Quarterly Shareholder Update – June 2015

A new chapter for Pharmaxis

Dear Shareholder,

I am pleased to report to you on an eventful quarter which has seen some very positive and indeed transformational developments for Pharmaxis. The Company has completed several key agreements which are in line with our strategic objectives and position us for the future.

The highlight has been the acquisition of Pharmaxis' anti-inflammatory drug candidate PXS4728A by leading global pharmaceutical company Boehringer Ingelheim. The deal is one of the largest in Australian Biotech history, brings significant initial and future payments, and is firm recognition of our credentials in drug discovery. We have opened a new chapter for Pharmaxis and are well into the process of building a regional biotech centre of excellence in fibrosis and inflammation. Our plan is to focus on innovation and intelligent partnering to accelerate product development and thereby generate value.

The Boehringer Ingelheim transaction followed two years of restructuring that included partnering Bronchitol® with Chiesi Farmaceutici SpA (Chiesi) in major global markets, renegotiating a major financing agreement and cutting the Company's expense base to put Bronchitol on a path to profitability.

With a cash balance of $54 million at 30 June 2015 and a reduced expenditure base, the Company is now moving forward with confidence to develop a range of new drugs over the coming years from its research expertise in amine oxidase chemistry. It is clear that there is significant interest among leading clinicians and larger pharmaceutical companies in the type of drugs we are developing to treat diseases that are driven by fibrosis and inflammation.

There are three aspects to the new strategic direction for Pharmaxis:

- Develop multiple drugs from the Company's in-house amine oxidase platform to phase 1 or 2
- Licence out to Big Pharma with 1st in class drugs post phase 1 or 2
- Collaborate where necessary to de-risk and accelerate internal and external programs

In addition, Pharmaxis has an important stake in the US commercialisation of Bronchitol with its partner Chiesi and in sales throughout the rest of the world with its exclusive distributors.

This report outlines our recent progress and immediate plans in more detail. I look forward to updating you each quarter.

Sincerely,

Chief Executive Officer

Drug discovery

Boehringer Ingelheim

With a total potential value in excess of $A750 million, the sale of Pharmaxis' investigational drug PXS4728A to Boehringer is a globally competitive deal. PXS4728A is being developed by Boehringer for the treatment of the diabetes and liver-related condition NASH, and has further potential in chronic obstructive pulmonary disease (COPD) and other diseases with high medical need.

Summarising the deal, Boehringer said it was pleased to have achieved access to Pharmaxis' research excellence and innovative approach to treatments for NASH.

Under the agreement, Boehringer is responsible for all development, regulatory, manufacturing and commercialisation activities. Pharmaxis received an upfront payment of €27.5 million (approximately A$39m) and, subject to the continuing successful development and commercialisation of the PXS4728A program:

- up to a total of €55 million in development milestone payments tied to the commencement of phase 2 and 3 clinical trials
- up to a total of €140 million in regulatory milestone payments upon filing of applications for marketing approval and receipt of regulatory and pricing approvals for a PXS4728A program product in the major pharmaceutical markets (i.e., USA, EU, and China or Japan) for the first indication
- additional milestone payments similar in total to those set forth above upon achievement of the same development and regulatory milestone events by a PXS4728A program product for a second indication
- earn-out payments on annual net sales of PXS4728A program products at tiered percentages starting in the high single digits
- commercialisation milestone payments upon achievement of specified levels of annual net sales of PXS4728A program products

In April the Company announced positive interim results from the single ascending dose stage of the Phase 1 clinical trial of PXS4728A. There were no safety concerns in patients receiving PXS4728A, and the trial also confirmed that PXS4728A is orally bioavailable and that after a single dose it produces long lasting inhibition of the SSAO/VAP-1 enzyme. The Phase 1 study has now progressed into the multiple ascending dose stage and is expected to report at the end of the September quarter.

Boehringer is currently designing and preparing for the phase 2 trial. While Pharmaxis is not involved in the program, based on usual drug development timeframes we would expect the phase 2 trial to commence by the first quarter of 2017.

Drug development pipeline

Pharmaxis participated in partnering discussions at the 2015 BIO International Convention in Philadelphia in mid-June. BIO was a good opportunity to present the status of Pharmaxis' amine oxidase programs to a variety of large Pharma companies, particularly the LOXL2 small molecule inhibitors to treat fibrosis. There is significant interest among leading clinicians and pharmaceutical companies in the inhibition of this target to reduce fibrosis in a number of different diseases, confirming the Company's belief that it can potentially generate unique and separate drugs to treat

pulmonary fibrosis, fibrosis of the liver and kidney, and cancer. Specific drug development programs currently being investigated by Pharmaxis include:

- LOXL2 inhibitor for pulmonary fibrosis
- LOXL2 inhibitor for NASH
- SSAO/MAO-B inhibitor for neuro inflammation
- SSAO combination for lung inflammation

Pharmaxis expects to enter collaborations to accelerate some of these programs while retaining others to develop independently. The possible application of LOX / LOXL2 inhibitors for the treatment of cancer and tissue scarring will be explored in collaboration with leading academic centres to get a better understanding of their potential.

While some of these programs are further advanced than others, the most advanced is at the candidate selection stage of development.

The Company is in currently in the final stages of negotiating a collaboration agreement to develop a LOXL2 inhibitor for pulmonary fibrosis and expect to shortly finalise the agreement.

Bronchitol for cystic fibrosis

United States

Chiesi is the Company's partner for Bronchitol in the United States, having signed an agreement in December 2014. Chiesi is funding up to US$22 million of the cost of the international phase 3 clinical trial designed to meet the remaining clinical requirements of the US Food and Drug Administration (FDA). The trial commenced recruitment in October 2014, is expected to have recruited 200 subjects in the next few weeks, and is currently scheduled to reach its recruitment target of 440 by the end of the year. Under the terms of the agreement and following a positive outcome of the trial, Chiesi will have responsibility for completing the new drug application with the FDA and the commercialisation of Bronchitol in the United States. We are already working closely with Chiesi on all aspects of securing US marketing approval for Bronchitol.

Europe

On 8 May, the Company announced the appointment of Chiesi as its exclusive distributor for the commercialisation of Bronchitol for cystic fibrosis in Germany, the United Kingdom and Ireland. Chiesi is an experienced and respected partner in key global markets and sells Bronchitol as part of its cystic fibrosis portfolio.

Chiesi assumed responsibility for the marketing, sales and distribution of Bronchitol from 1 June 2015. The sale of Bronchitol in Germany (launched in 2012) and in the United Kingdom (launched in in 2013) account for more than ninety five percent of current European Bronchitol sales.

Chiesi's appointment enabled the Company to close its European commercial infrastructure and end its commercialisation contract with Quintiles on 31 May 2015. Distributors for other Western EU countries such as Italy and Spain will be sought in line with pricing and reimbursement approvals. The relationship with Chiesi for the UK and Germany is now managed from Sydney, and in May we established a very small representative office in Hungary as a base from which to manage our

distributors in Central and Eastern Europe, Russia, the Middle East and Turkey where Bronchitol is at various stages of approval.

During the quarter the Company closed recruitment for its phase 2 clinical trial in paediatric patients, the conduct of which is a required post marketing commitment of the European approval for adult patients granted in 2011. The clinical trial commenced recruitment in 2013 and has closed recruitment with 95 subjects after reaching agreement with the European regulatory authority (CHMP) that the number of subjects was sufficient to meet the Company's post marketing commitments. The final patient is expected to complete the study in September this year and the trial results will be available in the fourth of 2016. Any decision to seek a paediatric extension of the current adult only label will be based on the results of the study and discussions with regulators and the Company's European distributors. The Company notes however that the CHMP approved trial protocol was not designed to address the paediatric concerns identified by the FDA in its review of Bronchitol.

Manufacturing

Pharmaxis is now manufacturing Bronchitol and Aridol at its Frenchs Forest facility for supply to its partners and distributors worldwide. The focus here is on cost reduction, with several initiatives commencing during the quarter to substantially reduce consumption of electricity and gas.

Corporate

Management team

The reduction in employee numbers over the past year has also seen a reduction in management. Our senior management team now comprises:

- Chief Executive Officer: Gary Phillips
- Medical Director: Brett Charlton, PhD
- Head of Drug Discovery: Wolfgang Jarolimek, PhD
- Chief Financial Officer and Company Secretary: David McGarvey
- Alliance Management: Kristen Morgan

Major shareholders

It has been encouraging to welcome new experienced biotech institutional shareholders to the register over the quarter. In total institutional shareholders own more than 45 percent of the Company.

Financial statements
(unaudited)

Income Statement A$'000	Three months ended 30-Jun-15	Three months ended 30-Jun-14	Twelve months ended 30-Jun-15	Twelve months ended 30-Jun-14
Revenue				
Sales revenue				
Bronchitol	1,241	992	4,243	3,275
Aridol	392	440	1,715	1,752
Other products	12	9	41	9
	1,645	1,441	5,999	5,036
Other revenue	203	340	721	1,735
Other income	41,864	1,102	53,527	3,715
	43,712	2,883	60,247	10,486
Expenses				
Employee costs	(3,099)	(4,543)	(14,111)	(19,376)
Administration & corporate	(799)	(939)	(3,316)	(3,379)
Rent, occupancy & utilities	(402)	(484)	(1,593)	(1,767)
Clinical trials	(4,418)	(3,877)	(11,315)	(6,221)
Drug development	(878)	(569)	(1,695)	(1,256)
Sales, marketing & distribution	(349)	(1,067)	(1,962)	(3,376)
Safety, medical and regulatory affairs	(631)	(626)	(1,723)	(1,852)
Manufacturing purchases	(395)	(701)	(1,737)	(2,142)
Other	(60)	(1,006)	(2,300)	(1,772)
Depreciation & amortisation	(739)	(1,323)	(3,406)	(5,131)
Finance expenses	(108)	(129)	2,696	(7,146)
Impairment expenses	-	(8,783)	(277)	(8,783)
Total expenses	(11,878)	(24,048)	(40,739)	(62,201)
Net profit (loss) before tax	31,834	(21,165)	19,508	(51,715)
Income tax expense	53	6	(42)	(103)
Net profit (loss) after tax	31,887	(21,159)	19,466	(51,818)

Commentary

1. Sales for the quarter include the sale of UK and German inventory to Chiesi subsequent to its appointment as exclusive distributor for these countries
2. Other revenue is interest earned on cash funds
3. Other income includes the $38.8 million received from Boehringer Ingelheim as the initial payment for PXS4728A and amounts received from Chiesi in relation to the phase 3 clinical trial of Bronchitol. The comparative periods include an R&D tax credit for which the Company is not eligible in the current year due to its revenue exceeding $20 million.
4. Employee costs include salaries of European commercial staff to 31 May, their redundancy payments and annual bonuses.
5. Clinical trial costs relate to the phase 3 clinical trial in cystic fibrosis ($3.0 million in the June quarter, $7.5 million for the year), the phase 1 trial of PXS4728A ($1.0 million in the June quarter, $1.8 million for the year), and the phase 2 cystic fibrosis clinical trial in paediatric patients ($0.4 million in the June quarter, $1.9 million for the year).

6. Sales and marketing costs, including pricing approvals, have reduced for the quarter and the full year as the Company has reduced its investment and then handed responsibility for the European market to distributors.
7. Other includes movements in inventory, other overheads and foreign exchange gains and losses (Gain of $844k and loss of $126k in the June quarters of 2015 and 2014 respectively, loss of $395k and $132k for the full financial years of 2015 and 2014 respectively).
8. Depreciation and amortisation expense decreased in the current year due to the write down of certain intangible assets in the 2014 financial year.
9. Finance expenses relates to the financing agreement with NovaQuest. The Company entered an Amended and Restated Financing Agreement with NovaQuest in December 2014. As a consequence of the new financial terms and reduced investment balance, the financial liability required restatement which resulted in a net credit to the income statement for the full year period of $3.4 million.
10. The Company finished the year with $54 million cash at bank.

The Pharmaxis 2015 statutory annual report including the directors' report and financial report is scheduled to be filed with the Australian Securities Exchange on 20 August 2015.