529	-	574,903

[1] The base fee includes the issue of 83,333 shares each as approved at the 2003 Annual General Meeting valued at $40,000 at date of issue.

2004	Base Fee	Consultant Fee	Superannuation	Equity [1]	Total
Specified Executives					
Ross Murdoch	235,417	-	21,188	100,748	357,353
Dianne Angus	151,827	-	13,665	31,751	197,243
	387,244	-	34,853	132,499	554,596

[1] The Black Scholes Model was used to calculate the value of these options at grant date.

There were only two executives in the Company during 2004.

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

19 DIRECTORS' AND EXECUTIVES' REMUNERATION (continued)

(c) Remuneration Options

Options Granted as Remuneration 2005: Directors:	Granted No.	Grant Date	Value per option at Grant Date	Exercise Price	First Exercise Date	Last Exercise Date
Geoffrey Kempler [1]	1,000,000	December 17, 2004	$0.51	-	After December 17, 2005, if the share price reaches $1.00 for 5 consecutive trading days	June 30, 2010
George Mihaly [1]	300,000	December 17, 2004	$0.51	-	After December 17, 2005, if the share price reaches $1.00 for 5 consecutive trading days	June 30, 2010
Brian Meltzer [1]	300,000	December 17, 2004	$0.51	-	After December 17, 2005, if the share price reaches $1.00 for 5 consecutive trading days	June 30, 2010
Jonas Alsenas [2, 3]	380,000	November 17, 2004	US3.08 ($3.99)	US$5.00 ($6.50)	June 14, 2005	December 17, 2012
	1,980,000					
Specified Executives:						
Richard Revelins [2]	500,000	February 21, 2005	$0.22	$0.50	February 21, 2005	December 17, 2007
	500,000					

[1] The Barrier Pricing Model was used to calculate the value of these options at grant date, being December 17, 2004.
[2] The Black Scholes Model was used to calculate the value of these options at grant date, being November 17, 2004 and February 21, 2005.
[3] The options issued to Jonas Alsenas are exercisable into ADR's (1 ADR = 10 shares).

Options Granted as Remuneration 2004: Executives:	Granted No.	Grant Date	Value per option at Grant Date	Exercise Price	First Exercise Date	Last Exercise Date
Ross Murdoch	50,000	6 June 2003	$0.345	$0.50	31 May 2004	30 June 2005
Ross Murdoch	15,000	6 June 2003	$0.345	$0.50	25 December 2003	30 June 2005
Ross Murdoch	166,667	15 September 2003	$0.483	$0.50	31 May 2004	30 June 2005
Dianne Angus	20,000	6 June 2003	$0.345	$0.50	1 August 2003	30 June 2005
Dianne Angus	10,000	6 June 2003	$0.345	$0.50	25 December 2003	30 June 2005
Dianne Angus	58,000	15 September 2003	$0.483	$0.50	1 August 2004	30 June 2005
	319,667					

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

	As of and For the Years Ended June 30,		
	2005	2004	2003
20 AUDITORS' REMUNERATION			
Amounts received or due and receivable for:			
- audit fees	175,481	92,663	126,178
- tax fees	11,631	59,580	23,400
- audit related fees	14,920	6,900	7,400
	202,032	159,143	156,978

21 RELATED PARTY AND SPECIFIED EXECUTIVE DISCLOSURES

Specified Directors' and Specified Executives' Remuneration

Details of specified directors' and specified executives' remuneration are disclosed in note 19 to the financial statements.

	As of and For the Years Ended June 30,		
	2005	2004	2003
Director-related entity transactions			
Kendle Pty Ltd, a Director-related company to G. Mihaly until December 2004, provided continuous analysis and reviews of the consolidated entity's commercialization and intellectual property management as well as clinical trial management and monitoring (on normal commercial terms and conditions).			
Fees paid to Kendle Pty Ltd up until December 31, 2004 were:	577,757	379,045	475,289
Amount owing to Kendle Pty Ltd (included in Payables, inclusive of GST)	N/A	53,039	48,968
Aroma Science Pty Ltd, a Director-related company to G Kempler, provided office, computer administration and meeting facilities (on normal commercial terms and conditions) up until June 30, 2004.			
Fees paid to Aroma Science Pty Ltd during the year were:	-	81,470	114,247
Amount owing to Aroma Science Pty Ltd (included in Payables, inclusive of GST)	-	-	492

Specified Directors' and Specified Executives' Equity Holdings

Number of Shares held by Specified Directors' and Specified Executives'

	Balance July 1, 2004	Received as Remuneration	Options Exercised	Net Change Other	Balance June 30, 2005
	No.	No.	No.	No.	No.
Specified Directors					
Geoffrey Kempler	17,055,000	-	-	-	17,055,000
Colin Masters	101,333	83,333	-	-	184,666
George Mihaly	143,333	83,333	-	-	226,666
Brian Meltzer	243,333	83,333	-	-	326,666
Specified Executives					
Ross Murdoch	50,000	-	-	-	50,000
Dianne Angus	-	-	-	-	-
Richard Revelins	42,808	-	-	-	42,808

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

21 RELATED PARTY AND SPECIFIED EXECUTIVE DISCLOSURES (continued)

Specified Directors' and Specified Executives' Equity Holdings
Number of Options held by Specified Directors and Executives

	Balance July 1, 2004 No.	Granted as Remuneration No.	Options Exercised No.	Options Sold No.	Options Expired No	Balance June 30, 2005 No.	Total Exercisable June 30, 2005 No.	Total Not Exercisable June 30, 2005 No.
Specified Directors								
Geoffrey Kempler	9,167,500	1,000,000	-	(7,290,000)	(1,877,500)	1,000,000	-	1,000,000
Colin Master	1,000,000	-	-	-	(1,000,000)	-	-	-
George Mihaly	300,000	300,000	-	(300,000)	-	300,000	-	300,000
Brian Meltzer	300,000	300,000	-	-	(300,000)	300,000	-	300,000
Specified Executives								
Ross Murdoch	281,667	-			(281,667)	-	-	-
Dianne Angus	88,000	-			(88,000)	-	-	-
Richard Revelins	50,000	500,000			(50,000)	500,000	500,000	-

22 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.

23 FINANCIAL INSTRUMENTS

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

(b) Interest rate risk
The consolidated entity has cash on deposit which is professionally managed by external parties to optimize the impact of interest rate fluctuations pursuant to conservative investment guidelines.

At June 30, 2005, the consolidated entity had the following cash accounts:

- $31,359 in a six month term deposit at a fixed interest rate of 4.50% which matures on November 17, 2005;
- US$5,077,088 ($6,667,232) in a 31 day term deposit at a fixed interest rate of 2.88% which matured on July 11, 2005;
- $4,591,636 in at call deposit accounts, earning interest of 5.40%;
- $194,880 in Australia dollar cheque accounts at variable interest rates ranging from 4.28% to 4.60% as of June 30, 2005;
- US$445,783 ($585,402) in various US cheque accounts at variable interest rates from 0% to 2.80% as of June 30, 2005;
- GBP$161,425 ($382,595) in a GBP cheque account at a variable interest rate of 2.90% as of June 30, 2005;
- $9,000,000 30 day commercial bill with a fixed interest rate of 5.57% which matured on July 29, 2005; and
- $200 in petty cash which does not earn any interest.

The weighted average interest rate is 4.57% 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, 2004, the consolidated entity had the following cash accounts:

- $30,000 in a six month term deposit at a fixed interest rate of 5.20%;
- $1,600,000 in 120 day term deposits at fixed interest rates between 5.35% and 5.44%;
- US$13,500,000 ($19,418,805) in a 27 day term deposit at a fixed interest rate of 0.60%;
- $1,299,608 in Australian dollar cheque accounts at variable interest rates ranging from 3.97% to 4.40% as of June 30, 2004;
- US$5,027,554 ($7,231,785) in a US cheque account at a variable interest rate of 0.05% as of June 30, 2004; and
- $200 in petty cash which does not earn any interest.

The weighted average interest rate is 0.89% and apart from usual variances in general rates of interest the Company was not exposed to any significant interest rate risk.

Receivables and payables are non-interest bearing.

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

23. FINANCIAL INSTRUMENTS (continued)

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

June 30, 2005	Floating Interest Rate	Fixed Interest Maturing in		Non-Interest bearing	Total	Average Interest Rate
		1 year or less	1-5 years			
Financial Assets						
Cash	1,162,877	20,290,227	-	200	21,453,304	4.57%
Receivables	-	-	-	174,476	174,476	-
	1,162,877	20,290,227	-	174,676	21,627,780	
Financial Liabilities						
Payables	-	-	-	2,571,181	2,571,181	-
Provisions	-	-	-	123,802	123,802	-
	-	-	-	2,694,983	2,694,983	

June 30, 2004	Floating Interest Rate	Fixed Interest Maturing in		Non-Interest bearing	Total	Average Interest Rate
		1 year or less	1-5 years			
Financial Assets						
Cash	8,531,393	21,048,805	-	200	29,580,398	0.89%
Receivables	-	-	-	92,917	92,917	-
	8,531,393	21,048,805	-	93,117	29,673,315	
Financial Liabilities						
Payables	-	-	-	2,661,950	2,661,950	-
Provisions	-	-	-	50,889	50,889	-
	-	-	-	2,712,839	2,712,839	

(c) Net fair values

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

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

23. FINANCIAL INSTRUMENTS (continued)

(d) Credit risk

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

24 ADDITIONAL COMPANY INFORMATION

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

Registered Office	Principal Place of Business
Suite 2	Level 2
1233 High Street	369 Royal Parade
Armadale Vic 3148	Parkville Vic 3052
Australia	Australia
Tel: +61 (03) 9824 8166	Tel: +61 (03) 9349 4906

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

25 RECONCILIATION TO US GAAP

The financial statements have been prepared in accordance with A-GAAP, which differ in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). The following is a summary of the adjustments to net loss and total equity required when reconciling such amounts recorded in the financial statements to the corresponding amounts in accordance with US GAAP, considering the differences between A-GAAP and US GAAP.

Reconciliation of net loss

		Years Ended June 30,		
		2005	2004	2003
Net loss in accordance with A-GAAP		(25,008,597)	(9,885,614)	(4,584,838)
US GAAP adjustments:				
Share-based compensation	(a)			
Options issued to consultants for services rendered		155,800	(429,811)	(81,610)
Options issued to directors and employees for services rendered		(17,829)	(87,768)	(28,108)
Options issued to underwriters in connection with subscription of listed options		-	-	(26,400)
Shares issued to consultants and directors for services rendered		(21,996)	(33,023)	(31,004)
Intangible assets – Core intellectual property	(b)			
Reversal of amortisation expense attributable to costs capitalised under A-GAAP but expensed under US GAAP		60,670	60,670	60,670
Reversal of amortisation expense attributable to upward asset revaluation		977,463	977,463	977,463
Reversal of impairment expense attributable to costs capitalised under A-GAAP but expensed under US GAAP		9,804,092	-	-
Intangible assets – Capitalised patent costs	(c)			
Costs capitalised under US GAAP but expensed under A-GAAP		263,232	477,390	717,119
Amortisation expense attributable to above		(307,806)	(287,506)	(247,689)
Impairment of costs capitalised under US GAAP but expensed under A-GAAP		(3,580,048)	-	-
Deferred tax effect of US GAAP adjustments	(d)	-	-	-
Net loss in accordance with US GAAP		(17,675,019)	(9,208,199)	(3,244,397)
Loss per share in accordance with US GAAP:				
Basic and diluted		(0.14)	(0.12)	(0.05)
Weighted average shares – basic and diluted		122,754,061	75,701,818	61,131,313

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

25 RECONCILIATION TO US GAAP (continued)

Reconciliation of shareholders' equity

		Years Ended June 30,	
		2005	2004
Total equity in accordance with A-GAAP		19,594,176	38,702,559
US GAAP adjustments:			
Intangible assets – Core intellectual property	(b)		
Costs capitalised under A-GAAP but expensed under US GAAP		-	(910,058)
Reversal of amortisation expense attributable to above		-	276,415
Reversal of upward asset revaluation		-	(14,661,942)
Reversal of amortisation expense attributable to above		-	4,453,360
Intangible assets – Capitalised patent costs	(c)		
Costs capitalised under US GAAP but expensed under A-GAAP		-	4,551,285
Amortisation expense attributable to above		-	(926,663)
Deferred tax effect of US GAAP adjustments	(d)	-	-
Total equity in accordance with US GAAP		19,594,176	31,484,956

Rollforward analysis of shareholders' equity under US GAAP

		Years Ended June 30,	
		2005	2004
Balance in accordance with US GAAP, beginning of year		31,484,956	7,378,083
Issuance of shares in connection with private placement, net of issue costs		-	31,018,665
Issuance of shares in connection with exercise of options, net of issue costs		4,708,574	762,500
Issuance of options to consultants for services rendered	(a)	24,699	429,811
Issuance of options to directors and employees for services rendered	(a)	17,829	87,768
Issuance of shares to consultants and directors for services rendered	(a)	277,136	1,016,328
Issuance of shares for legal settlement		756,000	-
Net loss in accordance with US GAAP		(17,675,019)	(9,208,199)
Balance in accordance with US GAAP, end of year		19,594,176	31,484,956

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

25 RECONCILIATION TO US GAAP (continued)

a. Share-based compensation

Options issued to consultants for services rendered

As disclosed in Note 11(c), the Company issued 600,000, 1,444,500 and 405,000 share options to outside consultants during the years ended June 30, 2005, 2004 and 2003, respectively. Under A-GAAP, the Company recognized compensation expense based on the directors' valuation of the options issued during the year ended June 30, 2005. No compensation cost was recognized in respect of the options issued by the Company during the years ended June 30, 2004 and 2003 under A-GAAP. Under US GAAP, the options issued to the outside consultants are accounted for under Statements of Financial Accounting Standards ("SFAS") No. 123: *Accounting for Stock Based Compensation* ("SFAS 123") and Emerging Issues Task Force Issue No. 96-18: *Accounting for Equity Instruments That Are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* ("EITF 96-18"). Accordingly, the Company has calculated compensation cost based on the estimated fair value of the options measured on the date the services were completed by the respective consultants, using the Black-Scholes model with the following weighted average assumptions:

- risk-free interest rate of 4.9% for 2005, 5.5% for 2004 and 4.5% for 2003;
- no dividends;
- expected volatility of 62% for 2005, 82% for 2004 and 48% for 2003; and
- expected life of two years for 2005, 2004, and 2003.

The compensation cost is charged to operations ratably over the vesting period. The resulting difference between the A-GAAP compensation expense (if any) and the US GAAP compensation expense is recognized in the reconciliation.

Options issued to directors and employees for services rendered

As disclosed in Note 11(c), the Company issued 2,480,000, 264,667 and 158,274 share options to directors and employees during the years ended June 30, 2005, 2004 and 2003, respectively. Under A-GAAP, no compensation cost has been recognized in respect of the share options issued by the Company. Under US GAAP, the Company has elected to account for the issuance of share options to the directors and employees in accordance with Accounting Principles Board ("APB") Opinion No. 25: *Accounting for Stock Issued to Employees* and related interpretations ("APB 25"). Under APB 25, compensation cost is recognized to the extent that the quoted market price of the stock exceeds the exercise price of the options at the measurement date, and is charged to earnings ratably over the vesting period. For options that vest upon the achievement of a target stock price, compensation expense is recognized when the target is achieved.

Had compensation cost related to the issuance of options to directors and employees been recorded at fair value on the date of grant in accordance with SFAS 123, the consolidated entity's net loss and loss per share amounts (calculated in accordance with US GAAP) would have been reduced to the pro forma amounts indicated below:

	Years Ended June 30,		
	2005	2004	2003
US GAAP net loss, as reported	(17,675,019)	(9,208,199)	(3,244,397)
Add: Stock-based employee compensation expense included in US GAAP reported net loss	17,829	87,768	28,108
Deduct: Total stock-based employee compensation expense determined under fair value based method	(1,708,925)	(137,741)	(41,331)
US GAAP pro forma net loss	(19,366,115)	(9,258,172	(3,257,620)
US GAAP basic and diluted loss per share			
- As reported	(0.14)	(0.12)	(0.05)
- Pro forma	(0.16)	(0.12)	(0.05)

25 RECONCILIATION TO US GAAP (continued)

Options issued to underwriters in connection with subscription of listed options

As disclosed in Note 11(c), the Company issued 55,000 share options to underwriters on March 1, 2003 in connection with the underwriters' subscription of the remaining balance of the listed options with an expiration date of March 1, 2003 that had not been exercised by existing option holders. Under A-GAAP, no compensation cost was recognized in respect of the share options issued by the Company. Under US GAAP, the options issued to the underwriters were accounted for under SFAS 123. Accordingly, the consolidated entity has calculated compensation cost based on the estimated fair value of the options measured on March 1, 2003. Because the options are exercisable only on the date of grant, the Company estimated the fair value of the options based on the intrinsic value of the options.

Shares issued to consultants and directors for services rendered

As disclosed in Note 11(b), the Company issued 228,215, 1,119,225 and 146,969 shares to outside consultants in consideration for services rendered to the Company during the years ended June 30, 2005, 2004 and 2003, respectively. The Company also issued 249,999 shares to directors in consideration for services rendered to the Company during each of the years ended June 30, 2005 and 2004. Under A-GAAP, the consolidated entity recognized compensation expense based on the directors' valuation of the services rendered or shares issued. Under US GAAP, the shares issued to the outside consultants and directors are accounted for under SFAS 123 and EITF 96-18. Accordingly, compensation expense is based on the quoted market price of the shares measured on the date the services were completed. The resulting difference between the A-GAAP compensation expense and the US GAAP compensation expense is recognized in the accompanying reconciliation.

b. Intangible assets – Core intellectual property

Under A-GAAP, the consolidated entity capitalised costs associated with the acquisition and development of core intellectual property until December 1999. Such costs were amortized on a straight-line basis over the estimated useful life of 15 years. In December 1999, the directors revalued the intangible assets upwards by $14,661,942 and recorded the revaluation in the asset revaluation reserve in equity. The increased asset value resulted in additional amortisation for periods subsequent to the revaluation. All costs associated with the acquisition and development of core intellectual property incurred subsequent to the December 1999 revaluation are expensed as incurred under A-GAAP.

Under US GAAP, costs associated with the acquisition of core intellectual property are capitalised while costs associated with the development of core intellectual property are expensed as incurred. Upward revaluations of intangible assets are not allowed (except in connection with a purchase business combination). Accordingly, the amortization expense attributable to the costs capitalized under A-GAAP but expensed under US GAAP as well as the amortization expense attributable to the upward asset revaluation is reversed in the accompanying reconciliation.

As a result of the cancellation of a clinical study for the compound PBT-1 in April 2005 due to toxicity issues, the consolidated entity reviewed the carrying value of the core intellectual property and resolved to impair the value to $nil as of June 30, 2005 based on estimated future discounted cash flows. The A-GAAP impairment expense relating to costs capitalised under A-GAAP but expensed under US GAAP has been reversed in the accompanying reconciliation.

25 RECONCILIATION TO US GAAP (continued)

c. Intangible assets – Capitalised patent costs

Under A-GAAP, all costs associated with the acquisition and development of patents incurred subsequent to the December 1999 revaluation of core intellectual property (see paragraph (b) above) are expensed as incurred. For US GAAP purposes, up until December 31, 2004, all costs associated with the acquisition of patents, legal costs incurred in connection with successful patent defences and costs associated with successful patent applications deemed to be recoverable from the future development of products were capitalised and amortized on a straight-line basis over the estimated useful life of 15 years. Such capitalised costs are tested for recoverability whenever events or circumstances indicate that the carrying amount of the costs may not be recoverable. All other costs associated with patents were expensed as incurred. Effective January 1, 2005, the Company changed its US GAAP accounting policy and expenses all patent costs as incurred.

As a result of the cancellation of a clinical study for the compound PBT-1 in April 2005 due to toxicity issues, the consolidated entity reviewed the carrying value of the US GAAP capitalised patent costs and resolved to impair the capitalised costs to the fair value of $nil based on estimated future discounted cash flows. The resulting impairment expense has been recognized in the accompanying reconciliation.

d. Deferred tax effect of US GAAP adjustments

The deferred tax effect of US GAAP adjustments is $nil because it is more likely than not that the net deferred tax asset will not be realized, and accordingly, the consolidated entity has recorded a 100% valuation allowance against the net deferred tax asset.

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

25 RECONCILIATION TO US GAAP (continued)

e. Statement of cash flows

The presentation of the Statements of Cash Flows in accordance with A-GAAP differs from that required in accordance with SFAS No. 95: *Statement of Cash Flows* ("SFAS 95") under US GAAP. Under A-GAAP, cash held in term deposits with original maturities of less than one year is classified as cash. Under US GAAP, term deposits with original maturities greater than 90 days do not qualify as cash or cash equivalents; rather, such term deposits are classified as current investments. Accordingly, the net change in term deposits with original maturities greater than 90 days is classified as a component of cash flows from investing activities for US GAAP purposes.

The following is a reconciliation of the Statements of Cash Flows had the statement been prepared using the presentation requirements of SFAS 95 (A-GAAP measurement principles have been adopted):

	Years Ended June 30,		
	2005	2004	2003
Net cash flows used in operating activities, as reported	(11,418,813)	(5,347,420)	(3,590,613)
Net cash flows used in investing activities, as reported	(50,466)	(134,362)	(87,929)
Less: Term deposits with original maturities greater than 90 days	(31,359)	(1,630,000)	-
Net cash outflows used in investing activities, as adjusted	(81,825)	(1,764,362)	(87,929)
Net cash flows from financing activities, as reported	4,704,757	31,781,165	3,569,792
Net increase/(decrease) in cash held, as adjusted	(6,795,881)	24,669,383	(108,750)
Opening cash brought forward	29,580,398	3,463,783	3,585,014
Exchange rate adjustments on foreign currency transactions	(1,362,572)	(182,768)	(12,481)
Cash at end of year, as reported	21,453,304	29,580,398	3,463,783
Less: Term deposits with original maturities greater than 90 days	(31,359)	(1,630,000)	-
Cash at end of year, as adjusted	21,421,945	27,950,398	3,463,783

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

25 RECONCILIATION TO US GAAP (continued)

f. Classification differences

Under A-GAAP, interest income is reported as a component of revenue from ordinary activities. Under US GAAP, interest income is reported as a component of non-operating income.

Under A-GAAP, amortisation of intangible assets used in research and development projects is reported in depreciation and amortisation expense. Under US GAAP, amortisation of intangible assets used in research and development projects is reported in research and development expense.

Under A-GAAP, other expenses from ordinary activities consist of the following:

	Years Ended June 30,		
	2005	2004	2003
Travel	432,316	284,105	295,257
Insurance	191,705	53,451	62,403
Marketing	442,920	230,459	198,832
Office overhead costs	322,017	190,488	198,704
Other	13,252	269	13,397
Total	1,402,210	758,772	768,593

Under US GAAP, travel, insurance, marketing and office overhead costs are classified as general and administrative costs.

g. Additional US GAAP disclosures

Share-based compensation

The following table summarizes the activity of share options issued to directors under the 2004 Employees, Directors and Consultants Share and Option Plan (adopted on November 17, 2004) during the year ended June 30, 2005 and share options issued to employees under the Employee and Consultants Option Plan 2000 during the years ended June 30, 2004 and 2003:

	Years Ended June 30,					
	2005		2004		2003	
	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)
Outstanding at beginning of year	409,667	0.50	145,000	0.50	-	-
Granted	2,100,000	0.12	264,667	0.50	158,274	0.50
Exercised	-	-	-	-	(13,274)	0.50
Forfeited	-	-	-	-	-	-
Expired	(409,667)	0.50	-	-	-	-
Outstanding at end of year (a)	2,100,000	0.12	409,667	0.50	145,000	0.50
Exercisable at end of year	500,000	0.50	311,667	0.50	50,000	0.50

(a) Of the 2,100,000 options outstanding as of June 30, 2005, 1,600,000 options have an exercise price of $nil and a weighted average remaining contractual life of six years. The remaining 500,000 options have an exercise price of $0.50 with a weighted average remaining contractual life of three years.

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

25 RECONCILIATION TO US GAAP (continued)

The weighted average grant date fair value of the options issued to directors under the 2004 Employees, Directors and Consultants Share and Option Plan during the year ended June 30, 2005 and options issued to employees under the Employee and Consultants Option Plan 2000 during the years ended June 30, 2004 and 2003 is $0.44, $0.44 and $0.43, respectively. The fair value was estimated at the date of the grant using the Black-Scholes option pricing model for options without market conditions and the Barrier option pricing model was used for options with market conditions, with the following weighted average assumptions:

- risk-free interest rate of 5.2% for 2005, 4.9% for 2004 and 4.3% for 2003;
- no dividends;
- expected volatility of 65.7% for 2005, 74.3% for 2004 and 82.0% for 2003; and
- expected life of five years for 2005 and two years for 2004 and 2003.

The following table summarizes the activity of share options issued to directors under the 2004 ADS Option Plan during the year ended June 30, 2005. Each option is exercisable for one ADR which equals ten shares. The 2004 ADS Option Plan was adopted on November 17, 2004 and therefore no options were issued under the plan in prior years.

	Year ended June 30, 2005	
	Number of options over ADRs	Weighted average exercise price ($)
Outstanding at beginning of year	-	-
Granted	380,000	US$5.00 ($6.57)
Exercised	-	-
Expired	-	
Forfeited	-	-
Outstanding at end of year (b)	380,000	US$5.00 ($6.57)
Exercisable at end of year	380,000	US$5.00 ($6.57)

(b) All 380,000 options outstanding as of June 30, 2005 have an exercise price of US$5.00 ($6.57) and a weighted average remaining contractual life of eight years.

The weighted average grant date fair value of the options issued to directors under the 2004 ADS Option Plan during the year ended June 30, 2005 is $3.99. The fair value was estimated at the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

- risk-free interest rate of 5.4%;
- no dividends;
- expected volatility of 73.6%; and
- expected life of eight years.

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

25 RECONCILIATION TO US GAAP (continued)

The following table summarizes the activity of share options issued to consultants during the year ended June 30, 2005, 2004 and 2003:

	Years Ended June 30,					
	2005		2004		2003	
	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)
Outstanding at beginning of year	1,109,500	0.35	815,000	0.51	410,000	0.50
Granted	600,000	0.50	1,444,500	0.57	405,000	0.51
Exercised	-	-	950,000	0.61	-	-
Forfeited	-	-	-	-		-
Expired	(497,500)	0.52	(200,000)	0.50	-	-
Outstanding at end of year (c)	1,212,000	0.50	1,109,500	0.35	815,000	0.51
Exercisable at end of year	1,045,333	0.50	1,089,500	0.42	815,000	0.50

(c) All 1,212,000 options outstanding as of June 30, 2005, have an exercise price of $0.50 with an average remaining contractual life of two years.

The weighted average grant date fair value of options issued to consultants during the years ended June 30, 2005, 2004 and 2003 is $0.27, $0.30 and $0.19, respectively. Refer to Note 25(a), Options *issued to consultants for services rendered* for the assumptions used to estimate the grant date fair value.

As previously disclosed, the Company issued 55,000 share options to underwriters on March 1, 2003 which were immediately exercised on the same day. Because the options were exercisable only on the date of grant, the Company estimated the grant date fair value of $0.48 based on the intrinsic value of the options.

Refer to Notes 11(b) and 11(d) for information regarding shares and warrants granted to consultants and directors during the years ended June 30, 2005, 2004 and 2003

Income tax

The consolidated entity has adopted SFAS No. 109: *Accounting for Income Taxes* ("SFAS 109") for US GAAP purposes. SFAS 109 requires a "liability approach" to accounting for income taxes, which as it applies to the consolidated entity, is very similar to that adopted under A-GAAP.

Under A-GAAP, the deferred tax asset in respect of income tax losses carried forward disclosed in Note 4 is not recognized unless the benefit is virtually certain of realisation. Under US GAAP, the benefit is not recognized unless realisation is more likely than not.

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

25 RECONCILIATION TO US GAAP (continued)

The components of A-GAAP loss from ordinary activities before income tax expense consisted of the following for the years ended June 30, 2005, 2004 and 2003:

	Years ended June 30, 2005		
	2005	2004	2003
Australia	(24,933,300)	(9,885,614)	(4,584,838)
Foreign	(75, 297)	-	-
	(25,008,597)	(9,885,614)	(4,584,838)

The components of the US GAAP deferred tax assets and liabilities as of June 30, 2005 and 2004 are as follows:

	June 30, 2005	
	2005	2004
Deferred tax assets		
Net operating loss carryforwards	11,700,174	6,097,949
Foreign exchange losses	410,951	31,500
Provision accruals	37,141	15,268
Other	57,954	61,550
Total gross deferred tax assets	12,206,220	6,174,767
Deferred tax liability	-	-
Net deferred tax asset	12,206,220	6,206,267
Valuation allowance	(12,206,220)	(6,206,267)
Net recorded deferred taxes	-	-

As of June 30, 2005, the Company has net operating loss carryforwards in Australia of $38,940,507 that may be carried forward indefinitely and net operating loss carryforwards in the United States of $60,073 that can be carried forward for 20 years

25 RECONCILIATION TO US GAAP (continued)

Recently issued but not yet adopted accounting pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004): *Share-Based Payments* ("SFAS 123R"). This statement eliminates the option to apply the intrinsic value measurement provisions of APB 25 to stock compensation awards issued to directors and employees. Rather, SFAS 123R requires companies to measure the cost of director and employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which the director or employee is required to provide services in exchange for the award -- the requisite service period (usually the vesting period). SFAS 123R applies to all awards granted after the required effective date (July 1, 2005 for Prana) and to awards modified, repurchased, or cancelled after that date.

As permitted by SFAS 123, the consolidated entity currently accounts for share-based payments to directors and employees using APB 25, the intrinsic value method. Accordingly, the adoption of the SFAS 123R fair value method may have a significant impact on the consolidated entity's results of operations, although it will have no impact on its overall financial position. The full impact of the adoption of SFAS 123R cannot be predicted at this time, as it depends on levels of share-based payments for future grants. However, had the consolidated entity adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123, as disclosed in Note 25(a), *Share-based compensation - Options issued to directors and employees for services rendered.*

In December 2004, the FASB issued SFAS No. 153: *Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29* ("SFAS 153"), which amends APB Opinion No. 29: *Accounting for Nonmonetary Transactions* to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS 153 is effective for nonmonetary assets exchanges occurring in fiscal periods beginning after June 15, 2005 (fiscal 2006 for Prana). At this time, management reasonably believes that the adoption of SFAS 153 will not have a material effect on the consolidated entity's financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154: *Accounting Changes and Error Corrections* (" SFAS 154"), a replacement of APB Opinion No. 20: *Accounting Changes* and SFAS No. 3: *Reporting Accounting Changes in Interim Financial Statements*, effective for fiscal years beginning after December 15, 2005 (fiscal 2007 for Prana). SFAS 154 changes the requirements for the accounting for and reporting of a voluntary change in accounting principle as well as the changes required by an accounting pronouncement which does not include specific transition provisions. At this time management reasonably believes that the adoption of SFAS 154 will not have a material effect on the consolidated entity's financial position or results of operations.

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. This discussion and analysis should be read in conjunction with our financial statements and notes thereto included elsewhere in this Report.

Background

We were incorporated under the laws of the Commonwealth of Australia on November 11, 1997. Our mission is to develop therapeutic drugs designed to treat the underlying cause of degeneration of the brain and the eye as the aging process progresses. The principal listing of our ordinary shares and listed options to purchase our ordinary shares is on the Australian Stock Exchange, or ASX. Since September 5, 2002, our American Depository Receipts, or ADRs, have traded on the NASDAQ SmallCap 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. As used in this Report, the terms "we," "us," "our" and "Prana" mean Prana Biotechnology Limited, an Australian company, and its subsidiaries, unless otherwise indicated.

Our financial statements appearing in this Report are prepared in Australian dollars and in accordance with generally accepted accounting principles in Australia. In this annual report, all references to "U.S. dollars" or "US$" are to the currency of the United States of America, and all references to "Australian dollars" or "$" are to the currency of Australia.

A. OPERATING RESULTS

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 diseases targets. Initially we focused on clinical trials of our PBT-1 compound as a therapeutic for the treatment of Alzheimer's disease. We commenced our planned phase II human clinical trial for PBT-1 in August 2000 at the Mental Health Research Institute and the Royal Melbourne Hospital. The trial was completed in January 2002. All patients from this study were then provided the opportunity to roll into a further 48 week extension study. 18 out of 27 patients elected to start the extension study. Nine patients competed the full 84-week study. On October 12, 2004, we announced the results of the open label 84-week "Extension Study" of our Phase II clinical trial of PBT-1. On October 18, 2004, we announced our plans to initiate a Phase II/III study to examine the effect of PBT-1 in moderate to severe Alzheimer's disease patients in the late first quarter or second quarter of 2005, to be known as the PLACQUE (Progression Limiting in Alzheimer's: Clioquinol's Efficacy) study. On April 11, 2005, we announced that we will not proceed with the PLACQUE study and that we had re-evaluated our further work on the PBT-1 program. As part of our effort to manufacture Good Manufacturing Practice (GMP) grade PBT-1 clinical trial material, we characterized the various impurities that occur in the synthetic process and found unacceptably high levels of a di-iodo (toxic) form of PBT-1. After further investigation, we concluded that it was possible that the di-iodo impurity that occurs during PBT-1 synthesis could be responsible for an increased 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 safe levels were not likely to be successful in a timely manner and that further development of PBT-1 was not warranted. As a result of these events, we proceeded to conduct a review of our pending strategic development programs.

On June 16, 2005, we announced that we had completed a review of our strategic development programs and we reaffirmed our commitment to our other lead candidate for the potential treatment of Alzheimer's disease, PBT-2. Unlike PBT-1, PBT-2 has a structure that does not contain iodine and is therefore not capable of forming the di-iodo impurity that has been associated with mutagenicity. PBT-2 is the result of rational drug design and was built "from the ground up" to fulfill very specific criteria. It was designed to have no patent ambiguities, be orally bioavailable and cross the blood brain barrier. PBT-2 was selected from over 300 Prana-developed compounds and has demonstrated significantly greater effectiveness in both pre-clinical in-vitro and in-vivo testing and was designed to have an improved safety and efficacy profile compared to PBT-1. In February 2004, we were awarded a second research and development START grant of $1.35 million to take PBT-2 through safety testing and Phase I clinical trials for Alzheimer's disease. Formal preclinical toxicology testing for PBT-2 has been 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. The Phase I program, comprising of several studies, is expected to continue through the remainder of 2005 and into 2006.

Recently Issued But Not Yet Adopted Accounting Pronouncements Applicable To Us

Australian Pronouncements

On July 3, 2002, the Australian Financial Reporting Council announced that Australia would adopt International Financial Reporting Standards. Our management has been assessing the significance of these changes and preparing for their implementation. As a consolidated entity we will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards, or IFRS, for reporting periods beginning on or after January 1, 2005. Accordingly, our first half-year report prepared under

Australian IFRS will be for the half-year reporting period ending December 31, 2005, and our first annual financial report prepared under Australian IFRS will be for the year ending June 30, 2006.

We have completed a study of the impact of the Australian IFRS as a consolidated entity, including the formulation of the Australian IFRS accounting polices that are intended to be adopted from July 1, 2005. The likely impact of the accounting policy changes on the results and financial position of the consolidated entity has been determined and disclosed in Note 1(t) (unaudited) to the financial statements.

United States Pronouncements

On December 16, 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment", or SFAS 123(R), which is a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation", or SFAS 123. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123 permitted, but did not require, share-based payments to employees to be recognized based on their fair values while SFAS 123(R) requires all share-based payments to employees to be recognized based on their fair values. SFAS 123(R) also revises, clarifies and expands guidance in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to reporting periods. The new standard will be effective for us commencing July 1, 2005.

As permitted by SFAS 123, we currently account for share-based payments to employees using Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," the intrinsic value method. Accordingly, the adoption of the SFAS 123(R) fair value method may have significant impact on our results of operations, although it will have no impact on our overall financial position. The impact of the adoption of SFAS 123(R) cannot be predicted at this time, as it depends on levels of share-based payments for future grant. However, had we adopted SFAS 123(R) in prior periods, the impact of that Standard would have approximated the impact of SFAS 123, as disclosed in Note 25(a) of our financial statements included in this Report.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29," or SFAS 153, which amends APB Opinion No. 29, "Accounting for Nonmonetary Transactions" to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The new standard will be effective for us commencing July 1, 2005. We do not anticipate that the adoption of this statement will have a material effect on our consolidated financial position or results of operations.

In May 2005, the FASB issued FASB Statement No. 154, "Accounting Changes and Error Corrections: a replacement of APB Opinion No. 20", or APB 20, and FASB Statement No. 3", or SFAS No. 154, which requires companies to apply voluntary changes in accounting principles retrospectively whenever it is practicable. The retrospective application requirement replaces APB 20's requirement to recognize most voluntary changes in accounting principle by including the cumulative effect of the change in net income during the period the change occurs. Retrospective application will be the required transition method for new accounting

pronouncements in the event that a newly-issued pronouncement does not specify transition guidance. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005.

Differences Between Australian Accounting Standards and U.S. Accounting Standards

We prepare our financial statements in accordance with generally accepted accounting principles in Australia, or A-GAAP, which differ in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. The following table sets forth a comparison of our net loss and total equity in accordance with A-GAAP and U.S. GAAP as of the dates and for the periods indicated:

	As of and for the years ended June 30,		
	2005	**2004**	**2003**
Net loss in accordance with:			
A-GAAP	(25,008,597)	(9,885,614)	(4,584,838)
U.S. GAAP	(17,675,019)	(9,208,199)	(3,244,397)
Total equity in accordance with:			
A-GAAP	19,594,176	38,702,559	15,823,703
U.S. GAAP	19,594,176	31,484,956	7,378,083

See Note 25 to our financial statements for a description of the differences between A-GAAP and U.S. GAAP as they relate to us, and a reconciliation of net loss and total equity for the dates and periods indicated therein. Differences between A-GAAP and U.S. GAAP that have a material effect on net loss and total equity relate to share-based compensation and intangible assets.

Exchange Rate Information

The following tables set forth, for the periods and dates indicated, certain information regarding the rates of exchange of $1.00 into the US$ 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.

Month	High	Low
March 2005	0.7988	0.7667
April 2005	0.7840	0.7625
May 2005	0.7827	0.7528
June 2005	0.7810	0.7472
July 2005	0.7686	0.7364
August 2005	0.7754	0.7494

The noon buying rate on September 30, 2005 was US$0.76 = $1.00

Year Ended June 30,	At Period End	Average Rate	High	Low
2001.....	0.5100	0.5320	0.5996	0.4828
2002.....	0.5614	0.5682	0.5747	0.4858
2003.....	0.6713	0.5623	0.6729	0.5280
2004.....	0.6903	0.7139	0.8005	0.6345
2005.....	0.7620	0.7535	0.7988	0.6852

Critical Accounting Policies

We prepare our financial statements in accordance with A-GAAP. 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 of the financial statements that management believes are the most critical to aid in fully understanding and evaluating our financial condition and results of operations under A-GAAP are discussed below.

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. The recoverable amount is estimated based on expected net cash flows discounted to their present values using a market-determined, risk-adjusted discounted rate.

On June 30, 2005, following the announcement in April 2005 regarding the cessation of our PBT-1 program, our Board of Directors determined that the core intellectual property relating to PBT-1 had been impaired and the carrying value was written-off.

Intangible assets and patents, research and development expense. Until December 1999, costs associated with the acquisition and development of our core intellectual property were capitalized as intangible assets. After considering an independent valuation of our core intellectual property at December 1999, our Board of Directors revalued the assets upwards by $14,661,942 to $16,500,000. The revaluation was recorded in the asset revaluation reserve in equity. Subsequent to the revaluation, all costs associated with the acquisition and development of core intellectual property are charged to patents, research and development expense. On July 1, 2000, our Board of Directors deemed the revalued carrying amount of core intellectual property to be cost for financial reporting purposes.

Prior to being fully impaired on June 30, 2005, our core intellectual property was amortized on a straight-line basis over a period of 15 years, the period in which the future benefits were expected to arise. On June 30, 2005, our Board of Directors determined that the core intellectual property relating to PBT-1 had been impaired and the carrying value was written-off.

Revenue recognition. We recognize revenue to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured.

- Interest income is recognized as earned when collectibility is reasonably assured.

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

- Reimbursements of expenses are recognized as revenue when the reimbursement is received and the related expenses have been incurred.

- Corporate partner revenues are comprised of amounts received for certain research and development activities under our collaboration with Schering A.G. and Neurosciences Victoria Ltd. Revenues are recognized as earned on a straight line basis over the lives of the respective agreements that we entered into with Neurosciences Victoria Ltd. in connection with the collaboration. The straight line basis is considered appropriate as such agreements do not contain clearly defined milestones. Such agreements are performed on a "best efforts" basis with no guarantee of either technological or commercial success.

Significant Costs and Expenses

Depreciation and amortization expense. Depreciation of property and equipment is provided on a straight-line basis over the estimated useful lives of three to 14 years. Prior to the impairment of our core intellectual property as of June 30, 2005, amortization of our core intellectual property was provided on a straight-line basis over the estimated useful lives of 15 years. See Notes 1(d) and 1(e) to the financial statements.

Patents, research and development expenses. Our patents, research and development expenses consist primarily of compensation and related costs for research and development personnel, expenses for testing facilities and payments under our research agreements. Patents, research and development expenses also include costs associated with the acquisition and development of patents, which have been expensed subsequent to December 1999. See Note 1(e) to the financial statements.

Legal expenses. Our legal expenses consist of fees paid to our outside counsel for various legal matters dealt with in the ordinary course of business as well as legal fees associated with patent applications and for the defense of patents.

Consulting fee expenses. Our consulting fee expenses consist primarily of directors fees and other consultancy fees paid to scientists.

Employee benefits expenses. Employee benefit expenses consist primarily of payments to employees for their services as employees, including our Chief Executive Officer.

Foreign exchange loss. Foreign exchange loss includes the net unrealized gain or loss on cash balances held in foreign currencies as well as net realized gains and losses on foreign currency transactions.

Impairment of intangible assets. Each reporting period, our Board of Directors reviews the carrying value of each non-current asset to ensure its carrying value does not exceed its recoverable amount. Where the carrying amount of the asset is greater than its recoverable amount, the asset is revalued down to its recoverable amount and an impairment charge is recorded.

Corporate compliance expenses. Corporate compliance expenses consist primarily of costs incurred by us to satisfy the requirements under Australian and U.S. listing and accounting standards. Costs include items such as share register fees, listing fees, audit fees and accounting and administration costs attributed to corporate compliance.

Other expenses from ordinary activities. Other expenses from ordinary activities consist primarily of accounting and administrative services, travel, insurance, marketing and overhead expenses.

Results of Operations

Year ended June 30, 2005 compared to year ended June 30, 2004

Revenues from ordinary activities

Revenues from ordinary activities increased to $2,653,113 for the year ended June 30, 2005 from $2,321,227 for the year ended June 30, 2004, an increase of $331,886, or 14.3%. Revenues in the year ended June 30, 2005 consisted of $892,135 interest income, $629,692 government grant income, and $1,125,000 received under the licensing and research collaboration we entered into with Schering A.G. and Neurosciences Victoria Ltd. in March 2003. Revenues in the year ended June 30, 2004 consisted of $211,327 interest income, $647,400 government grant income, and $1,462,500 received under the licensing and research collaboration we entered into with Schering A.G. and Neurosciences Victoria Ltd. in March 2003. The increase in revenues is attributable to a $680,808 increase in interest income arising from the funds we received in June 2004 in connection with our US$20 million private placement of securities in the United States. This increase was partially offset by a $337,500 reduction in revenue from Schering A.G. and Neurosciences Victoria Ltd, due to the completion of one of the contracts in connection with our collaboration with Schering A.G and Neurosciences Ltd in June 2004. We estimate that our revenues in the 2006 fiscal year will consist of approximately $700,000 of interest income and $115,855 of government grant income.

Depreciation and amortization expenses

Depreciation and amortization expenses remained substantially consistent at $1,165,227 for the year ended June 30, 2005 compared to $1,195,006 for the year ended June 30, 2004.

Each reporting period, the Board of Directors reviews the carrying value of each non-current asset to ensure its carrying value does not exceed its recoverable amount. Where the carrying amount of the asset is greater than its recoverable amount, the asset is revalued down to its recoverable amount. On June 30, 2005, the Board of Directors reviewed the assets and determined to write-off all of the core intellectual property relating to PBT-1 which resulted in a charge of approximately $10.4 million.

Patents, research and development expenses

Patents, research and development expenses increased to $7,687,596 for the year ended June 30, 2005 from $5,232,581 for the year ended June 30, 2004, an increase of $2,455,015, or 46.92%. The increase in expenses is attributable to an increase in pre-clinical and clinical trial costs, as we accelerated the research of PBT-1 and PBT-2. We expect that our patents, research and development expenses will increase in the 2006 fiscal year to approximately $8.5 million, primarily due to further clinical trials and introducing new candidates for development.

Legal expenses

Legal expenses decreased to $1,047,448 for the year ended June 30, 2005 from $1,650,467 for the year ended June 30, 2004, a decrease of $603,019, or 36.54%. The decrease in legal expenses was primarily due to the settlement of the dispute with P.N. Gerolymatos S.A. for which a provision of $971,764 was made in the 2004 fiscal year. As a result of the settlement, our legal fees in respect of the action declined by $94,938. This reduction were partially offset by the increase in the legal fees of $189,966 associated with Securities and Exchange Commission compliance following the filing of a registration statement in connection with the June 2004 private placement in the United States. In fiscal year 2005 legal fees in respect of employment matters also increased by $58,027 and our intellectual property expenses increased by $210,215.

Employee benefits expense

Employee benefits expenses increased to $2,438,303 for the year ended June 30, 2005 from $1,060,730 for the year ended June 30, 2004, an increase of $1,377,573, or 129.87%. The increase in employee benefits expenses was primarily due to the increase in staff from 12 employees at June 30, 2004 to 17 employees at June 30, 2005. The increase in staff in the 2005 fiscal year was due to the acceleration of our research and development for our principal product candidate PBT-2 during such period, and the establishment of our office in the United States. The increase in the number of employees also affected our costs associated with their employment (such as taxes on salaries). Employee benefits expenses also increased in the 2005 fiscal year because Dr. Jonas Alsenas, who served as our Chief Executive Officer from March 2004 to June 2005, was paid for the majority of the 2005 fiscal year unlike the previous fiscal year in which he was compensated only for the last quarter. Mr. Alsenas received compensation of $696,358 (excluding equity) through June 16, 2005, when he resigned as our Chief Executive Officer and director.

Consulting fee expenses

Consulting fee expenses decreased to $1,607,892 for the year ended June 30, 2005 from $1,706,809 for the year ended June 30, 2004, a decrease of $98,917, or 5.80%. The decrease in consulting fees was primarily due to a reduction in consulting fees paid to directors for additional consulting services in 2004, amounting to $246,860. The fees paid to our research and development consultants declined by $27,963 in the 2005 fiscal year. This decrease was partially offset by $60,000 paid to the Company Secretary. A new consultant was also engaged in the United States to whom we paid $115,906 in the 2005 fiscal year.

Corporate compliance expenses

Corporate compliance expenses increased to $562,123 for the year ended June 30, 2005 from $419,708 for the year ended June 30, 2004, an increase of $142,415, or 33.93%. The

increase in corporate compliance expenses is attributable to additional Securities and Exchange Commission filing requirements following the filing of the registration statement in connection with the June 2004 private placement in the United States and additional listing fees.

Foreign exchange losses

Foreign exchange losses increased to $1,362,572 for the year ended June 30, 2005 from $182,768 for the year ended June 30, 2004, an increase of $1,179,804, or 645.52%. The increase in foreign exchange losses in the 2005 fiscal year is attributable to the significant increase in foreign currency funds because the funds that we received in connection with our June 2004 private placement in the United States were held in U.S. dollars.

Impairment of intangible assets

Impairment of intangible assets was $10,388,339 for the year ended June 30 2005. This was a one off non-cash expense incurred as a result of the consolidated entity's decision to impair the core intellectual property carrying value to nil fair value based on expected future discounted cash flows. The impairment occurred following the announcement in April 2005 regarding the cessation of the PBT-1 clinical trial due to toxicity issues and the decision to continue research into PBT-2 as the lead compound. The core intellectual property related primarily to externally acquired patents for PBT-1.

Other expenses from ordinary activities

Other expenses from ordinary activities increased to $1,402,210 for the year ended June 30, 2005 from $758,772 for the year ended June 30, 2004, an increase of $643,438, or 84.8%. The increase in expenses from ordinary activities is primarily due to an increase in office overheads of $141,863 associated with the establishment of an office in the United States in August 2004 and the travel expenses between the United States and Australia of $141,863 by the consolidated entity's U.S. based director and Chief Executive Officer prior to his resignation in June 2005. Other expenses also increased due to the increased cost of insurance associated with clinical trials of $40,530 and the increase in the cost of directors and officers insurance by $96,304. We also incurred additional marketing costs of $212,461 when consultants were engaged in the United States following the June 2004 private placement. Our office occupancy cost in Australia also increased by $85,682.

Year ended June 30, 2004 compared to year ended June 30, 2003

Revenues from ordinary activities

Revenues from ordinary activities increased to $2,321,227 for the year ended June 30, 2004 from $1,816,478 for the year ended June 30, 2003, an increase of $504,749, or 27.8%. Revenues in the year ended June 30, 2004 consisted of $211,327 interest income, $647,400 government grant income, and $1,462,500 received under the licensing and research collaboration that we entered into with Schering A.G. and Neurosciences Victoria Ltd. in March 2003. Revenues in the year ended June 30, 2003 consisted of $111,686 interest income, $967,000 government grant income, $231,304 reimbursements attributable to an agreement with the Bank of New York (under which 50% of the costs associated with the NASDAQ listing were reimbursed) and $506,250 under our licensing and research collaboration with Schering A.G. and Neurosciences Victoria Ltd. The increase in revenues is attributable to our collaboration with Schering A.G. and Neurosciences Victoria Ltd. which was in force during the entire 2004

fiscal year, as well as the increase in interest income arising primarily from the funds we received in June 2004 in connection with our US$20 million private placement.

Depreciation and amortization expenses

Depreciation and amortization expenses remained substantially consistent at $1,195,006 for the year ended June 30, 2004 compared to $1,185,973 for the year ended June 30, 2003.

Patents, research and development expenses

Patents, research and development expenses increased to $5,232,581 for the year ended June 30, 2004 from $1,861,295 for the year ended June 30, 2003, an increase of $3,371,286, or 181.1%. The increase in expenses is attributable to expenses of $1,873,125 incurred in connection with the licensing and research collaboration we entered into with Schering A.G. and Neurosciences Victoria Ltd. and pre-clinical trial fees of $1,984,181 in connection with the new government START grant that commenced in September 2003. See Item 5C. "Operating and Financial Review and Prospects – Research and Development, Patents and Licenses."

Legal expenses

Legal expenses increased to $1,650,467 for the year ended June 30, 2004 from $848,660 for the year ended June 30, 2003, an increase of $801,807, or 94.5%. The increase in legal expenses was primarily due to the settlement of the dispute with P.N. Gerolymatos S.A for which a provision of $971,764 was made in the 2004 fiscal year.

Employee benefits expense

Employee benefits expenses increased to $1,060,730 for the year ended June 30, 2004 from $760,980 for the year ended June 30, 2003, an increase of $299,750, or 39.4%. The increase in employee benefits expenses was primarily due to an increase in staff from six persons to 12 persons. The increase in staff in fiscal 2004 was due to the increase of research and development for our new lead product candidate PBT-2 during such period, in addition to our earlier product PBT-1, and our move towards commercialization.

Consulting fee expenses

Consulting fee expenses increased to $1,706,809 for the year ended June 30, 2004 from $567,730 for the year ended June 30, 2003, an increase of $1,139,079, or 200.6%. The increase in consulting fee expenses was primarily due to a $777,721 increase in fees paid (in cash, shares and options) to Professor Ashley Bush under his new contract (see Item B. "Operating and Financial Review and Prospects – Liquidity and Capital Resources") as well as an increase in directors' fees. In the 2003 fiscal year we engaged the outside expertise of Mercer Human Resources to determine the appropriate level of compensation for directors. This resulted in an increase in directors' fees of $467,746 (consisting of part cash and 249,999 ordinary shares valued at $120,000) during the year ended June 30, 2004 to bring the directors fees into line with industry standards. These increases are partially offset by a $106,388 decrease in consulting fees paid to other various consultants in the year ended June 30, 2004, primarily due to a decrease in the activities of our scientific advisory board and scientific commercial optimization group, the latter of which was disbanded in 2003 because it was not providing our company the advice it required, and in the 2003 fiscal year we received services from a number of one-off consultants that were longer required in fiscal 2004.

Corporate compliance expenses

Corporate compliance expenses remained substantially consistent at $419,708 for the year ended June 30, 2004 compared to $395,604 for the year ended June 30, 2003.

Foreign exchange losses

Foreign exchange losses increased to $182,768 for the year ended June 30, 2004 from $12,481 for the year ended June 30, 2003, an increase of $170,287, or 1,364.37%. The increase in foreign exchange losses in the 2004 fiscal year is attributable to the significant increase in foreign currency funds because the funds that we received in connection with our June 2004 private placement in the United States were held in U.S. dollars.

Other expenses from ordinary activities

Other expenses from ordinary activities remained substantially consistent at $758,772 for the year ended June 30, 2004 compared to $768,593 for the year ended June 30, 2003.

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.

B. LIQUIDITY AND CAPITAL RESOURCES

We are a development stage company and have had no sales income to date, and as of June 30, 2005 our accumulated deficit totaled $50,473,473. From inception until our initial public offering in March 2000 we financed our operations primarily through borrowings from two of our 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.

In March 2003, we completed the conversion of our 7,289,310 outstanding listed options into ordinary shares. As a result of the conversion, we received approximately $3.5 million in net proceeds, which were added to our working capital.

In September 2003, we raised an additional approximately $4.7 million, net of issuance costs, through a private placement of 7.1 million ordinary shares to institutional and accredited investors at a subscription price of $0.70 per share.

In April 2004, we raised approximately US$20 million before issuance costs ($26.4 million net of issuance costs) in a private placement in the United States, which was held in escrow pending receipt of the requisite approval of the transaction by our shareholders that was obtained on June 1, 2004. The private placement was for 4,000,000 ADRs to institutional and professional investors at a price of US$5.00 per ADR. The private placement also involved the acquisition by the investors of five-year warrants to purchase an additional 3,000,000 ADRs at an exercise price of US$8.00 per ADR. Should these warrants be exercised in full, we would raise an additional US$24 million. To date, no warrants have been exercised.

In December 2004, we raised approximately $4.7 million, net proceeds through the exercise of options to purchase 9,506,666 ordinary shares having an exercise price of $0.50 per share.

We had $21,453,304 of cash and cash equivalents at June 30, 2005, compared to $29,580,398 at June 30, 2004.

Net cash used in operating activities was $11,418,813, $5,347,420 and $3,590,613 during the years ended June 30, 2005, 2004 and 2003, respectively. Our payments to suppliers and employees during the years ended June 30, 2005, 2004 and 2003 were $13,959,679, $7,896,711 and $5,271,577 respectively. The increase in payments from the year ended June 30, 2004 to the year ended June 30, 2005 was due to the acceleration of the research and development for our PBT-1 and PBT-2 product candidates. During the years ended June 30, 2005, 2004 and 2003, our payments to suppliers and employees were offset by government grants of $532,283, $909,946 and $836,575, respectively, and interest income of $883,583, $176,845 and $106,835, respectively. Additionally, during the years ended June 30, 2005, 2004 and 2003, our payments to suppliers and employers were further offset by $1,125,000, $1,462,500 and $506,250, respectively, for research funding attributable to our collaboration with Schering A.G. and Neurosciences Victoria Ltd.

Net cash used in investing activities was $50,466 during the year ended June 30, 2005 and $134,362 during the year ended June 30, 2004 and $87,929 during the year ended June 30, 2003. The higher expenditures in the 2004 fiscal year compared to other years is primarily the result of fit-out costs associated with the move to our new offices in Parkville, Victoria, Australia in 2004.

Net cash provided by financing activities was $4,704,757, $31,781,165 and $3,569,792 during the years ended June 30, 2005, 2004 and 2003, respectively. Cash flows from financing activities during the year ended June 30, 2005 reflected the exercise of options into ordinary share capital. Cash flows from financing activities during the year ended June 30, 2004 reflected net proceeds of $4,675,019 from a private placement in September 2003, net proceeds of $26,352,147 from a private placement of our ADRs to institutional and professional investors in the United States in June 2004 and net proceeds of $757,166 from the exercise of our publicly traded options. Cash flows from financing activities during the year ended June 30, 2003 reflected the exercise of options into ordinary share capital.

From inception to June 30, 2005, our capital expenditures have totaled $556,989, 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 being depreciated on a straight-line basis over the estimated useful lives of three to 14 years, with a net balance at June 30, 2005 of $166,214. 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.

As of June 30, 2005, our principal commitments consisted of obligations under our agreements with Professor Ashley Bush and Mr Geoffrey Kempler. Under the ten year contract we entered into with Professor Ashley Bush in January, 2004, effective as of February 1, 2003, 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. We also agreed to issue to Professor Bush 1,650,000 ordinary shares (of which 825,000 were issued during the 2004 fiscal year) and 825,000 were issued in August 2005 and to grant Professor Bush options to purchase

825,000 ordinary shares at an exercise price $0.50 per share (of which options to purchase 412,000 ordinary shares were granted during the 2004 fiscal year and 413,000 were granted in August 2005). On June 15, 2005, we entered into an agreement with Geoffrey Kempler in connection with his appointment as our Chief Executive Officer. Under this contract, we agreed to pay Mr. Kempler $367,000 per annum plus superannuation, a $100,000 bonus upon satisfactory completion of a successful Phase I trial for PBT-2 and an additional $100,000 upon satisfactory completion of a proof of study concept study for PBT-2. Under the agreement with Mr. Kempler, we are required to continue to remunerate him in accordance with its terms until June 1, 2010 if he terminates the contract for good reason or the consolidated entity terminates it without cause.

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 PBT-1. 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 have been 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 clioquinol in Japan, while 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 are being 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 $971,764 was expensed in fiscal year 2004 (see Note 9 to the financial statements). Under the settlement agreement we also agreed to pay a sales royalty to P.N.G on sales of PBT-1 in the United States and Japan and we are entitled to receive a percentage of P.N.G.'s income on sales of PBT-1 in the other territories. In April 2005, we announced to the market our decision not to proceed with supporting the initiation of the PLACQUE study evaluating PBT-1.

We also have a commitment under a three year lease for our principal office that we moved to in June 2004. The total lease commitment over the three year period is $306,781.

We believe our existing cash and cash equivalents as well as anticipated cash flow from government grants, a licensing and research collaboration agreement and potential option exercises will be sufficient to support our current operating plan to November 30, 2006; however, we have based this estimate on assumptions that may prove to be incorrect. Our future funding requirements will depend on many factors, including, but not limited to:

- costs and timing of obtaining regulatory approvals;
- the costs and timing of obtaining, enforcing and defending our patent and intellectual property;
- the progress and success of pre-clinical and clinical trials of our product candidates; and
- the progress and number of our research programs in development.

In March 2005, we commenced a series of Phase I clinical trials for our principal product candidate PBT-2 at a facility associated with the Utrecht University Hospital in Utrecht, the Netherlands. The Phase I program for PBT-2, comprising of several studies, is expected to continue through the remainder of 2005 and into 2006. The anticipated expenditures for the Phase I program for PBT-2 are $700,000, however such expenditures may adjust based on a variety of factors. For information on such factors, see Item C. "Research and Development, Patents and Licenses." We expect to fund such expenditures from our working capital.

We anticipate that we will require substantial additional funds in order to achieve our long-term goals and complete the research and development of our principal pharmaceutical product candidate. In addition, we will require additional funds to pursue regulatory clearances, and defend our intellectual property rights, establish commercial scale manufacturing facilities, develop marketing and sales capabilities and fund operating expenses. We intend to seek such additional funding through public or private financings and/or through strategic alliances or other arrangements with corporate partners. We cannot, however, be certain that such additional financing will be available from any sources on acceptable terms, or at all, or that we will be able to establish new strategic alliances or other arrangements with corporate partners on acceptable terms, or at all. Any shortfall in funding could result in our having to curtail our operations, including our research and development activities, which could have a material adverse effect on our business, financial condition and results of operations.

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.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Our primary activity since incorporation in 1997 has been the acquisition and development of patents as well as research and development of our core technology. Research and development expenses amounted to $7,687,596, $5,232,581 and $1,717,770 during the years ended June 30, 2005, 2004 and 2003, respectively. In addition to these expenses, $143,525 was spent in relation to patent costs during the year ended June 30, 2003. We did not incur any costs classified as patent costs during the year ended June 30, 2005 or 2004. Costs associated with patent applications and defense of patent applications are classified as legal expenses.

Our patents, research and development expenses consist primarily of compensation and related costs for research and development personnel, expenses for testing facilities and payments under our research agreements. Research and development expenses also include costs associated with the acquisition and development of patents subsequent to December 1999. We do not maintain accounting systems to accurately track research and development costs on an individual project basis because a significant portion of our historic research and development expenses benefited our two major research and development projects, and therefore were not tracked individually by project; rather, we tracked these costs by the type of costs incurred. Such costs are charged to operations as incurred. See Note 1(e) to the financial statements.

The development of a clinical compound includes a number of steps and phases, including pre-clinical and clinical testing. Despite best efforts to plan and manage research and development, the actual timing and cost for completion of each step involved in the development of a clinical compound depends on many factors. The decision to proceed to the next step of a

multi-stage development program is based on the outcome of multiple variables of any current stage and previous stages (including tolerability, specific toxicities, overall safety, pharmacokinetics and efficacy) and may be influenced by outside factors (including the competitive commercial environment and regulatory environment). Government or regulatory authorities, clinicians and other experts may, following their review of the results of a previous step, require that an initial development program be included or revised in order to strengthen the safety, efficacy and/or commercial understanding and potential of the compound, which could result in changes in the cost, duration, prioritization and even outcome of a development program. Furthermore, the required duration of treatment in clinical trials has an impact on the duration of a development program for a therapeutic agent and can vary considerably, from less than a month (for example, antibiotics) to several years (for example, treatments requiring long-term outcome measures). An appropriate duration of treatment in clinical trials with our metal protein attenuating compounds (MPACs) is yet to be confirmed and will depend on future clinical results, as well as discussions with regulatory authorities. Once the duration of such treatment has been determined, the question whether the development stages must be undertaken sequentially or may be undertaken in parallel can be addressed. 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.

In March 2003, we announced our first major licensing and research collaboration with Schering A.G., a major international pharmaceutical company, and Neurosciences Victoria Ltd. Under such collaboration, Schering A.G. provided us funding of up to $2.7 million over the life of specified research and development projects.

We have also identified and provisionally patented a novel target for an Alzheimer's vaccine. We have collaborated with Prima Biomed Ltd., a publicly traded Australian biotech company, and used the resources of the Austin Research institute, the University of Melbourne and the Mental Health Research Institute to pursue this therapeutic approach. The research investigated the feasibility of developing a passive vaccine to prevent the onset or progression of Alzheimer's. The research investigated the possibility of stimulating the immune system of a mouse to selectively produce specific antibodies which target the "toxic linked" forms of beta amyloid (not 'normal' beta amyloid) associated with the pathology of the disease, as an effective Alzheimer's treatment. The Commonwealth of Australia government provided a $227,252 BIF grant for this proof of concept work. The grant finished at the end of January 2005 following the completion of milestones. We are pursuing a contractual agreement with Prima Biomed Ltd. to undertake the characterization and scale up of prospective antibody candidates for testing in future mouse passive vaccine trials.

We announced on July 26, 2001 that we were granted a START grant from the Australian IR&D Board in the amount of $1.74 million to expand our core intellectual property for drug treatment of neuro-degenerative diseases. Under the terms of the grant we received $1.4 million during the three year period commencing January 1, 2001, for up to 50% of the project costs related to our development of a treatment for Alzheimer's disease. The grant was payable on the achievement of each of six milestones and we received the final payment under the START grant in October 2003.

We announced on February 18, 2004 that we were granted a second START grant from the Australian IR&D Board in the amount of $1.35 million to take our second generation drug candidate for Alzheimer's disease, PBT-2, through safety testing and Phase I clinical trials.

Under the terms of the grant we are to receive $1.35 million during the two year period commencing September 1, 2003, for up to 50% of the project costs related to the toxicology testing program and early human trials. The second START grant completed advance toxicology in December 2004, commenced Phase 1 clinical trials in March 2005 and is expected to conclude the Phase 1 trials in December 2005. At June 30, 2005, we had claimed $1.07 million under this grant. The quarterly report for the period ending September 2005 is yet to be filed.

On May 7, 1999, we entered into a patent assignment and license agreement with the University of Melbourne. The agreement provided for the assignment of various patents and patent rights to us. In consideration of the assignment of the patents, we were required to make certain payments to the University of Melbourne and to pay a royalty of 1.5% on the net price of products sold utilizing such patents. In addition we must also pay the lesser of 1.5% of the net invoice price of products sold or 10% of royalties received from any license or sub-licensee we appoint to utilize the patents.

Under the terms of a research funding and intellectual property assignment agreement dated December 1, 2000 between us and the University of Melbourne, we were required to pay the University for research projects an agreed minimum of $297,000 (inclusive of goods and services tax), each year for a period of three years from December 1, 2000. Since the expiration of this agreement, the parties have entered into a second research funding and intellectual property assignment agreement, which is deemed to have commenced from the natural expiry of the previous agreement and expires in December 2006. The agreement provides for an annual determination of the research budget. During the period from July 2004 to June 2005, we provided $600,000 (exclusive of goods and service tax) to the University of Melbourne. We also provided the University of Melbourne an additional $1,012,500 during the 2005 fiscal year in research funding in connection with our licensing and research collaboration with Schering A.G. and Neurosciences Victoria Ltd.

On February 8, 2000, we entered into a patent assignment agreement with The Biomolecular Research Institute, or BRI. The agreement provides for the assignment of various patent applications and patent rights from BRI to us. 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.

Under the terms of a license agreement between us and The General Hospital Corporation of Massachusetts, or GHC, we were required to pay GHC a total of US$166,590 for the 30 month period beginning January 1, 2001 and US$182,000 for a period of 30 months from August 1, 2001 for the right to use the results of research under a license for certain patent rights. These obligations have subsequently been satisfied.

On January 1, 2001, we entered into another license agreement with GHC, whereby we obtained an exclusive license with respect to certain patents and permits us to sublicense the patent rights to others. In consideration of the license we are required to pay GHC royalties of 1.5% of the net sales price of products sold utilizing patents exclusively licensed to us. On March 15, 2004, the exclusive license was amended so that we are required to pay GHC the royalties payable to it for any future exploitation of rights to certain U.S. patents relating to PBT-1 regardless of the inventorship determination, as required under the settlement agreement among us, P.N.G. and GHC.

Under the terms of our strategic alliance agreement with Kendle Pty Ltd., or Kendle, Kendle provides us with consultancy services in relation to the coordination, planning and

management of intellectual property, research and development, planning, management and commercialization strategy. Kendle provides its services to us at an hourly rate ranging from $70 to $210 an hour, depending on the seniority of the consultant. For the years ended June 30, 2005, 2004 and 2003, fees earned by Kendle amounted to $1,107,266, $379,045 and $475,289 respectively. These fees are included in our statements of financial performance as consulting fees.

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 and commercial commitments as of June 30, 2005 and the effect we expect them to have on our liquidity and cash flow in future periods.

Contractual Obligations	Payments due by period				
	Total	less than 1 year	1-3 years	3-5 years	more than 5 years
Operating lease obligations.....	$ 204,257	$106,569	$ 97,688	$ --	$ --
Purchase obligations *	3,139,305	685,128	1,606,481	$635,191	212,505
Total	$3,343,562	$791,697	$1,704,1,69	$635,191	$212,505

* Includes obligations under our contracts with Professor Ashley Bush and Mr. Geoffrey Kempler. See Item B. "Liquidity and Capital Resources" and Note 14 to the financial statements

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-116232 on Form F-3 of our report dated September 30, 2005, relating to the consolidated financial statements of Prana Biotechnology Limited as of June 30, 2005 and 2004 and for each of the three years in the period ended June 30, 2005, appearing in this Report on Form 6-K of Prana Biotechnology Limited for the month of September 2005.

/s/Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Melbourne, Victoria, Australia

September 30, 2005

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Prana Biotechnology Limited

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

Date: September 30, 2005