PRANA
BIOTECHNOLOGY
Limited

ACN 080 699 065

Appendix 4E
Preliminary Financial Report

for the year ended 30 June 2006

(and previous corresponding period: year ended 30 June 2005)

given to ASX under Listing Rule 4.3A

Appendix 4E for the Year Ended 30 June 2006

Results for announcement to the market

Current Reporting Period - Year Ended 30 June 2006
Previous Reporting Period - Year Ended 30 June 2005

Revenue	down	14.58%	to	$762,023
Net loss for the year	down	27.18%	to	($11,719,309)

Dividends (distribution)	Amount per Security	Franked Amount per Security
Final dividend	n/a	n/a
Previous corresponding period	n/a	n/a

Net Tangible Asset per Security (cents per security)

As at 30 June 2006	6.81
As at 30 June 2005	15.39

Record date for determining entitlements to the dividend, (in the case of a trust, distribution)	n/a

Explanation of the above information:

Refer to the Review of Operations.

COMMENTARY ON RESULTS

Your directors submit the preliminary final report of the consolidated entity for the year ended 30 June 2006.

Directors
The names of directors who held office during or since the end of the year:

Mr Geoffrey Kempler	Executive Chairman and Chief Executive Officer	
Prof. Colin Masters	Executive Director	
Mr Brian Meltzer	Non-Executive Director	
Dr George Mihaly	Non-Executive Director	
Mr Peter Marks	Non-Executive Director	Appointed 29 July 2005

Review of Operations

<u>Status Update (July 2005 – June 2006):</u>

<u>Drug Development and Research</u>

• *<u>PBT2.</u>* *Prana's Lead proprietary MPAC molecule:*

• An ICH compliant preclinical toxicology package to support clinical trials has been successfully completed.

• Chronic preclinical toxicology studies in two animal species have been completed to support long-term treatment in patients.

• Two Phase I Clinical trials (both single and multiple doses) in healthy male and female, young and elderly patients have been completed.

• Planning for Phase II clinical trials have initiated.

• *PBT2.* *Animal models for studying the mechanism of drug action:*

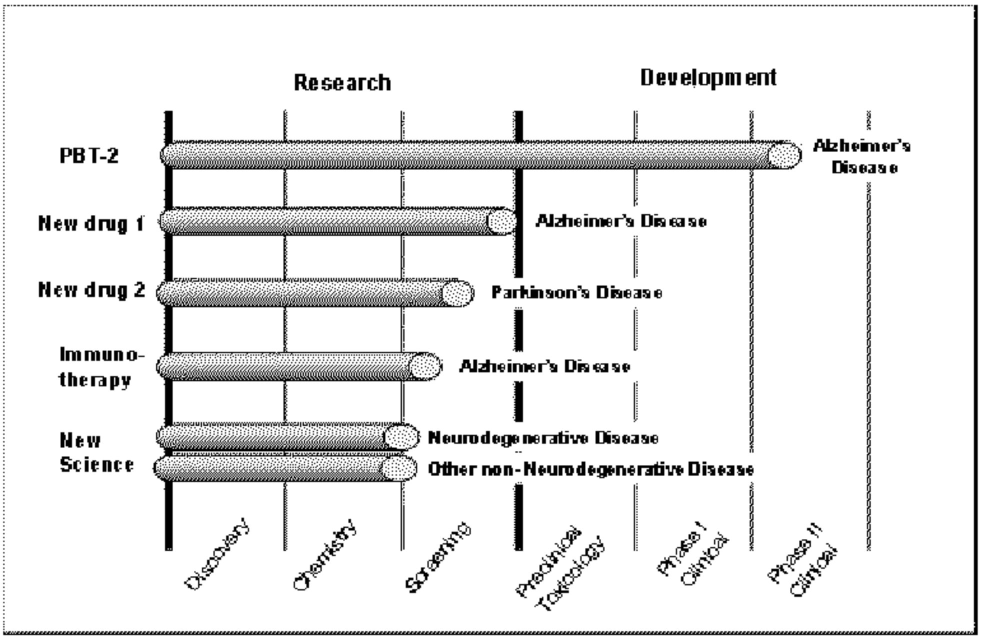
Previously PBT2 has demonstrated the ability to lower soluble levels of β-amyloid protein and insoluble β-amyloid plaques in the brains of transgenic 'Alzheimer's mice'. Recent research on the mode of action of PBT2 showed that this ability of PBT2 to lower the burden of β-amyloid occurs very rapidly, initial results demonstrating an estimated 60% reduction in soluble β-amyloid within 24 hours. The scientific literature has shown that oligomers (aggregates) of β-amyloid secreted by brain cells degrade communication across the synaptic junctions between neurons. This is observed as inhibition of "Long Term Potentiation (LTP)", a measure of the ability of brain cells to form memories. Our research group has demonstrated that PBT2 can substantially protect neurons from the toxic effect of these oligomers of β-amyloid.

Furthermore, the significance of the rapid effects of PBT2 on brain β-amyloid has been demonstrated most recently in studies undertaken with a mouse model of cognition called the Morris Water Maze. Within 5 days of treatment with PBT2 the time taken for the Alzheimer's mice to remember the location of a submerged hidden platform was sharply reduced relative to untreated mice. This improved spatial memory is an important indicator of PBT2's ability to improve cognitive function.

• *Alzheimer's Disease Immunotherapy:*

Prana is planning to develop a passive vaccine to test in transgenic Alzheimer mice. The strategy involves the selection of a monoclonal antibody (Monoclonal antibodies are antibodies that are identical to each other because they are produced or cloned from the one type of immune B-cell, they recognise the same antigen) which selectively recognises and targets only the 'toxic linked' oligomeric forms of β-amyloid and not the benign monomers of β-amyloid. Initial results show that we have a promising proprietary vaccine strategy to develop.

• *Chemistry and Discovery program:* Chemical design and synthesis has progressed well to expand Prana's MPAC (metal protein attenuating compounds) chemical library to generate an additional fifty 'next generation compounds' (non 8- hydroxyquinoline) compounds for Alzheimer 's Disease over the last year, with the total MPAC library exceeding 400 compounds Further, this library of new compounds is being validated for other neurodegenerative disorders including Huntington's Disease and Parkinson's Disease.



• *Intellectual Property developments:*

Prana adopts an aggressive intellectual property strategy under which it has developed protection of its platform technology and drug assets through broad strategic "composition of matter" patents designed to limit opportunities for competition.

• Two International patent applications; the first directed to the 8-hydroxyquinoline MPAC chemical class and the second, to several 'follow up' next generation MPAC chemical classes progressed from International (PCT) Phase to national phase before an extensive number of international patent offices, both are pending prosecution.

• A further third patent application directed to a selected 'follow up' next generation MPAC chemical class is soon to complete International (PCT) phase.

• A patent application directed to an 8-hydroxyquinoline for specific (non Alzheimer Disease) cognition related disorders has completed International (PCT) phase and now awaits national phase prosecution in the United States, Europe, China and Australia.

• Two Australian provisional patent applications were lodged during the year capturing new disease indications for MPAC's.

• A patent application exclusively licensed from Massachusetts General Hospital (MGH) has been allowed in Australia. It is directed to an immunotherapy treatment for Alzheimer's Disease by administering a specific beta-amyloid component found in oligomers to actively immunize patients. The patent also claims a method of passive vaccination of patients using a monoclonal antibody, raised against the beta amyloid target component.

• A patent application also exclusively licensed from MGH, directed to an assay to detect beta-amyloid from biological samples was granted in Australia.

• A patent application was granted in Australia, directed to compounds for the treatment of Alzheimer's Disease, which target and block the N–terminal metal binding site of beta-amyloid.

• In the United States, a patent (licensed from MGH) was granted, directed to the use of selected (non MPAC) metal chelators, for the treatment of amyloidosis.

• Publications:
Over 20 key publications and articles submitted for inclusion in key International peer reviewed journals.

Mr Geoffrey Kempler
Executive Chairman and Chief Executive Officer
7 September 2006

INCOME STATEMENT
for the year ended 30 June 2006

	Note	CONSOLIDATED (unaudited) 30 June 2006 $	30 June 2005 $
Revenues		762,023	892,135
Other Income		288,263	1,760,978
Research and Development Expenses		(7,613,045)	(7,687,596)
Personnel Expenses		(3,418,008)	(5,750,929)
Intellectual Property Expenses		(466,426)	(729,583)
Auditor Fees		(205,815)	(202,032)
Travel Expenses		(212,184)	(432,316)
Public Relations and Marketing Expenses		(134,750)	(442,920)
Depreciation Expenses		(118,196)	(65,223)
Amortisation Expenses		-	(83,200)
Other Expenses		(824,625)	(1,204,930)
Foreign Exchange Gain/(Loss)		223,454	(1,362,572)
Impairment of Intangible Assets		-	(786,240)
NET (LOSS) BEFORE INCOME TAX EXPENSE		(11,719,309)	(16,094,428)
INCOME TAX EXPENSE		-	-
NET (LOSS) FOR THE YEAR		(11,719,309)	(16,094,428)
BASIC LOSS PER SHARE (cents per share)	3	(9.15)	(13.11)
DILUTED LOSS PER SHARE (cents per share)	3	(9.15)	(13.11)

The accompanying notes form part of these financial statements.

BALANCE SHEET
as at 30 June 2006

	Note	CONSOLIDATED (unaudited) 30 June 2006 $	30 June 2005 $
CURRENT ASSETS			
Cash and Cash Equivalents	4(b)	10,013,778	21,453,304
Trade and Other Receivables		194,161	174,476
Other Current Assets		110,832	495,165
TOTAL CURRENT ASSETS		10,318,771	22,122,945
NON-CURRENT ASSETS			
Plant and Equipment		102,375	166,214
TOTAL NON-CURRENT ASSETS		102,375	166,214
TOTAL ASSETS		10,421,146	22,289,159
CURRENT LIABILITIES			
Trade and Other Payables		1,538,358	2,571,181
Provisions		76,672	78,602
TOTAL CURRENT LIABILITIES		1,615,030	2,649,783
NON-CURRENT LIABILITIES			
Provisions		76,766	45,200
TOTAL NON-CURRENT LIABILITIES		76,766	45,200
TOTAL LIABILITIES		1,691,796	2,694,983
NET ASSETS		8,729,350	19,594,176
EQUITY			
Issued Capital	5	55,097,675	54,662,445
Reserves	6	2,867,249	2,447,996
Accumulated Losses	7	(49,235,574)	(37,516,265)
TOTAL EQUITY		8,729,350	19,594,176

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2006

CONSOLIDATED
(Unaudited)

	Issued Capital $	Share Based Payments Reserve $	Accumulated Losses $	Total $
Balance at 1.7.04	49,505,493	-	(21,421,837)	28,083,656
Shares issued net of costs	1,011,141	-	-	1,011,141
Options exercised net of costs	4,145,811	-	-	4,145,811
Options issued	-	1,994,433	-	1,994,433
Warrants issued	-	453,563	-	453,563
Net (Loss) for the year	-	-	(16,094,428)	(16,094,428)
Balance at 30.06.05	**54,662,445**	**2,447,996**	**(37,516,265)**	**19,594,176**
Shares issued net of costs	435,230	-	-	435,230
Options issued	-	258,020	-	258,020
Amortisation of option expenses	-	161,233	-	161,233
Net (Loss) for the year	-	-	(11,719,309)	(11,719,309)
Balance at 30.06.06	**55,097,675**	**2,867,249**	**(49,235,574)**	**8,729,350**

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT
for the year ended 30 June 2006

	Note	CONSOLIDATED (unaudited) 30 June 2006 $	30 June 2005 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(12,647,726)	(13,965,965)
Interest received		764,711	883,583
Grants received		231,710	532,283
Neuroscience Victoria monies received		-	1,125,000
Other		90	6,286
NET CASH FLOWS (USED IN) OPERATING ACTIVITIES	4a	(11,651,215)	(11,418,813)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of plant and equipment		375	-
Payments for purchase of plant and equipment		(55,626)	(50,466)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		(55,251)	(50,466)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of shares		-	4,753,333
Payment of share issue costs		(2,020)	(48,576)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		(2,020)	4,704,757
NET (DECREASE) IN CASH HELD		(11,708,486)	(6,764,522)
Cash and Cash Equivalents at beginning of period		21,453,304	29,580,398
Exchange rate adjustments on cash held in foreign currencies		268,960	(1,362,572)
CLOSING CASH AND CASH EQUIVALENTS BALANCE	4b	10,013,778	21,453,304

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2006

Note 1. Summary of Accounting Policies

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensure that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS').

Basis of Preparation

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

In the application of A-IFRS management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

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 consolidated entity changed its accounting polices on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standards AASB 1 *'First-time Adopting of Australian Equivalents to International Financial Reporting Standards'*, with 1 July 2004 as the date of transition. An explanation of how the transition from the superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is disclosed in note 2.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 2), the consolidated entity's date of transition.

Note 1. Summary of Accounting Policies continued

Accounting Policies

a) Principles of Consolidation

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

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

b) Income Tax

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

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

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

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

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

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

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

Note 1. Summary of Accounting Policies continued

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

c) Plant and Equipment

Plant and equipment is measured on the cost basis less accumulated depreciation and impairment.

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

Depreciation
Depreciation is provided on plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life.

The following estimated useful lives are used in the calculation of depreciation:

Class of Fixed Asset	*Depreciation Rate*
Furniture & Fittings	5-33%
Computer Equipment	33%
Plant & Equipment	10-33%
Leasehold Improvements	33%

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

d) Leased Assets

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

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

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

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

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

e) Financial Instruments - Loans and Receivables

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

f) Impairment of Assets

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

Note 1. Summary of Accounting Policies continued

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

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

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

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

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

g) Intangibles - Research and Development

Expenditure during the research phase of a project is recognised as an expense when incurred. Where no internally generated intangible assets can be recognised, development expenditure is recognised as an expense in the period as incurred. Development costs are capitalised if and only if, all of the following are demonstrated:
• the technical feasibility of completing the intangible asset so that it will be available for use or sale;
• the intention to complete the intangible asset and use or sell it;
• the ability to use or sell the intangible asset;
• how the intangible asset will generate probable future economic benefits;
• the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
• the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets, capitalised development costs, are stated at cost less accumulated amortisation and impairment, and are amortised on a straight-line basis over their useful lives over a maximum of 5 years.

h) Foreign Currency Transactions and Balances

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

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

Note 1. Summary of Accounting Policies continued

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

i) Employee Benefits
Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees up to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

j) Provisions

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

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

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

k) Cash and cash equivalents

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

l) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is made up of interest income which is recognised as earned when collectibility is reasonably assured.

m) Other Income

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

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

Note 1. Summary of Accounting Policies continued

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. Income is recognised 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.

n) Share Capital

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

o) Trade and other payables

Trade payables and other payables are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods or services.

p) Share-based payments

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

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

q) Loss per share

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

r) Goods and Services Tax (GST)

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

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

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

Note 2. First-time adoption of A-IFRS

Reconciliation of Equity at 1 July 2004	Note	Superseded Policies at 1 July 2004[1] $	Adjustments on introduction of A-IFRS $	A-IFRS at 1 July 2004 $
		CONSOLIDATED		
CURRENT ASSETS				
Cash and Cash Equivalents		29,580,398	-	29,580,398
Trade and Other Receivables		92,917	-	92,917
Other Current Assets		72,769	-	72,769
TOTAL CURRENT ASSETS		29,746,084	-	29,746,084
NON-CURRENT ASSETS				
Plant and Equipment		180,971	-	180,971
Intangible Assets	b	11,488,343	(10,618,903)	869,440
TOTAL NON-CURRENT ASSETS		11,669,314	(10,618,903)	1,050,411
TOTAL ASSETS		41,415,398	(10,618,903)	30,796,495
CURRENT LIABILITIES				
Trade and Other Payables		2,661,950	-	2,661,950
Provisions		42,597	-	42,597
TOTAL CURRENT LIABILITIES		2,704,547	-	2,704,547
NON-CURRENT LIABILITIES				
Provisions		8,292	-	8,292
TOTAL NON-CURRENT LIABILITIES		8,292	-	8,292
TOTAL LIABILITIES		2,712,839	-	2,712,839
NET ASSETS		38,702,559	(10,618,903)	28,083,656
EQUITY				
Issued Capital		49,505,493	-	49,505,493
Reserves	b	14,661,942	(14,661,942)	-
Accumulated Losses	d	(25,464,876)	4,043,039	(21,421,837)
TOTAL EQUITY		38,702,559	(10,618,903)	28,083,656

[1] Reported financial results as at 30 June 2004

Note 2. First-time adoption of A-IFRS continued

Reconciliation of Equity at 30 June 2005	Note	CONSOLIDATED Superseded Policies at 30 June 2005 [1] $	Adjustments on introduction of A-IFRS $	A-IFRS at 30 June 2005 $
CURRENT ASSETS				
Cash and Cash Equivalents		21,453,304	-	21,453,304
Trade and Other Receivables		174,476	-	174,476
Other Current Assets		495,165	-	495,165
TOTAL CURRENT ASSETS		22,122,945	-	22,122,945
NON-CURRENT ASSETS				
Plant and Equipment		166,214	-	166,214
TOTAL NON-CURRENT ASSETS		166,214	-	166,214
TOTAL ASSETS		22,289,159	-	22,289,159
CURRENT LIABILITIES				
Trade and Other 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				
Issued Capital	a	55,405,707	(743,262)	54,662,445
Reserves	a&b	14,661,942	(12,213,946)	2,447,996
Accumulated Losses	d	(50,473,473)	12,957,208	(37,516,265)
TOTAL EQUITY		19,594,176	-	19,594,176

[1] Reported financial results as at ended 30 June 2005

Note 2. First-time adoption of A-IFRS continued

Reconciliation of Loss for the year ended 30 June 2005	Notes	CONSOLIDATED Superseded Policies [1] $	Adjustments on introduction of A-IFRS $	A-IFRS $
Revenue	e	2,653,113	(1,760,978)	892,135
Other Income	e	-	1,760,978	1,760,978
Research and Development Expenses		(7,687,596)	-	(7,687,596)
Personnel Expenses	a	(4,046,195)	(1,704,734)	(5,750,929)
Intellectual Property Expenses		(729,583)	-	(729,583)
Auditor Fees		(202,032)	-	(202,032)
Travel Expenses		(432,316)	-	(432,316)
Public Relations and Marketing Expenses		(442,920)	-	(442,920)
Depreciation Expenses		(65,223)	-	(65,223)
Amortisation Expenses	b	(1,100,004)	1,016,804	(83,200)
Other Expenses		(1,204,930)	-	(1,204,930)
Foreign Exchange Gain/(Loss)		(1,362,572)	-	(1,362,572)
Impairment of Intangible Assets	b	(10,388,339)	9,602,099	(786,240)
NET (LOSS) BEFORE INCOME TAX EXPENSE		(25,008,597)	8,914,169	(16,094,428)
INCOME TAX EXPENSE		-	-	-
NET (LOSS) FOR THE YEAR		(25,008,597)	8,914,169	(16,094,428)

[1] Reported financial results for the year ended 30 June 2005

Notes to the reconciliation of equity and loss at 1 July 2004 and the financial year ended 30 June 2005

The following explanatory notes relate to the financial statements above and describe the differences between the accounting policies under A-IFRS and the previous treatment of those items under the Superseded Policies.

a. Share based Payments

Under the Superseded Policies, the consolidated entity did not recognise 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 grant date and expensed over the expected vesting period of the options. As permitted under A-IFRS first time adoption, the consolidated entity did not retrospectively recognise share based payments that were granted before 7 November 2002 and share based payments granted after 7 November 2002 that vested before 1 January 2005.

For the financial year ended 30 June 2005, under A-IFRS, reserves increased by $1,704,734 and an additional personnel expense of the same amount was recognised in the Income Statement in relation to the options issued during the year.

Note 2. First-time adoption of A-IFRS continued

Under A-IFRS, a share based payment reserve arises on the grant of share options and warrants. Previously these amounts were allocated to issued capital. At 30 June 2005, $743,262 previously included in issued capital was moved into the share based payments reserve under A-IFRS.

b. Intangible Assets

Under the Superseded Policies the consolidated entity revalued the acquired research and development costs 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 on 1 July 2004, intangible assets decreased by $10,208,582 (net of accumulated amortisation) with an associated decrease in the asset revaluation reserve of $14,661,942 and accumulated losses of $4,453,360.

Under A-IFRS internally generated intangible assets from expenditure on research activities are not recognisable. As a consequence upon transition to A-IFRS on 1 July 2004 intangible assets decreased by $410,321 (net of accumulated amortisation) with a corresponding increase in accumulated losses.

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

Under AASB 1 the consolidated entity has not elected to take the option to fair value the intangible assets at 1 July 2004.

The impact of the above transition adjustments to A-IFRS for the financial year ended 30 June 2005, is that the amortisation expense decreased by $1,016,804 and the impairment of intangible assets decreased by $9,602,099, which reverses a portion of the impairment recorded under the Superseded Policies given that a portion of the asset was already derecognised under A-IFRS. In addition the asset revaluation reserve as at 30 June 2005 decreased by $14,661,942.

c. Financial Instruments

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

	CONSOLIDATED	
	1 July 2004	**30 June 2005**
	$	**$**
d. Accumulated Losses		
The effect of the above adjustments on accumulated losses is as follows:		
Expensing of share based payments (a)	-	(1,704,734)
Derecognition of revaluation (b)	14,661,942	14,661,942
Derecognition of intangible assets (b)	(10,618,903)	-
	4,043,039	12,957,208

e. Revenue

Under the Superseded Policies, the consolidated entity recorded as revenue all of the consolidated entity's inflows. Under A-IFRS, the consolidated entity's revenue represents interest income, with the remaining inflows of the consolidated entity (being government grants and corporate partner revenues) classified as other income. At 30 June 2005, this reduced revenue by $1,760,978 and increased other income by the same amount.

Note 2. First-time adoption of A-IFRS continued

f. Effect of A-IFRS on the Cash Flow Statement
There are no material differences between the Cash Flow Statement presented under A-IFRS and the Cash Flow Statement presented under the Superseded Policies for the year ended 30 June 2005.

Note 3. Loss Per Share

	30 June 2006 cents	30 June 2005 cents
Basic loss per share	(9.15)	(13.11)
Diluted loss per share	(9.15)	(13.11)

The following reflects the income and share data used in the calculations of basic and diluted loss per share.		
Net loss used in calculation of basic and diluted loss per share:	($11,719,309)	($16,094,428)
Weighted average number of ordinary shares on issue during the financial year used in the calculation of basic loss per share:	128,053,601	122,754,061

Options are considered to be potential ordinary shares and are therefore excluded from the weighted average number of ordinary shares used in the calculation of basic loss per share. Where dilutive, potential ordinary shares are included in the calculation of diluted loss per share.

The options on issue do not have the effect to dilute the loss per share. Therefore they have been excluded from the calculation of diluted loss per share.

Note 4. Cash Flow Reconciliation

	30 June 2006 $	30 June 2005 $
(a) Reconciliation of Cash Flows from Operating Activities with Net Loss after Income Tax		
Net Loss after Income Tax	(11,719,309)	(16,094,428)
Non Cash Movements		
* Amortisation	-	83,200
* Depreciation	118,197	65,223
* Non-cash equity issues in consideration of operating expenses	856,503	2,144,191
* Foreign exchange losses	(268,960)	1,362,572
* Loss on sale of non-current asset	893	-
* Impairment of intangible assets	-	786,240
Changes in assets and liabilities		
* (Increase)/decrease in trade and other receivables	(19,685)	(81,559)
* (Increase)/decrease in other current assets	384,333	(422,396)
* Increase/(decrease) in trade and other payables	(1,032,823)	665,231
* Increase/(decrease) in provision for employee entitlements	29,636	72,913
Cash Flows used in Operating Activities	(11,651,215)	(11,418,813)

Note 4. Cash Flow Reconciliation continued

(b) Reconciliation of cash	30 June 2006	30 June 2005
Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to items in the Balance Sheet as follows:	$	$
* Cash at Bank $A	242,698	195,080
* Cash at Bank $US	165,326	585,402
* Cash at Bank GBP	30,495	382,595
* Cash at Bank EUR	245,487	-
* Term Deposit $A	1,051,763	4,622,995
* Term Deposit $US	5,778,009	6,667,232
* Commercial Bill $A	2,500,000	9,000,000
Total Cash and Cash Equivalents	10,013,778	21,453,304

(c) Non-cash Financing Activities
See notes 5 and 6 for details regarding issues of shares, options and warrants to consultants, employees and Directors in lieu of payment for services.

Note 5. Issued Capital

	30 June 2006		30 June 2005	
	No.	$	No.	$
Issued and Paid Up Capital				
Fully Paid Ordinary Shares	128,144,260	55,097,675	127,319,260	54,662,445
Warrants over ADRs	3,000,000	-	3,000,000	-
Total Issued Capital		55,097,675		54,662,445

During the 12 months ending 30 June 2006, 825,000 shares were issued to a consultant.

Note 6. Reserves - Share Based Payments

	30 June 2006		30 June 2005	
	No.	$	No.	$
Reserves - Share Based Payments				
Options over Fully Paid Ordinary Shares	5,752,500	898,252	3,312,000	478,999
Options over ADRs	380,000	1,515,434	380,000	1,515,434
Warrants over ADRs	320,000	453,563	320,000	453,563
Total Reserves - Share Based Payments		2,867,249		2,447,996

During the year ended 30 June 2006, the following options were issued:
* 1,300,000 options were issued to Directors as approved at the 2005 AGM;
* 413,000 options were issued to a consultant;
* 965,000 options were issued to employees;
* 200,000 options expired 1 October 2005; and
* 37,500 options lapsed 1 June 2006.

Note 7. Accumulated Losses

	30 June 2006	30 June 2005
	$	$
Balance at the beginning of the year	(37,516,265)	(21,421,837)
Net loss for the year	(11,719,309)	(16,094,428)
Total Accumulated Losses	(49,235,574)	(37,516,265)

Note 8. Net Tangible Assets

	30 June 2006	30 June 2005
Net Tangible Assets	8,729,350	19,594,176
Shares	128,144,260	127,319,260
Net Tangible Assets (cents)	6.81	15.39

Note 9. Dividends
The Company resolved not to declare any dividends for the year ended 30 June 2006.

Note 10. Segment Information
The Company's activities are predominately within Australia and cover research into Alzheimer's Disease and other major age-related degenerative disorders.

Note 11. Contingent Liabilities
There has been no change in contingent liabilities since the last annual reporting date.

Note 12. Events Subsequent to Reporting Date
No matters or circumstances have arisen since the end of the financial year, which significantly affected or may significantly affect the operations of the consolidated entity, the result of those operations or the state of affairs of the consolidated entity in subsequent financial years.

Note 13. Audit
These accounts are currently in the process of being audited. An Annual Report containing the audit report shall be provided in due course.