



Bontan Corporation Inc.

61,102,500 Shares of Common Stock

This prospectus supplement updates and supplements the prospectus dated September 13, 2011, relating to the resale of up to 61,102,500 shares of our common stock by certain selling stockholders.

This prospectus supplement contains updated information relating to the receipt of escrowed funds, on Form 6-K, which was filed with the U.S. Securities and Exchange Commission on January 17, 2013.

You should read this prospectus supplement in conjunction with the prospectus dated September 13, 2011, including any supplements thereto, which is to be delivered with this prospectus supplement. This prospectus supplement is qualified by reference to the prospectus and any supplements thereto, except to the extent the information in this prospectus supplement supersedes the information contained in the prospectus and any supplements thereto.

Our common stock is quoted on the Over-the-Counter (OTC) Bulletin Board under the symbol "BNTNF." The high and low bid prices for our common stock on the OTC Bulletin Board on January 17, 2013 were US\$0.11 and US\$0.11 per share respectively. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

Investing in our common shares involves a high degree of risk. See "Risk Factors" beginning on page 11 of the prospectus.

Neither the SEC nor any state securities commission has approved or disapproved these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

Prospectus Supplement dated January 18, 2013

Form 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

For the month of January, 2013
Commission File Number 0-30314

BONTAN CORPORATION INC

(Translation of registrant's name into English)

47 Avenue Rd., Suite 200, Toronto, Ontario, Canada M5R 2G3

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.
Form 20-F 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 the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

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

82- _____.

NEWS RELEASE

BONTAN RECEIVES ESCROWED FUNDS

Toronto, Ontario, January 17, 2013 - Bontan Corporation Inc. ("the Company") (OTCBB: BNTNF) ("Bontan") is pleased to inform that the Israeli Tax Authority ("ITA") approved the release of approximately US\$1.6 million to Bontan, which have been held in an escrow account in Israel pending ITA clearance. These funds were part of a settlement agreement with the IPC Parties as detailed in our press release of July 2, 2012.

Further to our announcement on December 12, 2012, the company is currently engaged in confidential negotiations to potentially acquire a biotech company. Further updates will be provided shortly.

About Bontan Corporation Inc:

Bontan Corporation Inc. recently concluded a settlement on its indirect oil and gas interest in Israel and now seeks business opportunities in the biotech sector.

For further information, contact Kam Shah, Chief Executive Officer of Bontan, at (416) 929-1806 and for investor relations contact John Robinson at (416) 860-0211.

Forward-Looking Statements

This news release includes forward-looking statements within the meaning of the U.S. federal and Canadian securities laws. Any such statements reflect Bontan's current views and assumptions about future events and financial performance. Bontan cannot assure that future events or performance will occur. Important risks and factors that could cause actual results or events to differ materially from those indicated in our forward-looking statements.

Bontan assumes no obligation and expressly disclaims any duty to update the information in this News Release.

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.

Dated: January 17, 2013

BONTAN CORPORATION INC.

By: /s/ Kam Shah

Kam Shah

Chief Executive Officer
