Pharmaxis Ltd

ABN 75 082 811 630

ASX Half year report – 31 December 2010

Lodged with the ASX under Listing Rule 4.2A

This report is to be read in conjunction with the financial statements for the year ended 30 June 2010 and any public announcements made by Pharmaxis Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Contents

Pharmaxis Ltd

ABN 75 082 811 630

Reporting period: Half year ended 31st December 2010
(Previous corresponding period: Half year ended 31st December 2009)

Results for announcement to the market

				A$'000
Revenue from ordinary activities	**Down**	**3%**	to	**2,380**
Profit(loss) from ordinary activities after tax	**Up**	**4%**	to	**(22,352)**
Net profit(loss) for the half year attributable to members	**Up**	**4%**	to	**(22,352)**

Dividends
It is not proposed to pay a dividend

Other Appendix 4D information

	31 December 2010	31 December 2009
Net tangible assets per ordinary share	**$ 0.34**	$ 0.53

Pharmaxis Ltd
Half-Year Report - 31 December 2010

Contents

This half-year report covers the consolidated entity consisting of Pharmaxis Ltd and its subsidiaries. The financial statements are presented in the Australian currency.

Pharmaxis Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Pharmaxis Ltd
20 Rodborough Road
Frenchs Forest, Australia 2086

This interim financial statement does not include all the notes of the type normally included in the annual financial statements. Accordingly, this report is to be read in conjunction with the financial statements for the year ended 30 June 2010 and any public announcements made by Pharmaxis Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors' report which is not part of these financial statements.

The half-year report was authorised for issue by the directors on 3rd February 2011. The company has the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the group. Press releases, financial statements and other information are available on our website: www.pharmaxis.com.au.

Your directors present their report on the consolidated entity consisting of Pharmaxis Ltd and the entities it controlled at the end of, or during, the half-year ended 31 December 2010.

Directors

The following persons were directors of the company during the whole of the half-year and up to the date of this report:

Denis Hanley (Chairman)
Alan Robertson (Chief Executive Officer)
William Delaat
Malcolm McComas
John Villiger
Richard van den Broek

Review of operations

Overview

Pharmaxis is a specialty pharmaceutical company with activities spanning product research and development through to manufacture, sales and marketing. The group is producing human healthcare products to treat and manage respiratory diseases.

Bronchitol

The group is developing Bronchitol for the management of chronic obstructive lung diseases including cystic fibrosis, bronchiectasis and chronic bronchitis. Bronchitol is a proprietary formulation of mannitol administered as a dry powder in a convenient hand-held inhaler. It is designed to hydrate the lungs, restore normal lung clearance mechanisms, and help patient's clear mucus more effectively.

Major milestones achieved during the first half of fiscal 2011 included:

- The company released results for patients receiving Bronchitol in the open label phase of its second clinical trial in cystic fibrosis. After twelve months of treatment with Bronchitol, patients maintained the 8.2% improvement in lung function seen after six months of treatment.

- The Australian Advisory Committee on Prescription Medicines recommended approval of Bronchitol for marketing in Australia for the treatment of cystic fibrosis. The Therapeutics Goods Administration is expected to complete the review process early in 2011.

- The company announced significant results of pooled data from its two international six month Phase III trials of Bronchitol in people with cystic fibrosis.

- Finalisation of a strategic marketing and sales service agreement for the commercialisation of Bronchitol for cystic fibrosis in Europe. Ahead of anticipated regulatory approval for Bronchitol, Pharmaxis has signed an agreement with the highly respected Quintiles organisation to support the launch and commercialisation of the product in Western Europe.

Aridol

Aridol is the group's first approved product. It is a simple-to-use airways inflammation test administered as a dry powder in a hand-held inhaler. Doctors can use the results of this test to identify airway hyper-responsiveness – a hallmark of asthma.

The key milestone achieved during the first half of fiscal 2011 was the approval by the US Food and Drug Administration of the Aridol Bronchial Challenge Test Kit for marketing. Sales are expected to commence in Quarter 1 2011.

Other

The company announced it had enrolled the first subjects into a Phase II clinical trial evaluating the new asthma drug, ASM8, in patients with allergic asthma. ASM8 represents one of the next generation drugs designed to tackle the airway inflammation that underpins asthma.

Financial Highlights	**31 December 2010**	31 December 2009
	$'000	$'000
Revenue from sale of goods	**359**	354
Cost of sales	**(117)**	(107)
Gross profit	**242**	247
Interest income	**1,771**	1,930
Other income	**250**	165
Other expenses from ordinary activities		
Research & development expenses	**(17,720)**	(17,296)
Commercial expenses	**(3,662)**	(2,465)
Administration expenses	**(2,793)**	(3,534)
Finance expenses	**(433)**	(508)
Loss before income tax	**(22,345)**	(21,461)
Income tax expense	**(7)**	(43)
Loss for the period	**(22,352)**	(21,504)
Cash and cash equivalents	**66,997**	102,081
Net assets	**93,309**	117,728

Revenue from sale of goods:

The group shipped Aridol to customers in Europe, Australia and Asia during the period. Sales of Aridol in the half-year ended 31 December 2010 were in-line with sales in the half-year ended 31 December 2009. Overall gross margin was 68% of sales for the half-year ended 31 December 2010 (2009: 70%).

Interest:

The decrease in interest income is attributable to the decrease in cash and cash equivalents available for investment during the period.

Other income:

Other income includes fees charged for the group's UK sales force promoting other pharmaceutical companies' products to respiratory specialists and R&D tax credits earned by the group's Canadian subsidiary on eligible R&D activities.

Research & development expenses:

Research & development expenses increased by approximately $0.4 million in the first half of fiscal 2011 compared to the first half of fiscal 2010. There are five major components to research & development expenses:

1. The drug discovery unit accounted for approximately 13 percent of the total research and development expenditure in the current half-year. It is focused on inflammatory and respiratory drug discovery. Expenditure increased by approximately $1.3 million compared to the half-year ended 31 December 2009 reflecting additional research infrastructure and costs mainly arising from the addition of the drug discovery unit in Montreal which was consolidated as part of the acquisition of Topigen Pharmaceuticals Inc.

2. The preclinical development unit accounted for approximately 2 percent of the total research and development expenditure in the current half-year and decreased marginally compared to the half-year ended 31 December 2009.

3. The clinical unit accounted for approximately 51 percent of the total research and development expenditure in the current half-year and decreased by approximately $2.3 million compared to the half-year ended 31 December 2009. The clinical unit designs and monitors the clinical trials run by the group and are responsible for regulatory agency filings. The majority of the expenditures of this unit are directed at hospitals and other services related to the conduct and analysis of clinical trials. This decrease in expenditure reflects the decrease in the number of clinical trials in the active dosing phase during the current half-year as well as lower costs associated with achieved and proposed regulatory filings of Aridol and Bronchitol.

4. Manufacturing. The manufacturing facility at Frenchs Forest is focused on producing material for clinical trials and regulatory filing related studies, and developing enhanced manufacturing processes. All costs associated with this work are classified as a research and development expenditure. Costs associated with the Aridol product sold are classified as cost of sales. Manufacturing accounted for approximately 29 percent of our total research and development expenditure in the current half-year and increased by approximately $715,000 compared to the half-year ended 31 December 2009 predominantly because of the increase in costs associated with operating two manufacturing facilities and validation costs associated with preparing the new facility for commercial operation.

5. Amortisation of patent costs are a component of research and development. Patents were the predominant asset arising from the acquisition of Topigen Pharmaceuticals, Inc and Technology Innovation Ltd in the first half of 2010. Consequently patent amortisation has increased from $49,000 in the half year ended 31 December 2009 to $876,000 in the half year ended 31 December 2010.

Administration expenses:

Administration expenses include accounting, administration, recruitment and public company costs. Administration expenses for the current half-year were $2.8 million, compared to $3.5 million in the half-year ended 31 December 2009. Administration expenses in the half-year ended 31 December 2009 were inflated by professional costs associated with the Topigen acquisition and higher occupancy and overhead charges associated with the new manufacturing facility which were not incurred to the same extent in the current period.

Commercial expenses:

The commercial expenses are focussed on developing and delivering the commercial strategy and capability to sell Aridol and Bronchitol globally. Commercial expenses for the current half-year were $3.7 million, compared to $2.5 million in the half-year ended 31 December 2009. The increase in commercial expenses is predominantly attributable to the scale-up of commercial infrastructure and resources to support the launch of Aridol in the US and Bronchitol in Australia and Europe. The higher costs were marginally offset by a stronger AUD exchange rate in the current half year reducing the Australian dollar value of the US and UK commercial operations.

Finance expenses:

Finance expenses represent the ongoing finance charge associated with the capitalised finance lease of our manufacturing facility at Frenchs Forest, Sydney.

Income tax expense:

Income tax expense relates to tax on the income generated by the group's subsidiaries which are currently reimbursed for their R&D and local management functions expenditures on a cost plus basis, upon which tax is payable.

Balance Sheet:

The group ended the half-year with $67 million in cash, cash deposits and bank accepted commercial bills. Capital expenditure during the period predominantly related to the new manufacturing facility and IT infrastructure.

Shareholders are advised that additional information concerning the group's progress in the quarter ended 31 December 2010 is contained in the December 2010 Quarterly Report to Shareholders, available on the Pharmaxis website.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order.

This report is made in accordance with a resolution of the directors.

Alan D Robertson
Director
3rd February 2011

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Auditor's Independence Declaration

As lead auditor for the review of Pharmaxis Ltd for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Pharmaxis Ltd and the entities it controlled during the period.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
3 February 2011

Pharmaxis Ltd

Consolidated income statement

For the half-year ended 31 December 2010

	Notes	**31 December 2010 $'000**	31 December 2009 $'000
Revenue from continuing operations			
Revenue from sale of goods	2	**359**	354
Cost of sales		**(117)**	(107)
Gross profit		**242**	247
Other revenue	2	**1,771**	1,930
Other income	3	**250**	165
Other expenses from ordinary activities	4		
Research & development expenses		**(17,720)**	(17,296)
Commercial expenses		**(3,662)**	(2,465)
Administration expenses		**(2,793)**	(3,534)
Finance expenses		**(433)**	(508)
Loss before income tax		**(22,345)**	(21,461)
Income tax expense		**(7)**	(43)
Loss for the period		**(22,352)**	(21,504)
Earnings per share:		**Cents**	Cents
Basic earnings / (loss) per share	9	**(9.9)**	(9.9)
Diluted earnings / (loss) per share	9	**(9.9)**	(9.9)

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

Pharmaxis Ltd

Consolidated statement of comprehensive income

For the half-year ended 31 December 2010

	31 December 2010	31 December 2009
	$'000	$'000
Loss for the period	**(22,352)**	(21,504)
Other comprehensive income		
Exchange differences on translation of foreign operations	**(538)**	5
Other comprehensive income for the period, net of tax	**(538)**	5
Total comprehensive income for the period	**(22,890)**	(21,499)
Total comprehensive income for the period is attributable to:		
Owners of Pharmaxis Ltd	**(22,890)**	(21,499)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Pharmaxis Ltd

Consolidated balance sheet

As at 31 December 2010

	Notes	**31 December 2010 $'000**	30 June 2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**66,997**	85,787
Trade and other receivables		**810**	2,711
Inventories		**494**	424
Total current assets		**68,301**	88,922
Non-current assets			
Receivables		**2,012**	1,606
Plant and equipment		**31,668**	32,537
Intangible assets		**16,829**	17,702
Total non-current assets		**50,509**	51,845
Total assets		**118,810**	140,767
LIABILITIES			
Current liabilities			
Trade and other payables		**8,510**	8,511
Borrowings		**443**	371
Other liabilities		**239**	239
Current tax liabilities		**46**	48
Total current liabilities		**9,238**	9,169
Non-current liabilities			
Borrowings		**12,907**	13,158
Other liabilities		**2,930**	3,069
Provisions		**426**	355
Total non-current liabilities		**16,263**	16,582
Total liabilities		**25,501**	25,751
Net assets		**93,309**	115,016
EQUITY			
Contributed equity	5 (a)	**267,492**	267,050
Reserves		**12,683**	12,480
Accumulated losses		**(186,866)**	(164,514)
Total equity		**93,309**	115,016

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

Pharmaxis Ltd

Consolidated statement of changes in equity

For the half-year ended 31 December 2010

		31 December 2010	31 December 2009
		$'000	$'000
Total equity at the beginning of the financial year		**115,016**	137,691
Total comprehensive income for the period		**(22,890)**	(21,499)
Transactions with owners in their capacity as owners			
Contributions of equity, net of transaction costs	5 (a)	**442**	383
Employee share options		**741**	1,153
Total equity at the end of the financial period		**93,309**	117,728

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Pharmaxis Ltd

Consolidated statement of cash flows

For the half-year ended 31 December 2010

	31 December 2010 $'000	31 December 2009 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**655**	668
Payments to suppliers and employees (inclusive of goods and services tax)	**(20,603)**	(22,880)
	(19,948)	(22,212)
Research grant receipts from government	**964**	-
Interest received	**1,771**	1,930
Income taxes paid	**(8)**	(62)
Net cash outflow from operating activities	**(17,221)**	(20,344)
Cash flows from investing activities		
Payments for plant and equipment	**(763)**	(2,168)
Proceeds from disposal of plant & equipment	**28**	2
Payments for intangible assets	**(108)**	(67)
Net cash outflow from investing activities	**(843)**	(2,233)
Cash flows from financing activities		
Net proceeds from issues of shares	**353**	383
Finance lease payments	**(612)**	(694)
Net cash outflow from financing activities	**(259)**	(311)
Net decrease in cash and cash equivalents	**(18,323)**	(22,888)
Cash and cash equivalents at the beginning of the financial year	**85,787**	124,993
Effects of exchange rate changes on the balance of cash held in foreign currencies	**(467)**	(24)
Cash and cash equivalents at the end of the financial period	**66,997**	102,081

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. Basis of preparation of half-year report

This general purpose financial statement for the interim half-year reporting period ended 31 December 2010 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial statement does not include all the notes of the type normally included in annual financial statements. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by Pharmaxis Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act* 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2010 reporting periods and the Group is finishing their assessment of these. At this stage the Group does not believe that the impact of these new standards and interpretations will be significant.

2. Revenue

	31 December 2010 $'000	31 December 2009 $'000
Sales revenue		
Sale of goods	**359**	354
Other revenue		
Interest	**1,771**	1,930

3. Other income

R&D tax credits	**119**	-
Service income	**131**	165
	250	165

Service income predominantly comprised revenue received from other pharmaceutical companies for use of the Group's sales force to promote their products.

4. Expenses

	31 December 2010 $'000	31 December 2009 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	**701**	288
Computer equipment	**140**	117
Leased building and improvements	**757**	750
Total depreciation	**1,598**	1,155
Amortisation		
Patents	**876**	49
Trademarks	**3**	3
Software	**68**	56
Total amortisation	**947**	108

4. Expenses

	31 December 2010 $'000	31 December 2009 $'000
Net (gain) / loss on disposal of plant and equipment	**(27)**	7
Rental expense relating to operating leases	**770**	641
Net foreign exchange (gains) / losses	**(218)**	82
Employee benefits expense		
Defined contribution superannuation expense	**470**	387
Other employee benefits expenses	**8,853**	7,288

5. Equity and reserves

	Parent entity		**Parent entity**	
	31 December 2010 Shares	30 June 2010 Shares	**31 December 2010 $'000**	30 June 2010 $'000
(a) Share capital				
Ordinary shares				
Fully paid	**226,126,434**	225,410,234	**267,492**	267,050

Movements in ordinary share capital:

Date	**Details**	**Number of shares**	**Issue price**	**$'000**
27 July 2010	Opening balance	225,410,234		267,050
27 July 2010	Exercise of employee options	1,250	$ 1.9570	2
27July 2010	Exercise of employee options	85,000	$ 0.1250	11
27 July 2010	Exercise of employee options	200,000	$ 0.3125	63
27 July 2010	Exercise of employee options	25,000	$ 1.7900	45
27 July 2010	Exercise of employee options	250	$ 1.8170	-
24 September 2010	Employee Share Plan	43,200	$ 2.0690	89
22 October 2010	Exercise of employee options	50,000	$ 0.3760	19
28 October 2010	Exercise of employee options	15,000	$ 1.7900	27
28 October 2010	Exercise of employee options	7,500	$ 1.9170	14
2 November 2010	Exercise of employee options	15,000	$ 1.8918	28
2 November 2010	Exercise of employee options	250	$ 1.8170	-
5 November 2010	Exercise of employee options	5,000	$ 1.6060	8
16 November 2010	Exercise of employee options	140,000	$ 0.3760	53
25 November 2010	Exercise of employee options	100,000	$ 0.3125	31
29 November 2010	Exercise of employee options	8,500	$ 1.6060	14
29 November 2010	Exercise of employee options	250	$ 1.8170	-
21 December 2010	Exercise of employee options	15,000	$ 1.9170	29
21 December 2010	Exercise of employee options	5,000	$ 1.8170	9
	Balance	226,126,434		267,492

5. Equity and reserves (continued)

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

6. Contingent liabilities

The group had contingent liabilities at 31 December 2010 in respect of:

Government grants

The group has received three separate Australian Government research grants under the R&D START Program, all three of which have been completed. The Government may require the group to repay all or some of the amount of a particular grant together with interest in either of the following circumstances:

a) the company fails to use its best endeavours to commercialise the relevant grant project within a reasonable time of completion of the project; or

b) upon termination of a grant due to breach of agreement or insolvency.

The group continues the development and commercialisation of all three projects funded by the START Program. The total amount received under the START Program at 31 December 2010 was $4,707,817.

The group recognised $Nil (2009: $NIL) under the Australian Government's Pharmaceuticals Partnerships Program ("P3") during the financial period. The Government may require the group to repay all or some of the amount of the grant together with interest in any of the following circumstances:

a) the Government determines that expenditure claimed on research projects do not meet the P3 guidelines; or

b) upon termination of the grant due to breach of agreement, change in control of the group or insolvency.

Guarantees

The company's bankers have issued bank guarantees of $1,065,115 in relation to rental bond deposits for which no provision has been made in the accounts. The rental bond deposits cover the leased building which has been accounted for as a finance lease and other leased premises accounted for as operating leases. These bank guarantees are secured by security deposits held at the bank.

The company's bankers have provided a corporate credit card facility which is secured by a deposit held at the bank totalling $76,536.

The company's bankers have issued a bank guarantee of GBP180,000 in relation to corporate credit card and local payment clearing house facilities provided by an overseas affiliate of the banker to Pharmaxis Pharmaceuticals Limited. This bank guarantee is secured by a deposit held at the bank.

The company's bankers have issued a bank guarantee of USD175,000 in relation to corporate credit card and local payment clearing house facilities provided by an overseas affiliate of the banker to Pharmaxis, Inc. This bank guarantee is secured by a deposit held at the bank.

7. Events occurring after the end of the reporting period

On the 19th January 2011, the company issued 2 million fully paid ordinary shares in relation to the third and final tranche of shares to be issued by the Company under the share purchase agreement entered into in connection with the acquisition of 100% of the share capital of Topigen Pharmaceuticals, Inc.

Apart from the above mentioned, no other matters or circumstance has arisen since 31 December 2010 that has significantly affected, or may significantly affect:

(a) the group's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the group's state of affairs in future financial years.

8. Financial reporting by segments

The group operates predominantly in one industry. The principal activities of the group are the research, development and commercialisation of pharmaceutical products.

The group operates predominantly in one geographical area, being Australia.

9. Earnings per share

	31 December 2010 Cents	31 December 2009 Cents
(a) Basic earnings per share		
Loss attributable to the ordinary owners of the company	**(9.9)**	(9.9)
(b) Diluted earnings per share		
Loss attributable to the ordinary owners of the company	**(9.9)**	(9.9)
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings / (loss) per share	**225,788,706**	218,099,894

(d) Information concerning the classification of securities

Options

Options granted to employees under the Pharmaxis Ltd Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Given the entity is currently loss making, the potential ordinary shares are anti-dilutive and have therefore not been included in the diluted earnings per share calculation.

Pharmaxis Ltd
Directors' declaration
31 December 2010

In the directors' opinion:

(a) the financial statements and notes set out on pages 6 to 14 are in accordance with the *Corporations Act 2001,* including:

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

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Pharmaxis Ltd will be able to pay its debts as and when they become due and payable.

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

Alan D Robertson

Director

Sydney
3rd February 2011

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Independent auditor's review report to the members of Pharmaxis Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Pharmaxis Limited, which comprises the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Pharmaxis Limited Group (the consolidated entity). The consolidated entity comprises both Pharmaxis Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pharmaxis Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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

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Independent auditor's review report to the members of Pharmaxis Limited (continued)

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the Company for the half-year ended 31 December 2010 included on Pharmaxis Limited's web site. The company's directors are responsible for the integrity of the Pharmaxis Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Pharmaxis Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
3 February 2011