



pharmaxis

STATUTORY
ANNUAL REPORT
2022

IMPORTANT INFORMATION

This Statutory Annual Report will be lodged with the Australian Securities Exchange and the Australian Securities and Investments Commission and is available from the Pharmaxis website www.pharmaxis.com.au.

Information contained in or otherwise accessible through the websites mentioned in this Statutory Annual Report does not form part of the report unless specifically stated to incorporate the information by reference thereby forming part of the report. All other references in this report to websites are inactive textual references and the information contained therein is not incorporated by reference into this report.

In this Statutory Annual Report, the terms “we”, “our”, “us”, “Pharmaxis”, “Group” and “Company” refer to Pharmaxis Ltd ABN 75 082 811 630 and its subsidiaries unless the context clearly means just Pharmaxis Ltd.

Forward Looking Statements

This Statutory Annual Report contains statements that constitute forward-looking statements. Forward-looking statements appear in a number of places in this Statutory Annual Report. In some cases, you can identify forward-looking statements by terminology such as

“may”, “will”, “should”, “expects”, “plans”, “anticipates,” “believes”, “estimates”, “predicts”, “potential”, or “continue”, or the negative of these terms or other comparable terminology. These statements are only current predictions and are subject to known and unknown risks, uncertainties and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from those anticipated by the forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by law, we are under no duty to update or revise any of our forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Statutory Annual Report.

Currency of Presentation

We publish our consolidated financial statements in Australian dollars. In this Statutory Annual Report, unless otherwise stated or the context otherwise requires, references to ‘dollar amounts’, ‘\$’, ‘AUD’ or ‘A\$’ are to Australian dollars.

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1. DIRECTORS' REPORT

The Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Pharmaxis Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2022.

1.1 Information on Directors

The following persons were Directors of Pharmaxis Ltd during the financial year and up to the date of this report.

Malcolm J. McComas has been a member of the Board of Directors since July 2003 and was appointed Chairman of the Board in May 2012 and is a member of the Audit and Risk Committee and the Remuneration and Nomination Committee. Malcolm McComas is a former investment banker serving in leadership roles with global organizations and was previously a commercial lawyer. He was previously a director of Grant Samuel, the investment banking and funds management group from 1999 to 2009. Mr McComas previously served for 10 years as Managing Director of Investment Banking at County NatWest and its successor organization Citigroup, and in various executive roles with Morgan Grenfell (now Deutsche Bank) in Melbourne, Sydney and London.

Mr McComas has worked with many high growth companies across various industry sectors and has experience in debt and equity finance, mergers and acquisitions and privatisations. He has led more than 50 initial public offerings and significant secondary offerings for companies, institutions and governments. Mr McComas is a director of the blood cancer co-operative clinical trials group Australasian Leukaemia and Lymphoma Group (ALLG), Actinogen Medical Limited (ACW) and Core Lithium Limited (CXO) and is Chairman of Fitzroy River Corporation Limited (FZR). Mr McComas was previously a director of Royalco Resources Limited.

Gary J. Phillips was appointed Chief Executive Officer and became a member of the Board of Directors in March 2013. Prior to this he was the Chief Operating Officer since June 2008, having previously served as Commercial Director from his joining of the Company in December 2003. Mr Phillips has more than 30 years of operational management experience in the pharmaceutical and healthcare industry in Europe, Asia and Australia. From 1994 to 1998, he was Chief Executive Officer at Ciba Geigy in Hungary (Merged to form Novartis in 1996) where he led the successful launch of a portfolio of new products. After a period of 3 years as an Area Manager for Novartis responsible for 9 countries in Asia Pacific in 2001 he joined Novartis Australia as Group Company Head and Chief Executive Officer of its Pharmaceutical Division, successfully launching leading oncology and ophthalmology products. Mr Phillips holds a B. Pharm. in Pharmacy with honors from Nottingham University in the UK, an MBA from Henley Management College and is a Graduate of the Australian Institute of Company Directors. Mr Phillips is a non-executive director of Arovela Therapeutics Ltd, an Australian listed biotech company.

William L. Delaat AM joined the Board of Directors in June 2008 and retired in August 2022. Mr Delaat has over 40 years' experience in the global pharmaceutical industry, most recently as the managing director of the Australian subsidiary of Merck & Co., a position he held from 1997 until his retirement in 2008. During his career Mr Delaat has held executive positions in both Europe and Australia for Merck and AstraZeneca. Mr Delaat is experienced in sales and marketing and has been responsible for international product launches and commercialisation of respiratory products. Mr Delaat was chairman of Medicines Australia, and the Pharmaceuticals Industry Council from 2008 to 2012. He is also the former Chairman of EnGeneC Ltd, an unlisted Australian biotech company, and was a non-executive director of two Sydney based unlisted start-up companies, Kinela and Perx Health, between 2017-21. He is currently on the board of the National Return of Unwanted Medicines Ltd, a Commonwealth government funded body, and One Disease Ltd, a charity dedicated to eliminating crusted scabies from the Aboriginal population. Mr Delaat holds a Bachelor of Science, Physiology & Chemistry from the University of London and is a Graduate of the Australian Institute of Company Directors. Mr Delaat served as a member of the Remuneration and Nomination Committee and as Chair of the Audit and Risk Committee.

Dr Neil Graham was appointed to the Board of Directors in May 2020. Dr Graham is an infectious diseases epidemiologist with extensive experience working in biotech and pharmaceutical companies in the development of medicines. Dr Graham's career has included senior roles overseeing pipeline development and clinical programs. He is currently consulting/acting CMO at Zura Bio Pty Ltd and a Non-Executive Director at Aslan Pharmaceuticals Ltd. Previously Dr Graham was VP, Strategic Program Direction, Immunology & Inflammation at Regeneron Inc. From 2007 to 2009 he was Senior Vice President, Program and Portfolio Management at Vertex Inc, from 2005 to 2007 Sr. Vice President, Program and Portfolio Management at Trimeris Inc. and from 2002 to 2005 CMO/Vice-President, Clinical Development at XTL Biopharmaceuticals.

Dr Graham has considerable depth of scientific expertise in immunology and inflammation and is the author of a number of books and publications including a considerable body of work on respiratory illness. He was educated at University of Adelaide (MBBS, MD, MPH). Between 1993 and 1997 he was Associate Professor of Epidemiology at John Hopkins University School of Hygiene and Public Health with research focused on HIV, tuberculosis and hepatitis. Dr Graham is a member of the Audit and Risk Committee and is Chair of the Remuneration and Nomination Committee.

Kathleen M. Metters PhD was appointed to the Board of Directors in June 2017. Dr Metters has over 25 years of experience in the discovery and development of novel therapies for treatment of serious diseases. She is currently working as an independent biopharma consultant, as senior advisor for New York-based Bridge Medicines, as a Non-Executive Director for Aslan Pharmaceuticals Ltd. and an independent board member for HemoShear Therapeutics. From 2011-2014 Dr Metters was President and Chief Executive officer for Lycera Corp., a biopharmaceutical company pioneering innovative approaches to novel oral medicines for treatment of autoimmune diseases and cancer.

From 1988 to 2011 Dr Metters was employed by Merck & Co. In 2009 she was appointed to head External Discovery and Preclinical Sciences, created to expand Merck's scientific network to the greater research community in academia, biotechnology, and government, building partnerships in life sciences, medicine, engineering, and information technology. From 2005 to 2009 Dr Metters was head of

Worldwide Basic Research for Merck & Co. with oversight of research activities at major sites around the globe; across all therapeutic modalities and therapeutic areas. From 2002 to 2005 Dr Metters was head of research at Merck Frosst, Canada. During this time, she was the Basic Research Therapeutic Area Head for the Respiratory Franchise and from 2003-2005 was chair of the Respiratory Worldwide Business Strategy Team, reporting directly to the CEO, with responsibility for the discovery, development and commercialization strategy for respiratory products. Prior to that Dr Metters worked in research focused on the arachidonic acid cascade which resulted in the development of SINGULAIR®, a once-daily oral therapy for asthma and allergic rhinitis. For her work on SINGULAIR®, she was one of the team of scientists who won the Prix Galien Canada 2000 for excellence in innovative research.

Dr Metters graduated with a B.S. in biochemistry from the University of Manchester Institute for Science and Technology, and a Ph.D. from Imperial College of Science and Technology in London. She completed post-doctoral training at the Centre National de la Recherche Scientifique in France and at the Clinical Research Institute of Montréal. Dr Metters was appointed Chair of the Audit Committee on 2 June 2022.

1.2 Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2022, and the number of meetings attended by each Director was:

	Board Meetings		Meetings of committees			
			Audit		Remuneration & Nomination	
	A	B	A	B	A	B
MJ McComas	14	14	4	4	6	6
GJ Phillips	14	14	-	-	-	-
WL Delaat	14	11	4	3	6	6
KM Metters	14	14	4	4	-	-
N Graham	14	13	1	1	6	6

A = Number of meetings held during the time the Director held office or was a member of the committee during the year

B = Number of meetings attended

1.3 Indemnification and Insurance of Directors

The Pharmaxis Constitution provides that, except to the extent prohibited by the Corporations Act 2001, each of our officers shall be indemnified out of Company funds against any liability incurred by such person in his or her capacity as an officer.

The Company has entered into Deeds of Access to Documents and Indemnity to indemnify Directors and certain executive officers in addition to the indemnification provided for in the Constitution. These provisions and agreements are necessary to attract and retain qualified directors and executive officers.

At present, there is no pending litigation or proceeding involving any Directors, officers, employees or agents where indemnification by the Company will be required or permitted, and the Company is not aware of any threatened litigation or proceeding that may result in a claim for such indemnification.

Directors' and officers' liability insurance is provided for the indemnification of Directors and officers against certain liabilities incurred as a director or officer, including costs and expenses associated in successfully defending legal proceedings. This insurance will be maintained in the future. During the financial year, a premium of \$198,000 was paid to insure the directors and officers of the Group for the policy year ended 26 September 2022. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. Policy exclusions include: liabilities that arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group; pollution that could reasonably be known to management; and, bodily injury and property damage. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

1.4 Company Secretary

The Company Secretary is Mr David M McGarvey, CA ANZ, GAICD, FGIA, who was appointed to the position of Company Secretary in 2002. Before joining Pharmaxis Ltd he held similar positions with both listed and unlisted companies, including Memtec Limited, which was listed on the Australian Securities Exchange, NASDAQ and the New York Stock Exchange.

1.5 Principal Activities

During the year the principal continuing activities of the Group consisted of the research, development and commercialisation of healthcare products for fibrotic (including some cancers) and inflammatory diseases.

1.6 Review and Results of Operations

A review of the operations of the Group for the financial year ended 30 June 2022 is set out in Section 5 of this Statutory Annual Report.

1.7 Remuneration Report, Shares under option and Shares issued on the exercise of options

Refer to Section 2 of this Statutory Annual Report.

1.8 Dividends

No dividends were paid during the year and the Directors have not recommended the payment of a dividend.

The Company has never declared or paid any cash dividends on ordinary shares and does not anticipate paying a cash dividend in the foreseeable future.

1.9 Significant Changes in the State of Affairs

Refer to Section 5 of this Statutory Annual Report.

1.10 Matters Subsequent to the End of the Financial Year

On 4 August 2022 the Group announced it would receive US\$5 million from Aptar Pharma for the exercise of options to acquire the Orbital high payload dry powder inhaler. The funds (A\$6.9 million) were subsequently received on 16 August 2022.

Except for the above, no other matter or circumstance has arisen since 30 June 2022 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.

1.11 Likely Developments and Expected Results of Operations

Information on likely developments in the operations of the Group and the expected results of operations is included in Section 5 of this Statutory Annual Report to the extent it does not prejudice the interests of the Group.

During the year, the Group incurred an operating loss after tax of \$1.9 million (FY2021: \$3.0 million) and net operating cash outflows of \$16.1 million (FY2021 inflows of \$3.1 million). As at 30 June 2022, the Group has cash and cash equivalents of \$8.9 million (FY2021: \$18.7m) and had an expected R&D tax credit of \$4.9 million. On 16 August 2022 the Group received A\$6.9 million from Aptar Pharma.

The Group's ability to continue as a going concern, to recover the carrying value of its assets and meet its commitments as and when they fall due is dependent on the ability of the Group to achieve its sales targets for approved products and manage its cost base, particularly its investment in its drug development pipeline, with funds currently available and additional funding potentially available from:

- achieving sufficient future cash flows from the sales of Bronchitol in the US following its launch and continued growth of Bronchitol sales in Russia;
- securing new partnering arrangements for programs currently in its drug development pipeline;
- and/or access to additional sources of equity share capital.

As a result of these matters, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. However, the Board and management, having assessed the best available information at this time including detailed cash flow forecasting and initiatives currently being pursued, believe that:

- the Group will be successful in managing within currently available funds and/or realising additional funds as outlined above and, accordingly, have prepared the financial statements on a going concern basis, and
- no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2022. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

1.12 Environmental Regulation

The Group is subject to environmental regulation in respect of its manufacturing activities including the Clean Air Act 1961, Clean Waters Act 1970, Pollution Control Act 1970, Noise Control Act 1975 and Waste Minimisation & Management Act 1995. Pharmaxis Ltd has been granted consent to discharge industrial trade wastewater from Sydney Water Corporation.

1.13 Rounding

The Group is of a kind referred to in ASIC Corporations (Rounding in the Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

1.14 Non-Audit Services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditors' expertise and experience with the Group are important.

Details of the amounts paid to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 21 to the Annual Financial Report included in Section 6 of this Statutory Annual Report.

The Board of Directors have considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

1.15 Auditor's Independence Declaration

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



Auditor's Independence Declaration

As lead auditor for the audit of Pharmaxis Ltd for the year ended 30 June 2022, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink that reads 'David Ronald'.

David Ronald
Partner
PricewaterhouseCoopers

Sydney
30 August 2022

1.16 Auditor

PricewaterhouseCoopers continue in office in accordance with section 327 of the Corporations Act 2001.

1.17 Resolution of the Board

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

A handwritten signature in black ink, appearing to read "Gary Phillips", with a long horizontal stroke extending to the right.

Gary J Phillips

Director
Sydney
30 August 2022

2 REMUNERATION REPORT (Audited)

Remuneration Report

The remuneration report is set out under the following main headings:

- 2.1 Principles Used to Determine the Nature and Amount of Remuneration Paid to Directors and Senior Executive Officers
- 2.2 Details of Remuneration Paid to Directors and Senior Executive Officers
- 2.3 Service Agreements with Senior Executive Officers
- 2.4 Share-Based Compensation Paid to Directors and Senior Executive Officers
- 2.5 Additional Information on Compensation Paid to Directors and Senior Executive Officers
- 2.6 Equity Remuneration.

2.1 Principles Used to Determine the Nature and Amount of Remuneration Paid to Directors and Senior Executive Officers

Introduction:

Pharmaxis requires a board and senior management team with technical capability and importantly, relevant international pharmaceutical company experience. Competitive remuneration practices are required to attract, retain and incentivise such executives and directors. To assist its deliberations, the Directors make use of surveys of Australian companies in the life science area and advice of recruiters and consultants who provide their analysis and understanding of the broader Australian healthcare and general listed company markets.

In order to obtain the experience required, it has historically been necessary to recruit both directors and management from the international marketplace.

Senior Executive Officer remuneration includes a mix of short and long-term components. Remuneration of the Executive Director and Senior Executive Officers includes a meaningful proportion that varies with Group and individual performance. Variable cash incentives are subject to performance assessment by the Remuneration and Nomination Committee. Performance targets in the main relate to objectives and milestones from the Group's annual business plan. The business plan is designed to build a business that generates long term shareholder value through share price appreciation and distributions to shareholders. Group performance targets are agreed by the Remuneration and Nomination Committee and the full Board each year. The annual performance of Senior Executive Officers is reviewed by the Remuneration and Nomination Committee and the Board each year.

In the event that misconduct by the Chief Executive Officer and/or Chief Financial Officer results in the financial statements for any year not complying with financial reporting requirements, all bonuses and incentive payments made to the Chief Executive Officer and Chief Financial Officer in relation to the relevant years are repayable in full.

Non-Executive Directors do not have a variable component of their remuneration.

Equity Remuneration:

Equity remuneration is an important component of attracting and retaining talented individuals while staying within the fiscal constraints of a developing company.

Equity Remuneration Granted to Non-Executive Directors

Non-executive directors do not currently receive equity remuneration.

Equity Remuneration Granted to Senior Executive Officers

The Company has two equity remuneration plans to provide for the long term reward, incentive and retention of all employees in the Group:

- The Pharmaxis Performance Rights Plan enables the grant of employee options with a zero grant price and a zero exercise price, known commonly as "Performance Rights" to eligible employees of the Group. Senior Executive Officers and other eligible employees are invited by the Remuneration and Nomination Committee to participate in this plan.
- The Pharmaxis Share Plan grants up to \$1,000 of fully paid Pharmaxis ordinary shares to eligible employees of the Group. Senior Executive Officers do not participate in this plan.

Performance rights plans and share plans are both widely accepted in the Australian context to provide equity remuneration to management and employees of listed companies. Performance rights plans typically provide lower potential returns when compared to traditional options, but by also reducing the risk for employees they provide a stable equity remuneration instrument to reward and retain employees over the longer term. The performance rights plan was introduced in the 2011 financial year.

Key features of the Pharmaxis Performance Rights Plan are as follows:

- Grant price and exercise price of zero, with a life of 10 years from grant date.
- The number of performance rights to be granted is determined by the Board, taking into account the employee's position, responsibility and salary (50% of base salary for the Chief Executive Officer, 30% for Senior Executive Officers and 15% for other participants), and the Pharmaxis share price, defined as the thirty-day volume weighted average price leading up to the grant date with the exception being in 2020 where the 2019 grant share price was used. Prior to the 2019 year, the Board also considered corporate performance in meeting annual business plan objectives and the employee's performance in meeting annual objectives in determining the number of performance rights to be granted. As from the 2019 year the vesting of performance rights is subject to corporate performance, as described below.

- Vesting: For performance rights granted subsequent to 30 June 2018, corporate performance is assessed after the end of the financial year following the grant date based on long term focused annual corporate objectives achieved in the financial year. Performance rights are lapsed at that point to the extent the long term focused subset of corporate objectives have not been met. The Board recently considered that the majority of the Group's short term corporate objectives also have significant long term performance consequences and are already assessed and rewarded by way of the Group's short term incentive program. The Board is therefore currently considering changing the terms for future grants of performance rights.
- Time based vesting of performance rights is as follows. Performance rights granted between 2015 to 2022 vest 50% two years from grant and 50% three years from grant provided the Senior Executive Officer remained an employee of the Group at the relevant vesting date. Unvested performance rights lapse in the event the Senior Executive Officer ceases to be an employee before the relevant vesting date.
- Shares issued upon exercise of performance rights are restricted from sale by the employee for three years from grant date. Shares issued upon exercise of performance rights to Senior Executive Officers are restricted from sale by the officer as long as they are employed by the Group, without prior approval of the Board. The guidelines under which the Board will determine whether to give its approval include the progress of the Group in achieving its stated goals over the period since grant, the impact of a sale on the market in the Group's shares, the Pharmaxis share price, and whether it is an appropriate time for such a sale, amongst other criteria.

Non-Executive Directors:

Fees and payments to Non-Executive Directors reflect the demands that are made on, and the responsibilities of, the Non-Executive Directors. Non-Executive Directors' fees and payments are reviewed annually by the Remuneration and Nomination Committee of the Board. The fees were last altered in the 2014 financial year at which time the fees were reduced. The fees are as follows:

- an annual fee of \$100,000 for the Chairman with no additional payments for serving on Board committees, and including any applicable statutory superannuation; and
- an annual fee of \$70,000 is paid to Non-Executive Directors other than the Chairman, with no additional payments for serving on Board committees, and including any applicable statutory superannuation.

Non-Executive directors do not currently receive equity remuneration.

Non-Executive Directors' fees (including statutory superannuation) are determined within an aggregate directors' fee pool limit, any changes to which require approval by shareholders. The fee pool limit approved by shareholders in October 2006 stands at a maximum of \$600,000 per annum in total.

Retirement Allowances for Directors

Termination payments apply only to Executive Directors, as discussed below.

Executive Directors and Senior Executive Officers:

There are four components to the remuneration of Executive Directors and Senior Executive Officers:

- a base salary paid in cash or packaged at the executive's discretion within Australia Fringe Benefit's Tax guidelines as a total cost package. Base salaries are reviewed by the Remuneration and Nomination Committee effective 1 January each year;
- superannuation of 10% of base salary (10.5% from 1 July 2022);
- a variable cash incentive component payable annually dependent upon achievement of performance targets set and approved by the Remuneration and Nomination Committee and Board. Individual and overall performance targets are set by reference to the components of the Group's annual business plan. The Directors believe the Group's approach to variable cash incentive is consistent with the Group's industry sector; and
- equity remuneration as discussed above.

Base pay for Senior Executive Officers is reviewed annually to ensure the executive's pay is commensurate with the responsibilities and contribution of the executive. An executive's pay is also reviewed on promotion. There was a 3% increase in base salaries at 1 January 2022, compared to nil awarded at 1 January 2021.

In establishing the 2022 target variable cash incentives, the Board determined the following percentage of base salary as the appropriate quantum:

	Percentage of base salary	
	Corporate objectives	Personal objectives
Chief Executive Officer	30%	-
Other Senior Executives	10%	10%

Corporate objectives are based on the Group's 2022 business plan. Corporate and individual personal objectives are each separately weighted when objectives are set at the beginning of the financial year and at the end of the financial year performance is assessed on each objective individually.

Corporate objectives for 2022 included:

1. Full recruitment of the Group's phase 2a clinical trial of PXS-5505 in myelofibrosis and commencement of dosing in the phase 1c clinical trial of PXS-5505 in liver cancer, being conducted by the University of Rochester
2. Full recruitment of the phase 1c clinical trial of PXS-6302 in established scars and commencement of dosing in a phase 1c clinical

trial of PXS-6302 in scar prevention, both studies being conducted by the University of Western Australia

3. Funding or partnering of one of the Group's other clinical stage assets
4. One drug discovery program ready to commence full pre-clinical development
5. Ongoing funding of the Group from growth in the mannitol business and/or capital market support

In assessing overall corporate performance for 2022 the Remuneration and Nomination Committee and the Board assessed substantial achievement in relation to objective 3 and partial achievement in relation to objective 5. While progress had been made in relation to the other objectives the specific milestones had not been achieved.

The Board assessed overall performance in achieving the 2022 corporate objectives at 25%.

Termination payments

Termination payments do not apply to Non-Executive Directors. The employment contract for the Chief Executive Officer can be terminated immediately by the Board for serious misconduct and with six months' notice without cause by either party. Employment contracts for Other Senior Executive Officers can be terminated immediately by the Board for serious misconduct and with a maximum of three months' notice without cause by either party. Unless otherwise required by law, no additional payments are required to be paid on termination.

Equity Remuneration

Information on the Equity Remuneration is set out in Note 30 to the Annual Financial Report which is included in Section 6 of this Statutory Annual Report. As noted above, for performance rights granted subsequent to 30 June 2018, vesting is subject to an assessment of corporate performance for the financial year following the grant date based on long term focused annual corporate objectives achieved in the financial year. Corporate objectives for 2022 are also noted above. In reviewing achievement of these objectives for the purposes of vesting the Board noted the long term significance of the progress achieved during the year in relation to objectives 1 and 2 even though the Group had not met specific short term performance hurdles. When combined with the objectives achieved during the year the Board assessed corporate performance for the 2022 financial year at 45%. As such, 55% of the performance rights granted in August 2021 lapsed on 22 August 2022.

2.2 Details of Remuneration Paid to Directors and Senior Executive Officers

Details of the remuneration of the Directors and the Senior Executive Officers ("key management personnel" as defined in AASB 124 Related Party Disclosures) of Pharmaxis Ltd and the Group are set out in the following tables.

The Chief Executive Officer and Senior Executive Officers of the Group and the entity are:

<i>Name</i>	<i>Position</i>	<i>Employer</i>
Gary Jonathan Phillips	Chief Executive Officer	Pharmaxis Ltd
Jana Baskar	Chief Medical Officer – commenced 27 June 2022	Pharmaxis Ltd
Brett Charlton	Medical Director – retired 30 June 2022	Pharmaxis Ltd
Wolfgang Jarolimek	Head of Drug Discovery	Pharmaxis Ltd
David Morris McGarvey	Chief Financial Officer and Company Secretary	Pharmaxis Ltd
Kristen Morgan	Alliance Management-Head of Medical and Regulatory Affairs	Pharmaxis Ltd

Included in the above are the four highest remunerated Group and entity executives.

The payment of cash bonuses to Senior Executive Officers is dependent on the satisfaction of performance conditions as discussed in Section 2.1 of this Statutory Annual Report. Performance Rights are granted and vested as approved by the Remuneration & Nomination Committee. Other elements of remuneration are not directly related to performance.

2022	Short term benefits		Post-employment benefits	Total Cash Remuneration	Leave Entitlements ⁽¹⁾	Share based payment	Total
Name	Cash salary or Directors' fees	Cash bonus/ incentive	Superannuation			Value ⁽²⁾	
	A\$	A\$	A\$	A\$	A\$	A\$	A\$
<i>Non executive Directors</i>							
MJ McComas <i>Chairman</i>	100,000	–	–	100,000	–	–	100,000
WL Delaat	63,636	–	6,364	70,000	–	–	70,000
KM Metters	70,000	–	–	70,000	–	–	70,000
N Graham	70,000	–	–	70,000	–	–	70,000
<i>Sub total Non-executive Directors</i>	303,636	–	6,364	310,000	–	–	310,000
<i>Executive Director</i>							
GJ Phillips	517,389	34,294	51,739	603,422	10,304	124,635	738,361

2022	Short term benefits		Post-employment benefits	Total Cash Remuneration	Leave Entitlements ⁽¹⁾	Share based payment	Total
Name	Cash salary or Directors' fees	Cash bonus/incentive	Superannuation			Value ⁽²⁾	
	A\$	A\$	A\$	A\$	A\$	A\$	A\$
<i>Senior Executive Officers</i>							
J Baskar ⁽³⁾	4,615	–	462	5,077	–	–	5,077
B Charlton	403,711	25,444	40,371	469,526	44,038	35,658	549,222
WG Jarolimek	406,029	38,529	40,603	485,161	(20,479)	35,658	500,340
DM McGarvey	421,296	37,832	42,130	501,258	13,645	37,139	552,042
K Morgan	240,599	23,485	24,060	288,144	(3,056)	23,405	308,493
Totals	2,297,275	159,584	205,729	2,662,588	44,452	256,495	2,963,535

(1) Represents net movement in entitlements to annual leave and long service leave.

(2) The value of share based payments was calculated on the date of each grant of equity using the Black-Scholes option pricing model and amortised as share based remuneration over the vesting period.

(3) Jana Baskar commenced employment on 27 June 2022.

2021	Short term benefits		Post-employment benefits	Total Cash Remuneration	Leave Entitlements ⁽¹⁾	Share based payment	Total
Name	Cash salary or Directors' fees	Cash bonus/incentive	Superannuation			Value ⁽²⁾	
	A\$	A\$	A\$	A\$	A\$	A\$	A\$
<i>Non executive Directors</i>							
MJ McComas <i>Chairman</i>	100,000	–	–	100,000	–	–	100,000
WL Delaat	63,927	–	6,073	70,000	–	–	70,000
KM Metters	70,000	–	–	70,000	–	–	70,000
EJ Rayner ⁽³⁾	–	–	–	–	–	–	–
N Graham	70,000	–	–	70,000	–	–	70,000
<i>Sub total Non-executive Directors</i>	303,927	–	6,073	310,000	–	–	310,000
<i>Executive Director</i>							
GJ Phillips	443,939	141,591	42,174	627,704	3,879	51,057	682,640
<i>Senior Executive Officers</i>							
B Charlton	352,894	95,524	33,525	481,943	19,370	22,338	523,651
WG Jarolimek	352,894	97,641	33,525	484,060	9,035	22,338	515,433
DM McGarvey	367,302	98,484	34,894	500,680	4,716	23,283	528,679
K Morgan	219,615	78,936	20,863	319,414	(2,477)	14,677	331,614
Totals	2,040,571	512,176	171,054	2,723,801	34,523	133,693	2,892,017

(1) Represents net movement in entitlements to annual leave and long service leave.

(2) The value of share based payments was calculated on the date of each grant of equity using the Black-Scholes option pricing model and amortised as share based remuneration over the vesting period.

(3) Edward Rayner resigned from the board 14 August 2020 and until March 2020 was an employee of a substantial shareholder. He did not receive any remuneration from Pharmaxis Ltd.

Remuneration subject to risk

Of the total amount of remuneration paid to the Chief Executive Officer and Other Senior Executive Officers, both the payment of the bonus and the granting and vesting of options are subject to Group and individual employee performance. Section 2.5 of the Remuneration Report highlights the risk associated with the bonus this year.

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense in the above tables.

Relative proportions of fixed vs variable remuneration expense

Name	Fixed Remuneration		At risk – STI		At risk – LTI ⁽¹⁾	
	2022	2021	2022	2021	2022	2021
<i>Non-executive Directors</i>						
MJ McComas <i>Chairman</i>	100%	100%	–	–	–	–
WL Delaat	100%	100%	–	–	–	–
KM Metters	100%	100%	–	–	–	–
N Graham	100%	100%	–	–	–	–
<i>Executive Director</i>						
GJ Phillips	78%	72%	5%	21%	17%	7%
<i>Senior Executive Officers</i>						
J Baskar	100%	–	–	–	–	–
B Charlton	89%	78%	5%	18%	6%	4%
WG Jarolimek	85%	77%	8%	19%	7%	4%
DM McGarvey	86%	77%	7%	19%	7%	4%
K Morgan	85%	72%	8%	24%	8%	4%

(1) Since the long-term incentives are provided exclusively by way of options, the percentages disclosed also reflect the value of remuneration consisting of options, based on the value of options expensed during the year. Where applicable, the expenses include negative amounts for expenses reversed during the year due to a failure to satisfy the vesting conditions.

2.3 Service Agreements with Senior Executive Officers

In addition to their respective base salaries, each of the following Senior Executive Officers may be awarded an annual performance bonus upon satisfaction of certain milestones upon the sole discretion of the Remuneration and Nomination Committee. Other material terms of each of these agreements are identified below.

Senior Executive Officer ⁽³⁾	Annual Base Salary Effective 1 July 2022 ⁽¹⁾ \$	Superannuation Contributions ⁽²⁾ \$
Gary J Phillips, <i>Chief Executive Officer and Managing Director</i>	457,257	48,012
Jana Basker, <i>Chief Medical Officer</i> (commenced 27 June 2022)	300,000	31,500
Brett Charlton, Ph.D., <i>Medical Director</i> (retired 30 June 2022)	363,480	38,165
Wolfgang G Jarolimek <i>Head of Drug Discovery</i>	363,480	38,165
David M McGarvey, C.A., <i>Chief Financial Officer and Company Secretary</i>	378,321	39,724
Kristen Morgan ⁽⁴⁾ <i>Alliance Management-Head of Medical and Regulatory Affairs</i>	231,486	24,306

(1) Annual base salaries may be subject to increase upon review annually by the Remuneration and Nomination Committee.

(2) From the 1st July 2022 the Company will pay superannuation equal to 10.5% of the annual base salary per year for the benefit of the Senior Executive Officers.

(3) The employment contracts for all Senior Executive Officers are evergreen in nature.

(4) Based on a full time position.

2.4 Share-Based Compensation Paid to Directors and Senior Executive Officers

Grants of Equity under the Employee Performance Rights Plan to Senior Executive Officers and nominated employees

The terms and conditions of each grant of performance rights affecting remuneration of Directors and Senior Executive Officers in this or future reporting periods are as follows. For vesting conditions refer to 2.1 above:

Grant date	Expiry date	Exercise price	Value per performance right at grant date	Number of performance rights granted	Number of option grantees	Vesting Date ⁽¹⁾
14 August 2019	30 June 2029	\$ Nil	\$0.238	1,634,000	4	65% of the rights have now lapsed ⁽²⁾ , the remaining balance vest: 50% at 30 June 2021 and 50% at 30 June 2022
21 November 2019	30 June 2029	\$ Nil	\$0.229	927,000	1	65% of the rights have now lapsed ⁽²⁾ , the remaining balance vest: 50% at 30 June 2021 and 50% at 30 June 2022
13 August 2020	30 June 2030	\$ Nil	\$0.238	1,661,000	4	50% of the rights have now lapsed ⁽²⁾ , the remaining balance vest: 50% at 30 June 2022 and 50% at 30 June 2023
04 November 2020	30 June 2030	\$ Nil	\$0.108	942,000	1	50% of the rights have now lapsed ⁽²⁾ , the remaining balance vest: 50% at 30 June 2022 and 50% at 30 June 2023
12 August 2021	30 June 2031	\$ Nil	\$0.095	1,674,400	4	55% of the rights have now lapsed ⁽²⁾ , the remaining balance vest: 50% at 30 June 2023 and 50% at 30 June 2024
5 November 2021	30 June 2031	\$ Nil	\$0.120	5,728,600	5	55% of the rights have now lapsed ⁽²⁾ , the remaining balance vest: 50% at 30 June 2023 and 50% at 30 June 2024

(1) Shares issued upon exercise of performance rights to Senior Executive Officers are restricted from sale by the officer as long as they are employed by the Group, without prior approval of the Board.

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

The Pharmaxis Corporate Governance Framework prohibits Directors and Senior Executive Officers from trading in Pharmaxis derivatives.

(2) The performance rights issued during the year ending 30 June 2019, 2020 and 2021 were subject to performance criteria.

Performance Rights

Details of performance rights over ordinary shares provided as remuneration to each Director and each Senior Executive Officer is set out below. When exercisable, each performance right is convertible into one ordinary share. Performance rights are issued at a zero purchase price. Vesting details are set out in the subsequent table. Further information on the performance rights is set out in this Remuneration Report (Equity Granted to Directors and Senior Executive Officers above) and in Note 30 to the Annual Financial Report in Section 6 of this Statutory Annual Report. The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables below. Fair value at grant date is assessed using the closing share price on the date of grant.

Name	Performance rights granted during the year				Number of rights vested during the year	
	2022			2021	2022	2021
	Expiration Date	Exercise Price	Number	Number		
Directors of Pharmaxis Ltd						
MJ McComas <i>Chairman</i>	–	–	–	–	–	–
GJ Phillips <i>Chief Executive Officer</i>	30 June 2030	–	2,374,000	942,000	397,725	317,475
WL Delaat	–	–	–	–	–	–
KM Metters	–	–	–	–	–	–
N Graham	–	–	–	–	–	–
Senior Executive Officers						
B Charlton	30 June 2030	–	1,132,000	449,000	189,600	151,600
WG Jarolimek	30 June 2030	–	1,132,000	449,000	189,600	151,600
DM McGarvey	30 June 2030	–	1,179,000	468,000	197,500	157,675
K Morgan	30 June 2030	–	743,000	295,000	124,500	93,050

Shares Issued on Exercise of Remuneration Options

Name	Date of grant of options	Amount paid per share on exercise	Ordinary shares issued on exercise of options during the year	
			2022	2021
Senior Executive Officers of the Group				
GJ Phillips	20 November 2015	\$ Nil	811,000	–
GJ Phillips	29 November 2016	\$ Nil	827,000	–

2.5 Additional Information on Compensation Paid to Directors and Senior Executive Officers

Details of Director and Senior Executive Officer Remuneration: Cash Bonuses and Performance Rights

For each cash bonus and grant of performance rights included in the tables above, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years.

For performance rights granted subsequent to 30 June 2018, corporate performance is assessed after the end of the financial year following the grant date based on long term focused annual corporate objectives achieved in the financial year. Performance rights are lapsed at that point to the extent the long term focused subset of corporate objectives have not been met.

Time based vesting of performance rights is as follows. Performance rights granted in 2015 to 2022 vest 50% two years from the date of grant and 50% three years from the date of grant provided the Senior Executive Officer remained as an employee of the Group at the relevant vesting date. Unvested performance rights lapse in the event the Senior Executive Officer ceases to be an employee before the relevant vesting date.

For performance rights granted subsequent to 30 June 2018, vesting is subject to an assessment of corporate performance for the financial year following the grant date based on long term focused annual corporate objectives achieved in the financial year. Corporate objectives for 2022 are noted above. After reviewing achievement of corporate objectives for 2022 for the purposes of vesting, the Board assessed corporate performance for the 2022 financial year at 45% (2021: 50%). As such, 55% of the performance rights granted in August 2021 were lapsed on 22 August 2022 (2021: 50%).

Name	Cash Bonus		Performance Rights					
	Payable	Forfeited	Year granted	Vested	Forfeited	Financial years in which performance rights may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
	%	%		%	%			
<i>Non-executive Directors</i>								
MJ McComas	–	–	–	–	–	–	–	–
WL Delaat	–	–	–	–	–	–	–	–
KM Metters	–	–	–	–	–	–	–	–
<i>Executive Director</i>								
GJ Phillips	25%	75%	2020	100	65	2021, 2022	–	–
			2021	50	50	2022, 2023		–
			2022	–	55	2023, 2024		124,635
<i>Senior Executive Officers</i>								
B Charlton	35%	35%	2020	100	65	2021, 2022	–	–
			2021	50	50	2022, 2023		–
			2022	–	55	2023, 2024		35,658
WG Jarolimek	53%	47%	2020	100	65	2021, 2022	–	–
			2021	50	50	2022, 2023		–
			2022	–	55	2023, 2024		35,658
DM McGarvey	50%	50%	2020	100	65	2021, 2022	–	–
			2021	50	50	2022, 2023		–
			2022	–	55	2023, 2024		37,138
K Morgan	49%	51%	2020	100	65	2021, 2022	–	–
			2021	50	50	2022, 2023		–
			2022	–	55	2023, 2024		23,405

Share-Based Compensation Paid to Directors and Senior Executive Officers

Further details relating to options and performance rights granted to, exercised by or lapsed, for Directors and Senior Executive Officers during the financial year ended 30 June 2022 are set out below:

	A	B	C	D
Name	Remuneration consisting of performance rights	Value at grant date \$	Value at exercise date \$	Value at lapse date \$
Performance Rights				
GJ Phillips	21%	249,270	–	124,635
B Charlton	12%	71,316	–	35,658
WG Jarolimek	12%	71,316	–	35,658
DM McGarvey	12%	74,277	–	37,139
K Morgan	12%	46,809	–	23,405

A = The percentage of the value of remuneration consisting of options, based on the value at grant date as set out in column B.

B = The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted during the year as part of remuneration.

C = The difference between the market price of shares and the exercise price of options at exercise date that were granted in prior years as part of remuneration and were exercised during the year.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

Share Holdings of Directors and Senior Executive Officers

The numbers of shares in the company held during the financial year by each director of Pharmaxis Ltd and other key management personnel of the Group, including their close family members, are set out below. (Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity).

2022 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Pharmaxis Ltd				
Ordinary shares				
MJ McComas	1,179,694	–	1,310,715	2,490,409
GJ Phillips	2,326,154	1,638,000	95,239	4,059,393
W Delaat	53,334	–	–	53,334
KM Metters	20,000	–	–	20,000
N Graham	–	–	–	–
Other key management personnel of the Group				
Ordinary shares				
B Charlton	955,714	–	–	955,714
WG Jarolimek	1,221,550	–	–	1,221,550
DM McGarvey	910,127	–	9,524	919,651
K Morgan	–	–	–	–

2021 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Pharmaxis Ltd				
Ordinary shares				
MJ McComas	679,694	–	500,000	1,179,694
GJ Phillips	2,326,154	–	–	2,326,154
W Delaat	53,334	–	–	53,334
KM Metters	20,000	–	–	20,000
N Graham	–	–	–	–
Other key management personnel of the Group				
Ordinary shares				
B Charlton	955,714	–	–	955,714
WG Jarolimek	621,550	600,000	–	1,221,550
DM McGarvey	910,127	–	–	910,127
K Morgan	7,860	250,000	(257,860)	–

Other transactions with key management personnel

There were no other transactions with key management personnel during the year ended 30 June 2022.

Loans to Directors and executives

Nil. Not permitted under Pharmaxis corporate governance framework.

2.6 Equity Remuneration

Shares Under Equity Plans

Total unissued ordinary shares under equity plans at the date of this report are as follows:

Equity Plan movement	Number
Total unissued ordinary shares under plans at 30 June 2022 – refer Note 30 to the Annual Financial Report included in Section 6 of this Statutory Annual Report	17,872,500
Grant of performance rights	843,000
Lapse of performance rights subsequent to resignation of employee	(148,000)
	18,567,500

No option or performance right holder has any right to participate in any other share issue of the Company or any other entity.

Shares issued on the exercise of performance rights and zero exercise priced share plan

The following ordinary shares were issued during the year ended 30 June 2022 on the exercise of performance rights granted under the Performance Rights Plan or zero exercise priced option share plan. No amounts are unpaid on any of the shares.

Date performance rights granted	Issue price of shares	Number of shares issued
29 June 2012	\$ Nil	107,000
7 June 2013	\$ Nil	68,250
31 July 2015	\$ Nil	299,000
20 November 2015	\$ Nil	811,000
26 July 2016	\$ Nil	232,000
29 November 2016	\$ Nil	880,000
18 July 2017	\$ Nil	26,000
25 July 2018	\$ Nil	186,525
14 August 2019	\$ Nil	80,675
		2,690,450

3. CORPORATE GOVERNANCE

Pharmaxis has developed a corporate governance framework including supporting policies and practices consistent with the Corporate Governance Principles and Recommendations 4th ("ASX Governance Principles").

The Board reviews and updates the corporate governance framework as required.

A description of the Pharmaxis corporate governance framework, supporting policies and required ASX corporate governance disclosures may be found in the corporate governance section on the Pharmaxis website at www.pharmaxis.com/investor_centre/corporate_governance. The Company has filed Appendix 4G with the ASX, providing a key to where our corporate governance disclosures can be located.

4. SENIOR MANAGEMENT

Executive Director and Senior Executive Officers

Information about Executive Director and Senior Executive Officers as of 22nd August 2022.

Gary J. Phillips, Refer to Directors' Report.

Jana Baskar, MBBS, MMedSC, MBA, was appointed Chief Medical Officer on 27 June 2022. Dr Baskar has broad therapeutic knowledge and significant clinical research expertise having worked in several different specialties both in clinical medicine and the biopharmaceutical industry in a career spanning more than 20 years. He has guided numerous clinical trials through all phases of development including more than 70 oncology programs while serving in the role of Medical Director at Novartis Oncology in Australia. Dr Baskar has been recognised for demonstrating effective change management and leadership skills. He has provided strategic advice to biopharma companies while serving as Medical Director for IQVIA in Australia and New Zealand. He received a Bachelor of Medicine degree (MBBS) from the University of Western Australia. Dr Baskar also holds a Master of Medical Science in Drug Development from the University of New South Wales (MMedSc), Master of Business Administration (MBA) from the Australian Graduate School of Management and a Certificate in Human Pharmacology (CHP) from the Royal College of Physicians, United Kingdom.

Wolfgang G. Jarolimek, Ph.D., joined Pharmaxis in September 2010 as Manager in vitro Pharmacology and was appointed Head of Drug Discovery in August 2012. Dr Jarolimek has more than 20 years' experience in pharmaceutical drug discovery and has published more than 40 peer reviewed articles. From 2002 to 2010 Dr Jarolimek was Director of Assay Development and Compound Profiling at the GlaxoSmithKline Center of Excellence in Drug Discovery in Verona, Italy. In addition to chairing early drug discovery efforts locally he also had global responsibilities for ion channel screening and implementing safety-related screening. From 1998 to 2002 Dr Jarolimek worked at the Neuroscience Center of Merck, Sharp and Dohme in Harlow, England, as Senior Research Scientist in the electrophysiology group. Prior to joining pharma companies, he spent 8 years as post-doc at the Max-Planck Institute in Munich, Germany; Baylor College of Medicine, Houston, Texas; Rammelkamp Center, Cleveland Ohio; and University of Heidelberg, Germany. Dr Wolfgang Jarolimek holds a B.Sc. in Pharmacy and a PhD from the University of Saarbrücken, Germany. In 1997 he became Assistant Professor in Physiology at the University of Heidelberg, Germany.

David M. McGarvey, CA ANZ, GAICD, FGIA, has been Chief Financial Officer and Company Secretary since December 2002. Mr McGarvey has over thirty years' experience in overseeing the financial affairs of different Australian companies. From 1998 to 2002, Mr McGarvey served as Chief Financial Officer of the Filtration and Separations Group of US Filter. From 1985 to 1997, Mr McGarvey served as Chief Financial Officer of Memtec Limited. While at Memtec, Mr McGarvey oversaw the US listing of Memtec on the Nasdaq Global Market and the New York Stock Exchange and managed numerous international merger and acquisition transactions. From 1975 to 1985, Mr McGarvey held various positions at PricewaterhouseCoopers. Mr McGarvey holds a BA in Accounting from Macquarie University and was admitted to Chartered Accountants ANZ in 1981, is a Graduate of the Australian Institute of Company Directors and is a Fellow of the Governance Institute of Australia.

Kristen Morgan BSc, PGDipBusAdmin, MMedSc has responsibility for Alliance Management and Medical and Regulatory Affairs. Ms Morgan joined Pharmaxis in August 2008 as Head of Medical Affairs and has over 20 years experience in the pharmaceutical industry. Ms Morgan previously held a senior role in Medical Affairs at Sanofi-aventis, and held a commercial/sales role at GSK. Ms Morgan holds a B.Sc. from Queensland University (major in pharmacology), a Postgraduate Diploma of Business Administration from Queensland University of Technology and a Masters of Medical Science (Drug Development) from University of New South Wales.

Brett Charlton, Ph.D., is a co-founder of Pharmaxis and was Medical Director from June 1998 until his retirement on 30 June 2022. He was a member of the Board of Directors from June 1998 to March 2006. Dr Charlton is the author of more than 60 scientific papers and has over 20 years' of experience in clinical trial design and management. Dr Charlton was founding Medical Director of the National Health Sciences Centre and established its Clinical Trials Unit. Prior to joining Pharmaxis, Dr Charlton held various positions with the Australian National University, Stanford University, the Baxter Centre for Medical Research, Royal Melbourne Hospital, and the Walter and Eliza Hall Institute. Dr Charlton holds an MBBS with honors from the University of New South Wales and a Ph.D. from the University of New South Wales.

5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with the financial statements and related notes included elsewhere in this report. The Company's financial year ends on 30 June.

5.1 Review of 2022 Operations

Pharmaxis is an Australian clinical stage drug development company focused on inflammation and fibrosis (including some cancers) with a portfolio of products at various stages of development and approval.

Established in 1998 and listed on the Australian Securities Exchange in 2003 the Company's head office, manufacturing and research facilities are located in Sydney, Australia.

The Company's product pipeline is founded on its expertise in the chemistry of amine oxidase inhibitors and includes the Company's primary program of oral pan-Lysyl Oxidase Inhibitors (LOX) targeting myelofibrosis and other cancers; topical pan-LOX inhibitors targeting skin scarring after events such as accidents, surgery or burns; selective Lysyl Oxidase Like Inhibitors (LOXL2) targeting chronic fibrotic diseases including kidney fibrosis, pulmonary fibrosis, liver fibrosis (NASH) and cardiac fibrosis; and Semicarbazide-Sensitive Amine Oxidase (SSAO) for neuro inflammatory diseases.

Pharmaxis manufactures and exports its approved products from a purpose built manufacturing facility in Sydney.

- Bronchitol[®], an inhaled dry powder for the treatment of cystic fibrosis, has been the subject of three large scale global clinical trials conducted by Pharmaxis. The product is approved and sold in the United States, Europe, Russia and Australia.
- Aridol[®] a lung function test for asthma was also the subject of a clinical trial program run by Pharmaxis and is approved and sold in the United States, Europe, Australia and Asia.

Both Bronchitol and Aridol are manufactured at the Pharmaxis manufacturing facility in Sydney and sold in Australia and internationally by exclusive distributors and wholesalers.

The management and Board of Directors have significant relevant experience in drug discovery and commercialisation.

Impact of COVID-19

Pharmaxis has continued to effectively manage the challenges of the COVID-19 global pandemic, implementing a range of measures to protect employees and continue the manufacture and supply of its approved respiratory products.

The Company has continued an uninterrupted supply to local and global customers.

The effect on product sales is discussed below. Overall, there are large variances in the impact of COVID between markets/countries, and while the Company is seeing a recovery of Aridol sales in some countries, Bronchitol continues to lag pre-COVID-19 sales levels and the US launch by its partner Chiesi, has been significantly disrupted.

The impact of COVID-19 on clinical studies has been varied from both a regional and time perspective. Individual Australian hospitals in Sydney and Perth have experienced periods of restricted patient access during community lock downs and the US centers in particular in the Company's myelofibrosis study have taken much longer than planned to open due to staff shortages and a backlog of earlier trials.

Conflict in Ukraine/Russia

Pharmaxis supplies Bronchitol to cystic fibrosis patients in Russia by way of an exclusive distributor, GEN İlaç ve Sağlık Ürünleri San. ve Tic. A.Ş. (GEN) based in Turkey. Bronchitol is on the Russian "Essential Drugs List" and is one of few therapeutic products available for cystic fibrosis patients in Russia. The drug is shipped to Turkey after which GEN attends to additional packaging requirements for distribution in Russia. GEN is responsible for transport into Russia.

New drug development

During the year the Company made progress in its drug development pipeline as follows:

Oral pan-LOX inhibitor program (PXS-5505)

Pharmaxis' primary drug development initiative is its pan-Lysyl Oxidase (pan-LOX) inhibitor program focussed on the rare bone cancer myelofibrosis. PXS-5505 is an orally taken drug that inhibits the lysyl oxidase family of enzymes and was developed from the Company's amine oxidase chemistry platform. In pre-clinical models of myelofibrosis PXS-5505 reversed the bone marrow fibrosis that drives morbidity and mortality in myelofibrosis and reduced many of the abnormalities associated with this disease.

A phase 1c/2a clinical trial (named MF-101; ClinicalTrials.gov Identifier: NCT04676529), cleared by the FDA under the Investigational New Drug scheme, commenced dosing in the March quarter of 2021 at sites in Australia and South Korea. The study aims to demonstrate that PXS-5505 is safe and well tolerated as a monotherapy in myelofibrosis patients who are intolerant, unresponsive or ineligible for treatment with approved JAK inhibitor drugs. The trial has additional secondary endpoints to explore the impact of inhibiting lysyl oxidase enzymes on a number of important disease parameters such as bone marrow fibrosis, cytopenia and spleen volume.

Assessment of the highest dose in the phase 1c study showed inhibition of the target enzymes, LOX and LOXL2, at greater than 90% over a 24-hour period at day 7 and day 28.

The trial progressed to the phase 2a open label dose expansion phase at the beginning of the fourth quarter of 2021. In this stage, 24 patients will be treated with active drug twice a day for 6 months.

Trial sites in Australia, South Korea and Taiwan are actively recruiting and recently the first sites in the United States commenced recruiting. Additional sites are also planned to join the study later in the quarter. The trial aims to complete recruitment by late 2022.

The levels of LOX and LOXL2 inhibition achieved in myelofibrosis patients in the phase 1c stage exceeds the levels seen in preclinical models of myelofibrosis where PXS-5505 caused disease modifying effects with improvements in blood cell count, diminished spleen size and reduced bone marrow fibrosis. Read the announcement here.

Myelofibrosis is a cancer with a poor prognosis and limited therapeutic options. Pharmaxis believes that the current treatments can be augmented by use of a pan-LOX inhibitor and the combination should be disease modifying in a market that is conservatively worth US\$1 billion per annum.

PXS-5505 was granted Orphan Drug Designation by the US Food and Drug Administration (FDA) in July 2020.

Oral pan-LOX inhibitor program (PXS-5505) in liver cancer

Pharmaxis and Wilmot Cancer Institute, University of Rochester Medical Center are scheduled to commence a phase 1c investigator initiated clinical trial of PXS-5505 in hepatocellular carcinoma (HCC) patients in the coming months.

In quarter 4 of 2021 the United States FDA cleared an Investigational New Drug application (IND) submitted by the University of Rochester Medical Center for a phase 1c/2a clinical trial of PXS-5505 in HCC. The IND was submitted by the University of Rochester Medical Center following positive preclinical results reported in August 2021. The trial design approved by the FDA calls for PXS-5505 to be added to current chemotherapy standard of care; combination of two antibodies against PD-L1 and VEGF) as first line therapy in newly diagnosed patients with unresectable HCC.

Primary liver malignancies have doubled in incidence over the last two decades. These malignancies are now the 4th leading cause of cancer-related mortality worldwide with a 19.6% 5-year relative survival rate. Currently, just 20%-30% HCC are resectable at presentation with many patients relying on chemotherapy. A prominent feature of HCC is the presence of highly fibrotic tissue that increases tumour stiffness, and decreases access of drugs into the tumour.

The approved trial design envisages a phase 1c dose escalation stage where the safety of PXS-5505 in combination with anti- PD-L1 and anti-VEGF antibodies will be assessed at several different doses as well as measures designed to explore the impact of PXS-5505 on fibrosis and drug perfusion. This will be followed by a 6-month phase 2a open label trial of the selected dose with both safety and efficacy endpoints.

Pharmaxis and Wilmot Cancer Institute, University of Rochester Medical Center have an agreement for the initial phase 1c with a budgeted cost of approximately US\$1.2 million.

Oral pan-LOX inhibitor program (PXS-5505) in other cancers

Pharmaxis' drug also has potential in several other cancers including myelodysplastic syndrome and pancreatic cancer, where it aims to breakdown the fibrotic tissue in the tumour and enhance the effect of existing chemo and immunotherapies. Pharmaxis has a number of scientific collaborations with centres of excellence across the world who have shown interest in PXS-5505. The Company aims to support these and encourage the use of PXS-5505 in independent investigator initiated clinical studies wherever possible.

Topical pan-LOX inhibitor program (PXS-6302)

Pharmaxis has a second pan-LOX program that has developed a drug for topical application with the potential for use in scar revision, keloid scarring and scarring from burn wounds. The Pharmaxis discovery, PXS-6302, has shown promising pre-clinical results in inhibiting the enzymes that play a critical role in the development of scar tissue and has successfully completed phase 1a/b clinical trials.

Pharmaxis is working with the University of Western Australia and the Fiona Stanley Hospital to progress the program into two patient trials – a trial in established scars and a trial in burn scars. An initial eight patients with established scars have completed a more detailed safety monitoring and review over their initial 28 days of active treatment. Recruitment of the remaining 42 patients which will be randomised to either active or placebo is ongoing. The study is for three months of treatment and is expected to report before the end of the year. A protocol for the second clinical trial in burns scars is currently in preparation.

SSAO inhibitor program (previously partnered with Boehringer Ingelheim) (PXS-4728)

The PXS-4728 development program undertaken by Boehringer Ingelheim (BI) from 2015 to 2020 was returned to Pharmaxis during the March quarter of 2021, including the extensive preclinical, clinical, safety, CMC and regulatory work carried out by BI. Further analysis of the data package by Pharmaxis scientists has uncovered potential in neuro inflammatory diseases where the clinical benefits would not be impacted by the findings that caused BI to discontinue development. Pharmaxis continues to progress discussions with independent investigators and patient organisations in relation to neuro inflammatory indications, study protocol design and funding options including grants.

LOXL2 inhibitor program (PXS-5382)

The Lysyl Oxidase Like 2 (LOXL2) enzyme is fundamental to the fibrotic cascade that follows chronic inflammation in kidney fibrosis, the liver disease NASH, cardiac fibrosis and idiopathic pulmonary fibrosis (IPF) and it also plays a role in some cancers.

The Pharmaxis drug discovery group developed a small molecule inhibitor to the LOXL2 enzyme (PXS-5382) that has completed phase 1 clinical trials and 3-month toxicology studies.

Pharmaxis is currently pursuing a number of different options to enable PXS-5382 to enter the clinic in phase 2 trials in a chronic fibrotic disease and continues discussions with independent investigators in relation to study protocol design and funding options including grants.

Preclinical compound PXS-4699 targeting Duchenne Muscular Dystrophy

Pharmaxis has been investigating the utility of its compound PXS-4699 for the treatment of the genetic disorder Duchenne Muscular Dystrophy. The work has been supported with matching funds from the Biomedical Translation Bridge, administered by MTPConnect.

Based on results received in the March quarter of a preclinical model where the compound did not achieve the expected outcome, the indication is not being further pursued.

Mannitol Respiratory Business (approved products – Bronchitol and Aridol)

Bronchitol for cystic fibrosis

- Bronchitol is an inhaled dry powder for the treatment of cystic fibrosis (CF). The product is approved and marketed in the United States, Europe, Russia, and Australia.
- The largest markets for Bronchitol are currently the United States, Russia and Australia. Chiesi is the Company's distributor in the United States as well as Western Europe; GEN İlaç ve Sağlık Ürünleri San. ve Tic. A.Ş. (GEN) is the distributor for Russia as well as Turkey, and BTC health is the distributor for both Bronchitol and Aridol in Australia.
- Impact of COVID:
Before prescribing Bronchitol patients are required to have a respiratory test which must be administered in a hospital or clinic. Most respiratory tests were suspended as a result of COVID-19, in part because the resources are required to treat the pandemic and also because of health risks arising from patients exhaling multiple times with force as part of the test.

Furthermore, cystic fibrosis patients are not visiting hospitals or clinics due the more serious consequences of COVID-19 for people with already compromised lungs.

All markets have been impacted by COVID, but particularly the US where the launch has been significantly constrained. While the outlook in 2022 and 2023 remains uncertain Chiesi is clearly committed to the launch and report improving access to hospitals and clinics.

- Chiesi re-assesses Bronchitol US long term sales expectations:
Towards the end of the financial year Chiesi re-assessed its expected peak sales of Bronchitol in the US in light of new post-COVID patient management practices and the impact of new treatment options for cystic fibrosis patients now more widely available.
CF patients are typically now physically attending clinics twice a year compared to four times prior to COVID, halving the opportunities to administer the respiratory test required before Bronchitol is prescribed.
Over the last few years additional CFTR modulator drugs that address a greater proportion of the CF population have been approved. These drugs provide improvement in overall patient health but do not directly assist with mucus clearance which remains an ongoing need for patients.
While it is difficult to assess the longer term impact of new patient treatment practices and wider availability of CFTR modulators on the long term requirement for mucus clearance therapeutics such as Bronchitol, Chiesi is of the view that US peak sales will be approximately half of their previous expectations.
The overall impact on the mannitol business unit of lower US Bronchitol sales is to reduce the five year forecast Adjusted EBITDA to approximately \$5m per annum. The business unit is still expected to be EBITDA positive for the 2023 and subsequent financial years.

Aridol

- Aridol is designed to identify twitchy or hyper-responsive airways and to assist in diagnosing and managing asthma. It is a simple-to-use airways inflammation test administered as a dry powder in a hand-held inhaler.
- Aridol is approved and sold in Australia, South Korea, in a number of European countries, the USA and Canada.
- Impact of COVID:
As a result of the COVID-19 pandemic lung function testing continues to be limited to more severe cases due to increased risk of airborne infection from patients exhaling multiple times with force as part of the test. In market sales have reduced on country basis consistent with the impact of the pandemic and this impact continues, particularly in the United States.

5.2 Results of Operations

Sales

Sales for the year ended 30 June 2022 of \$7.4 million (2021: \$6.7 million) included Bronchitol sales of \$5.8 million (2021: \$5.2 million) and Aridol sales of \$1.6 million (2021: \$1.4 million).

Bronchitol sales by region are as follows:	2022	2021
	\$'000	\$'000
Australia	677	974
Western Europe	790	813
Central and Eastern Europe	506	636
Russia	2,226	1,365
USA	1,616	1,447
	5,815	5,235

Pharmaxis supplies Bronchitol to its distributors only several times a year with the quantity and timing of orders based on in-market sales and distributor inventory levels. Comparison of sales is not indicative of underlying market trends. In comparing financial year sales, it is also important to consider the sale of distribution rights for Australia and Russia from 1 July 2021 and 1 May 2021 respectively.

In the US in-market sales by Chiesi are still small in number but unit sales for the June quarter were approximately 2.5 times the quarterly average since launch. In Western Europe in-market sales by Chiesi are approximately 40% lower than pre-COVID-19 levels (2019 calendar year). In Australia, in-market unit sales are running just slightly below pre-COVID-19 levels (2019 calendar year).

Aridol sales by region are as follows:	2022	2021
	\$'000	\$'000
Australia	240	433
Europe	770	564
USA & Canada	334	98
South Korea	267	350
	1,611	1,445

Other revenue

Other revenue for the year ended 30 June 2022 was \$2.5 million compared to \$16.0 million in 2021. Other revenue for the year ended 30 June 2022 included the sale of Australian Bronchitol and Aridol distribution rights for \$2.0 million, the grant of an option over the Company's Orbital high payload inhaler technology for \$0.3 million and interest income \$0.2 million. Other revenue for the year ended 30 June 2021 included milestone payments for the approval of Bronchitol in the US and supply of product for the US launch \$13.8 million, approval of Bronchitol in Brazil \$0.1 million, the sale of the Russian Bronchitol distribution rights \$2.0 million and interest income \$0.1 million.

Other income

Other income for the year ended 30 June 2022 was \$6.0 million (2021: \$1.0 million). The components to this income group include:

- R&D tax incentive credits - \$4.9 million (2021: \$0.1 million). The R&D Tax Incentive scheme in Australia enables a 43.5 per cent refundable tax offset to eligible entities with an aggregated turnover of less than \$20 million per annum. The Company qualified for an R&D tax credit in 2022 but not in 2021 when aggregated turnover exceeded \$20 million. The 2021 year revenue includes a \$0.1 million adjustment for the final 2020 credit received.
- Government funding from several grants totaling \$0.1 million (2021: \$0.5 million), and
- Other of \$0.9 million (2021: \$0.3 million), including \$0.7 million of insurance proceeds in relation to the loss of preclinical samples (2021: nil) and the sublease of excess office and warehouse space of \$0.2 million for the year ended 30 June 2022 (2021: \$0.4 million).

Employee costs

Employee related expenses for the year ended 30 June 2022 were \$10.4 million, an approximate 6% decrease from 2021, reflecting decrease in employee numbers including European sales and marketing. Employee costs include share based payments (non-cash) totaling \$0.8 million (2021: \$0.3 million).

The Company employed 65 FTEs at 30 June 2022 of which approximately 26% were engaged in new drug discovery, 8% in corporate, 1% in clinical services, 61% in the manufacturing of Bronchitol and Aridol, and the remaining 4% in medical/regulatory support of Bronchitol and Aridol.

Administration & corporate

Administration and corporate expenses include accounting & IT, legal & compliance, public company costs, patent portfolio and insurance costs. Administration expenses were \$2.6 million in 2022 compared to \$2.7 million in 2021.

Clinical trials

Clinical trials expenses were \$5.7 million in 2022 compared to \$2.7 million in 2021. The clinical trials expenses relate to the external costs incurred and are predominately driven by fees paid to the clinical research organisations contracted to manage the trials, and costs paid to participating site investigators. A total of \$1.6 million was spent on the manufacture of drug product for use in clinical trials.

The 2022 expense consists of:

- Phase 1c/2a trial for the Company's Oral pan-LOX inhibitor program (PXS-5505) in myelofibrosis: \$5.0 million, and
- Phase 1 trial for the Company's Topical pan-LOX inhibitor program (PXS-6302): \$0.7 million.

The 2021 expense consists:

- Phase 1c/2a trial for the Company's Oral pan-LOX inhibitor program: \$2.1 million, and
- Phase 1 trial for the Company's Topical pan-LOX inhibitor program: \$0.5 million.

Drug development

Drug development expenses were \$1.5 million in 2022 compared to \$2.1 million in 2021. The drug development expenses relate to the external costs incurred in running the Company's research programs (and excludes any allocation of lease and utilities), selecting and then progressing drug candidates through the pre-clinical development path. The expenditure predominantly relates to the following programs with the mix of expenditure changing as the programs progress towards the clinic. Program expenditure is as follows:

- Oral pan-LOX inhibitor program: \$2.0 million (\$0.5 million in 2021).
- Topical pan-LOX inhibitor program: \$0.5 million (\$0.1 million in 2021).
- SSAO combination programs (MAOB and MPO): \$0.3 million (\$1.2 million in 2021).

Sales, marketing & distribution

Sales and marketing expenses are primarily focused on external costs incurred in selling Bronchitol globally, in support of the Company's exclusive distributors. Limited Pharmaxis resources are now directed at the promotion of Bronchitol or Aridol. Sales and marketing expenses for the current year were \$0.8 million compared to \$1.5 million in 2021. The expenses in both years included costs associated in applying for and/or extending pricing reimbursements. The decrease in the current year primarily relates to elimination of Russian marketing services following the sale of Russian distribution rights at the end of the 2021 financial year.

Safety, medical and regulatory affairs

Safety, medical and regulatory affairs expenses relate to external costs directed at monitoring and reporting product safety to regulatory agencies, reviewing material provided to clinicians and patients by the Company and obtaining and maintaining product approvals. This category of expenses was \$1.6 million in 2022 and \$1.6 million in 2021.

Manufacturing purchases and changes in inventory

Manufacturing purchases and changes in inventory were \$2.7 million in 2022 compared to \$1.1 million in 2021. This group of costs includes raw material and consumable purchases, external costs associated with running the production and quality control processes and repair & maintenance costs associated with manufacturing equipment and our manufacturing facility as well as the net transfer of manufacturing labour and overhead to and/or from inventory and inventory adjustments. These costs vary with production volumes which were lower in the 2022 financial year.

Other

Other expenses were \$0.5 million in 2022 compared to \$0.3 million in 2021. This category encompasses royalties, corporate travel related costs, shared office administration costs, and other costs. The increase in part reflects a return of international travel and conference costs due to easing Covid-19 travel restrictions.

Depreciation & amortisation

Depreciation and amortisation expense for the year ended 30 June 2022 was \$3.2 million, in line with 2021.

Foreign currency exchange gains and losses

The Group recorded a foreign currency exchange loss for the year ended 30 June 2022 of \$1.1 million (2021: \$1.0 million gain). The foreign exchange loss includes a \$1.2 million unrealised loss in relation to the financing agreement with NovaQuest (2021: \$1.8 million gain) and in 2021 a realised loss of \$0.8 million in relation to the USD denominated milestone for the approval of Bronchitol in the USA.

Finance income (costs)

Finance income was \$13.5 million in 2022 compared to an expense of \$0.4 million in 2021. The balances are made up of an expense in relation to lease liability of our corporate manufacturing and research facility at French's Forest of \$0.3 million (2021: \$0.5 million), and an adjustment to the NovaQuest financing agreement of \$13.5 million in the year ending 30 June 2022 (2021: \$0.1 million). This adjustment was made as a result of the Company recalculating expected payments to be made under the NovaQuest financing agreement subsequent to the reduction of projected Bronchitol sales in the United States as discussed above.

Income tax expense

The Group only operates in Australia and did not have taxable income in 2022 or 2021.

Profit/(Loss)

The Company recorded a loss of \$1.9 million in 2022 compared to a loss of \$3.0 million in 2021.

Basic and diluted net profit / (loss) per share

Basic and diluted net loss per share was \$0.004 in 2022 compared to \$0.007 in 2021.

5.3 Liquidity and Capital Resources

As at 30 June 2022 Pharmaxis had cash and cash equivalents of \$8.9 million as compared to \$18.7 million at 30 June 2021. The Company also received \$6.9 million (net of withholding tax) in August 2022 from the exercise of options over its Orbital technology. In addition, the Company expects to receive \$4.9 million in the 2023 financial year in relation to its 2022 R&D tax credit. The components of the Company's cash flow during 2022 were as follows:

- Net cash outflows from operating activities of \$16.1 million. This consisted of a net loss for the year of \$1.9 million, \$3.2 million of non-cash depreciation and amortisation, net non-cash finance income of \$13.5 million and unrealized non-cash foreign exchange losses of \$1.1 million, non-cash employee equity charges of \$0.8 million, and other net negative working capital movements of \$5.9 million, the largest component of which is the 2022 R&D tax credit of \$4.9 million.
- Net cash outflows from investing activities were \$0.3 million including both capital expenditure and new patent applications.
- Net cash inflows from financing activities were \$6.6 million which included net proceeds from the issuance of shares \$9.1 million, facility finance lease repayments of \$2.4 million and financing agreement repayments of \$0.1 million.

6 FINANCIAL STATEMENTS

This financial report covers Pharmaxis Ltd as the consolidated entity consisting of Pharmaxis Ltd and its subsidiaries. The financial report is 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, NSW Australia 2086

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 this financial report.

The financial report was authorised for issue by the directors on 30 August 2022. The company has the power to amend and reissue the financial report.

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

Pharmaxis Ltd

Consolidated income statement

For the year ended 30 June 2022

		2022	2021
	Notes	\$'000	\$'000
Revenue from continuing operations			
Revenue from sale of goods	3a	7,426	6,680
Other revenue	3a	2,496	16,017
Other income	3b	5,990	979
		<hr/> 15,912	<hr/> 23,676
Other expenses from ordinary activities	4		
Employee costs		(10,393)	(11,114)
Administration & corporate		(2,582)	(2,659)
Rent, occupancy & utilities		(1,108)	(1,098)
Clinical trials		(5,721)	(2,681)
Drug development		(1,503)	(2,086)
Sales, marketing & distribution		(755)	(1,469)
Safety, medical and regulatory affairs		(1,646)	(1,621)
Manufacturing purchases and changes in inventory		(2,729)	(1,168)
Other		(519)	(274)
Depreciation & amortisation		(3,238)	(3,152)
Foreign exchange gains & losses		(1,110)	1,045
Finance income (costs)		13,456	(369)
		<hr/> (17,848)	<hr/> (26,646)
Loss before income tax		(1,936)	(2,970)
Income tax expense	5	–	–
Loss for the year		<hr/> (1,936)	<hr/> (2,970)
Earnings per share:			
		Cents	Cents
Basic net loss per share	28	(0.04)	(0.7)
Diluted net loss per share	28	(0.03)	(0.7)

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

Pharmaxis Ltd

Consolidated statement of comprehensive income

For the year ended 30 June 2022

	2022	2021
	\$'000	\$'000
Loss for the financial year	(1,936)	(2,970)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss	–	–
Other comprehensive income / (loss) for the year, net of tax	–	–
Total comprehensive loss for the year	(1,936)	(2,970)
Total comprehensive loss for the year is attributable to:		
Owners of Pharmaxis Ltd	(1,936)	(2,970)

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

Pharmaxis Ltd
Consolidated balance sheet
As at 30 June 2022

	Notes	2022 \$'000	2021 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	6	8,937	18,712
Trade and other receivables	7	7,958	2,959
Inventories	8	2,337	3,638
Total current assets		<u>19,232</u>	<u>25,309</u>
Non-current assets			
Receivables	9	1,718	942
Property, plant and equipment	10	3,212	6,226
Intangible assets	11	1,024	1,113
Total non-current assets		<u>5,954</u>	<u>8,281</u>
Total assets		<u>25,186</u>	<u>33,590</u>
LIABILITIES			
Current liabilities			
Trade and other payables	12	2,702	3,765
Borrowings	13	2,031	2,032
Other liabilities	14	259	1,018
Provisions	15	1,107	1,072
Total current liabilities		<u>6,099</u>	<u>7,887</u>
Non-current liabilities			
Borrowings	16	2,259	4,290
Other liabilities	17	5,938	18,515
Provisions	18	86	53
Total non-current liabilities		<u>8,283</u>	<u>22,858</u>
Total liabilities		<u>14,382</u>	<u>30,745</u>
Net assets		<u>10,804</u>	<u>2,845</u>
EQUITY			
Contributed equity	19	380,440	371,366
Reserves	20(a)	23,457	22,636
Accumulated losses	20(b)	(393,093)	(391,157)
Total equity		<u>10,804</u>	<u>2,845</u>

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

Pharmaxis Ltd

Consolidated statement of changes in equity

For the year ended 30 June 2022

	Notes	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000
Balance at 30 June 2020		367,301	22,317	(388,187)	1,431
Loss for the year		–	–	(2,970)	(2,970)
Other comprehensive income		–	–	–	–
Total comprehensive loss for the year		–	–	(2,970)	(2,970)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	19(a)	4,065	–	–	4,065
Employee share options	20(a)	–	319	–	319
		4,065	319	–	4,384
Balance at 30 June 2021		371,366	22,636	(391,157)	2,845
Loss for the year		–	–	(1,936)	(1,936)
Other comprehensive income		–	–	–	–
Total comprehensive loss for the year		–	–	(1,936)	(1,936)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	19(a)	9,074	–	–	9,074
Employee share options	20(a)	–	821	–	821
		9,074	821	–	9,895
Balance at 30 June 2022		380,440	23,457	(393,093)	10,804

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 year ended 30 June 2022

		2022	2021
	Notes	\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		9,353	7,242
Payments to suppliers and employees (inclusive of goods and services tax)		(28,322)	(24,862)
		(18,969)	(17,620)
Grant receipts from government		149	5,433
Receipt of the Chiesi US FDA milestones		–	13,844
Proceeds from the sale of distributions rights		2,562	1,365
Interest received		156	50
Net cash inflow / (outflow) from operating activities	27	(16,102)	3,072
Cash flows from investing activities			
Payments for property, plant and equipment		(66)	(332)
Proceeds from disposal of plant and equipment		1	3
Payments for intangible assets		(241)	(315)
Net cash outflow from investing activities		(306)	(644)
Cash flows from financing activities			
Proceeds from the issues of shares		9,742	4,366
Transactions costs related to the issue of shares		(668)	(301)
Lease liability payments		(2,379)	(2,305)
Financing agreement payments		(62)	(240)
Net cash inflow / (outflow) from financing activities		6,633	1,520
Net increase / (decrease) in cash and cash equivalents		(9,775)	3,948
Cash and cash equivalents at the beginning of the financial year		18,712	14,764
Effects of exchange rate changes on cash and cash equivalents		–	–
Cash and cash equivalents at the end of the financial year	6	8,937	18,712

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

Pharmaxis Ltd

Notes to the financial statements

30 June 2022

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Pharmaxis Ltd and its subsidiaries.

Except as described below in respect of leases, the accounting policies adopted are consistent with those of the previous financial year and corresponding reporting period.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Interpretations issued by the Australian Accounting Standards Board, and the *Corporations Act 2001*. Pharmaxis Ltd is a for profit entity for the purposes of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of Pharmaxis Ltd also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- (i) *Finance liabilities* - The group has recognised a financial liability in relation to an agreement with NovaQuest Pharma Opportunities Fund III, LP in accordance with the accounting policy stated in note 1 r (i). The finance income recognised in the income statement related to this financial liability has been calculated by taking into account sales forecasts in territories covered by the agreement, timing of launch into these territories and applicable exchange rates. Significant judgement has been applied in deriving these assumptions. Where the outcomes of these assumptions are different from the amounts that were initially recorded, such differences will impact the financial liabilities and finance costs in the period in which such determination is made.
- (ii) *Income taxes* - The group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes and other tax related balances. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The group estimates its tax liabilities/receipts based on the group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.
- (iii) *Going concern* - During the year, the Group incurred an operating loss after tax of \$1.9 million (FY2021: \$3.0 million) and net operating cash outflows of \$16.1 million (FY2021: inflows of \$3.1 million).

The Group's ability to continue as a going concern is dependent on its ability to achieve its sales targets for approved products and manage its cost base, particularly its investment in its drug development pipeline, and secure additional funding when necessary.

As a result of these matters, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. However, the Directors have determined that it is appropriate to prepare the consolidated financial statements on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business on the basis that:

- As at 30 June 2022, the Group has cash and cash equivalents of \$8.9 million (FY2021: \$18.7m) and had \$4.9 million expected in the following financial year from the 2022 R&D tax credit after filing of the 2022 income tax return. On 16 August 2022 the Group received A\$6.9 million from Aptar Pharma.
- The Directors believe the Group will be successful in:
 - achieving sufficient future cash flows from the sales of Bronchitol in the US following its launch and continued growth of Bronchitol sales in Russia;
 - securing new partnering arrangements for programs currently in its drug development pipeline; and/or
 - accessing additional sources of funding including equity share capital if necessary.

Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Pharmaxis Ltd

Notes to the financial statements

30 June 2022

1. Summary of significant accounting policies (continued)

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pharmaxis Ltd ("company" or "parent entity") as at 30 June 2022 and the results of all subsidiaries for the year then ended. Pharmaxis Ltd and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group's senior management committee.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Pharmaxis Ltd's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. All other foreign exchange gains and losses are presented in the income statement on a net basis within other expenses.

(iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

(e) Revenue recognition

Revenue is measured at the transaction price. Amounts disclosed as revenue are net of applicable rebates, returns and trade allowances. The group recognises revenue when the performance obligation is satisfied, the consideration is unconditional and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Sales revenue is recognised when the performance obligation of transferring goods to the buyer has been satisfied and can be measured reliably. Goods are considered transferred to the buyer when the buyer obtains control of that good, which is at the earlier of delivery of the goods or the transfer of legal title to the buyer.

1. Summary of significant accounting policies (continued)

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(iii) Research & Development tax incentive income

Research & Development tax incentive income is recognised when there is reasonable assurance that the income will be received, the relevant expenditure has been incurred, and the consideration can be reliably measured.

(iv) Sale of drug candidates

Milestone payments received pursuant to any drug candidate asset and purchase agreements with no further performance obligations on the part of the company are recognised as income when the specified contract milestone event is satisfied and payment is unconditional only subject to passage of time.

(v) Sale of distribution rights

Payments received for the grant of the right to distribute products in a territory are recognised as income when the specified contract event is satisfied and payment obligation is only subject to passage of time.

(f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the company will comply with all attached conditions. When the company receives income in advance of incurring the relevant expenditure, it is treated as deferred income as the company recognises the income only when the relevant expenditure has been incurred.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of plant and equipment are included in liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income, or directly in equity, respectively.

The Group has unused tax losses of \$323 million at 30 June 2022 as described in note 5.

(h) Leases

The Group recognises all lease liabilities and corresponding right of use assets, with the exception of short term (12 months or fewer) and low value leases on the balance sheet. Lease liabilities are recorded at the present value of: fixed payments; variable lease payments that depend on an index rate and extension options expected to be exercised. The Group recognises depreciation of right of use assets and interest on lease liabilities in the income statement over the lease term.

1. Summary of significant accounting policies (continued)

Repayments of lease liabilities are separated into principal portion (presented within financing activities) and interest portion (presented within financing activities) in the cash flow statement. Right of use assets are included in the review for impairment of property, plant and equipment and intangible assets with finite lives, if there is an indication that the carrying amount of the cash generating unit may not be recoverable.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognised in profit or loss.

(j) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Cash and cash equivalents

For purposes of the statement of cash flows, cash includes cash on hand, deposits at call, term deposits and bank accepted commercial bills, which are subject to an insignificant risk of changes in value.

Bank accepted commercial bills are short-term deposits held with banks with maturities of three months or less, which are acquired at a discount to their face value. The bills are carried at cost plus a portion of the discount recognised as income on an effective yield basis. The discount brought to account each period is accounted for as interest received.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are due for settlement between 30 – 120 days from date of invoice. They are presented as current assets unless collection is not expected for more than twelve months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment loss is recognised in the income statement within administration expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administration expenses in the income statement.

1. Summary of significant accounting policies (continued)

(m) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(n) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Plant and equipment	5 – 15 years
Computer equipment	4 years
Leased building and improvements	15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(o) Intangible assets

(i) Patents

Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the patents over their estimated useful lives, which vary from 5 to 20 years.

(ii) Trademarks

Trademarks have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the trademarks over their estimated useful lives, which are assessed as 20 years.

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

(iv) Software

Software licenses are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the software over their estimated useful lives, which vary from 3 to 5 years.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition and receipt of a valid invoice. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(q) Employee benefits

(i) Short term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Pharmaxis Ltd
Notes to the financial statements

30 June 2022

1. Summary of significant accounting policies (continued)

(ii) Long term obligations

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Retirement benefit obligations

Contributions to defined contribution funds are recognised as an expense as they become payable.

(iv) Equity-based payments

Equity-based compensation benefits are provided to employees via the Pharmaxis Employee Equity Plans. Information relating to these schemes is set out in note 30. The fair value of equity granted under the various plans are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the performance rights.

For performance rights the fair value at grant date is taken to be the closing share price on the date of grant.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, performance targets). Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to become exercisable. At each balance sheet date, the Company revises its estimate of the number of performance rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(r) Other liabilities

(i) Financing agreement

The company recognised a financial liability which may be contingent in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the group and its counter party.

The group does not have an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) as it does not control the final outcome. A transfer of economic benefits as a result of a past event (the issue of the financial liability) cannot be avoided depending on the outcome of the future event.

The financial liability is initially recognised at fair value of the estimated cash flows that are expected to occur over the expected life of the liability, net of transaction costs incurred. The financial liability is subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss, in finance costs, over the period of the financial liability using the effective interest method. When the estimated cash flows are revised, the carrying amount of the liability is recalculated by computing the present value of the revised estimated future cash flows at the original effective interest rate.

Financial liabilities are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Pharmaxis Ltd

Notes to the financial statements

30 June 2022

1. Summary of significant accounting policies (continued)

(s) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options (net of recognised tax benefits) are shown in equity as a deduction from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(t) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing net result after income tax attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(v) Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in the Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

(w) Parent entity financial information

The financial information for the parent entity, Pharmaxis Ltd, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements. Investments in subsidiaries are accounted for at cost in the financial statements of Pharmaxis Ltd. Dividends received are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

(x) New accounting standards and interpretations

There are no mandatory accounting standards and interpretations for the group to consider during the year ending 30 June 2022.

Pharmaxis Ltd

Notes to the financial statements

30 June 2022

2. Segment information

(a) Description of segments

The group's senior management committee, considers the business from a product development stage perspective and has identified two reportable segments:

1. Mannitol respiratory business – covering the clinical development, manufacture and sale of Bronchitol and Aridol globally. The committee monitors the performance of these two products collectively.
2. New Drug Development – this segment encompasses the drug discovery and early stage clinical development of the group's new drug candidates.

The corporate head office related costs of the group's business are not regarded as a segment but are disclosed below.

(b) Segment information provided to the senior management committee

The segment information provided to the senior management committee for the reportable segments for the year ended 30 June 2022 is as follows:

Pharmaxis Ltd

Notes to the financial statements

30 June 2022

2. Segment information (continued)

	Mannitol \$'000	New Drug Development \$'000	Corporate \$'000	Total \$'000
2022				
Segment Revenue				
Sales revenue	7,426	–	–	7,426
R&D tax credit	–	4,900	–	4,900
Other revenue and income	2,342	781	308	3,431
	<u>9,768</u>	<u>5,681</u>	<u>308</u>	<u>15,757</u>
Expenses from ordinary activities				
Employee costs	(4,760)	(2,943)	(1,869)	(9,572)
Administration & corporate	(444)	(182)	(1,956)	(2,582)
Rent, occupancy & utilities	(625)	(74)	(409)	(1,108)
Clinical trials ⁽¹⁾	–	(5,721)	–	(5,721)
Drug development	–	(1,503)	–	(1,503)
Sales, marketing & distribution	(755)	–	–	(755)
Safety, medical and regulatory affairs	(1,620)	(26)	–	(1,646)
Manufacturing purchases and change in inventory	(2,729)	–	–	(2,729)
Other	(138)	(92)	(154)	(384)
	<u>(11,071)</u>	<u>(10,541)</u>	<u>(4,388)</u>	<u>(26,000)</u>
Adjusted EBITDA	<u>(1,303)</u>	<u>(4,860)</u>	<u>(4,080)</u>	<u>(10,243)</u>
2021				
Segment Revenue				
Sales revenue	6,680	–	–	6,680
R&D tax credit	–	148	–	148
Other revenue and income	15,986	396	416	16,798
	<u>22,666</u>	<u>544</u>	<u>416</u>	<u>23,626</u>
Expenses from ordinary activities				
Employee costs	(5,558)	(3,270)	(1,967)	(10,795)
Administration & corporate	(381)	(167)	(2,111)	(2,659)
Rent, occupancy & utilities	(944)	(83)	(71)	(1,098)
Clinical trials ⁽¹⁾	–	(2,681)	–	(2,681)
Drug development	–	(2,086)	–	(2,086)
Sales, marketing & distribution	(1,469)	–	–	(1,469)
Safety, medical and regulatory affairs	(1,558)	(63)	–	(1,621)
Manufacturing purchases and change in inventory	(1,168)	–	–	(1,168)
Other	(131)	(83)	(60)	(274)
	<u>(11,209)</u>	<u>(8,433)</u>	<u>(4,209)</u>	<u>(23,851)</u>
Adjusted EBITDA	<u>11,457</u>	<u>(7,889)</u>	<u>(3,793)</u>	<u>(225)</u>

2. Segment information (continued)

- (1) The clinical trial costs for the year ending 30 June 2022 include \$5.0m (2021: \$2.0m) on the oral pan-LOX inhibitor program and \$0.7m (2021: \$0.6m) on the topical pan-LOX inhibitor program.

The senior management committee uses the adjusted EBITDA as a measure to assess performance of the segments. This excludes the effects of non-recurring expenditure such as redundancy costs, partnering and financing agreement legal expenses, and patent impairments when the impairment is the result of an isolated, non-recurring event. It also excludes the effects of equity-settled share-based payments and unrealised gains/losses on financial instruments and foreign exchange.

A reconciliation of adjusted EBITDA to operating profit / (loss) before income tax is provided as follows:

	2022	2021
	\$'000	\$'000
Adjusted EBITDA	(10,243)	(225)
Interest revenue	50	50
Finance costs		
Unrealised gains on financial instruments ⁽¹⁾	13,899	104
Finance costs – lease liability charges	(473)	(473)
Depreciation and amortisation expense	(3,238)	(3,152)
Share-based payment expenses	(821)	(319)
Unrealised/realised net foreign exchange gains/(losses)	(1,110)	1,045
Loss before income tax	(1,936)	(2,970)

- (1) The Company reviewed and amended the estimated cash flows of the NovaQuest liability as per the financing agreement accounting policy note 1 (a) (i), as a result the change in NovaQuest liability has been reflected in the income statement.

Pharmaxis Ltd
Notes to the financial statements
30 June 2022

3a. Revenue

	2022	2021
	\$'000	\$'000
<i>Sales revenue</i>		
Sale of goods	7,426	6,680
<i>Other revenue</i>		
Interest	156	50
Milestone payments	340	14,017
Sale of distribution rights	2,000	1,950
	2,496	16,017

3b. Other income

	2022	2021
	\$'000	\$'000
R&D Tax Incentive income	4,900	148
Other	942	285
Government grants	148	546
	5,990	979

4. Expenses

Profit / (loss) before income tax includes the following specific expenses:	2022	2021
	\$'000	\$'000
Depreciation (note 10)		
Plant and equipment	853	947
Computer equipment	60	65
Leased building and improvements	2,167	1,998
Total depreciation	3,080	3,010
Amortisation & impairment (note 11)		
Patents	35	14
Trademarks	6	6
Software	117	122
Total amortisation	158	142
Net foreign exchange losses (gains)	1,110	1,045
Employee salaries and benefits expense:		
Defined contribution superannuation	771	757
Share-based payment expenses	821	319
Contractor benefits expenses	468	593
Other employee benefits expenses	8,333	9,445

Pharmaxis Ltd

Notes to the financial statements

30 June 2022

5. Income tax expense

	2022 \$'000	2021 \$'000
(a) Numerical reconciliation of prima facie tax expense to actual income tax expense		
(Loss) before income tax expense	(1,936)	(2,970)
Tax at the Australian tax rate 25% (2021: 26%)	(484)	(772)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	205	83
Government tax incentives	1,225	1,405
Revaluation of NovaQuest liability	3,452	(27)
Other non-deductible adjustments and sundry items	(5,608)	(1,008)
Total	(1,210)	(320)
Deferred tax benefits (utilised) / not recognised	1,210	320
Income tax refund	–	–

This represents current income tax expense.

(b) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	322,906	318,065
Potential tax benefit at 25% (2021: 26%)	80,726	82,696

All unused tax losses were incurred by the parent entity.

6. Current assets – Cash and cash equivalents

	2022 \$'000	2021 \$'000
Cash at bank and in hand	442	930
Deposits at call	2,499	9,254
Term deposits	5,996	8,528
	8,937	18,712

Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 29. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents above.

7. Current assets – Trade and other receivables

	2022 \$'000	2021 \$'000
Trade receivables	2,464	1,823
Provision for impairment of receivables (note (b))	–	–
	2,464	1,823
R&D Tax Incentive and grant related receivables	4,900	161
Prepayments (note (c))	316	223
Tax related receivables	278	159
Receivables related to the sale of distribution rights	–	593
	7,958	2,959

Notes to the financial statements

30 June 2022

7. Current assets – Trade and other receivables (continued)**(a) Past due but not impaired**

As of 30 June 2022, trade receivables of \$0.3 million (2021: \$0.2 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2022	2021
	\$'000	\$'000
Up to 1 month	31	59
1 to 2 months	265	45
Over 2 months	22	101
	318	205

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The group does not hold any collateral in relation to these receivables.

(b) Impaired trade receivables

As of 30 June 2022 no trade receivables were impaired (2021: \$Nil).

(c) Prepayments

Prepayments relate to insurance premiums paid in advance.

(d) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 29.

(e) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 29 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

8. Current assets – Inventories

	2022	2021
	\$'000	\$'000
Raw materials - at cost	941	975
Work-in-progress - at cost	448	279
Finished goods - at cost	948	2,384
	2,337	3,638

9. Non-current assets – Receivables

	2022	2021
	\$'000	\$'000
Trade receivable (a)	773	–
Other receivables (b)	945	942
	1,718	942

(a) Trade receivable

Relates to the non-current portion of the US Margin Receivable. (2021: \$Nil)

9. Non-current assets – Receivables (continued)**(b) Other receivables**

Other receivables primarily represents cash held at bank to cover bank guarantee facilities related to lease commitments.

(c) Fair value

The carrying amount of the non-current receivables approximates their fair value.

(d) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 29.

10. Non-current assets – Property, plant and equipment

	Plant and equipment	Computer equipment	Leased building and improvements	Total
	\$'000	\$'000	\$'000	\$'000
At 1 July 2020				
Cost	17,127	892	24,712	42,731
Accumulated depreciation and impairment	(14,745)	(757)	(18,323)	(33,825)
Net book amount	2,382	135	6,389	8,906
Year ended 30 June 2021				
Opening net book amount	2,382	135	6,389	8,906
Additions	279	43	10	332
Disposals	(2)	–	–	(2)
Depreciation charge	(947)	(65)	(1,998)	(3,010)
Closing net book amount	1,712	113	4,401	6,226
At 30 June 2021				
Cost	17,404	935	24,722	43,061
Accumulated depreciation and impairment	(15,692)	(822)	(20,321)	(36,835)
Net book amount	1,712	113	4,401	6,226
Year ended 30 June 2022				
Opening net book amount	1,712	113	4,401	6,226
Additions	66	–	–	66
Disposals	–	–	–	–
Depreciation charge	(853)	(60)	(2,167)	(3,080)
Closing net book amount	925	53	2,234	3,212
At 30 June 2022				
Cost	17,470	935	24,722	43,127
Accumulated depreciation and impairment	(16,545)	(882)	(22,488)	(39,915)
Net book amount	925	53	2,234	3,212

Based on the headroom in impairment testing supporting the carrying value of Property, Plant & Equipment and sensitivity analysis performed, there is not a significant risk of impairment at this point time. However, some of the assumptions, including those relating to the commercialisation of Bronchitol in the United States, are subject to uncertainties which are outside the control of Pharmaxis. Actual conditions and events may be different to those forecast and the effect of those differences may impact the carrying value of Property, Plant & Equipment.

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10. Non-current assets – Property, plant and equipment (continued)

(a) Leased assets

Leased building and improvements includes the following amounts where the Group is a lessee.

	2022 \$'000	2021 \$'000
Cost	15,406	15,406
Accumulated amortisation	(13,931)	(11,869)
Net book amount	<u>1,475</u>	<u>3,537</u>

At 30 June 2022, the Group's carrying value of the lease was \$3.5 million with nil additions and \$1.2 million depreciation reported in the reporting period. Parts of the building were sub-leased which generated income of \$0.23 million (2021: \$0.26 million).

11. Non-current assets – Intangible assets

	Patents \$'000	Trademarks \$'000	Software \$'000	Total \$'000
At 30 June 2021				
Cost	19,704	111	1,101	20,916
Accumulated amortisation and impairment	(19,031)	(75)	(869)	(19,975)
Net book amount	<u>673</u>	<u>36</u>	<u>232</u>	<u>941</u>
Year ended 30 June 2021				
Opening net book amount	673	36	232	941
Additions	243	–	72	315
Disposals	–	–	–	–
Amortisation charge	(14)	(6)	(122)	(142)
Impairment charge	–	–	–	–
Closing net book amount	<u>902</u>	<u>30</u>	<u>182</u>	<u>1,114</u>
At 30 June 2021				
Cost	19,704	111	1,101	20,916
Accumulated amortisation and impairment	(19,031)	(75)	(869)	(19,975)
Net book amount	<u>673</u>	<u>36</u>	<u>232</u>	<u>941</u>
Year ended 30 June 2022				
Opening net book amount	673	36	232	941
Additions	241	–	–	241
Disposals	–	–	–	–
Amortisation charge	(35)	(6)	(117)	(158)
Impairment charge	–	–	–	–
Closing net book amount	<u>879</u>	<u>30</u>	<u>115</u>	<u>1,024</u>
At 30 June 2022				
Cost	19,945	111	1,101	21,157
Accumulated amortisation and impairment	(19,066)	(81)	(986)	(20,133)
Net book amount	<u>879</u>	<u>30</u>	<u>115</u>	<u>1,024</u>

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12. Current liabilities – Trade and other payables

	2022	2021
	\$'000	\$'000
Trade payables	615	1,240
Other payables (note (a))	2,087	2,525
	2,702	3,765

(a) Other payables

Other payables include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement.

(b) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 29.

13. Current liabilities – Borrowings

	2022	2021
	\$'000	\$'000
Secured		
Lease liabilities (note 23)	2,031	2,032

(a) Security and fair value disclosures

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 16.

(b) Risk exposure

Information about the Group's exposure to risks arising from current and non-current borrowings is provided in note 29.

14. Current liabilities – Other liabilities

	2022	2021
	\$'000	\$'000
Financing agreement (a)	259	564
Customer deposits (b)	-	454
	259	1,018

(a) Information about the deferred lease incentive and financing agreement provided in note 17.

(b) Funds received from distributors in advance of shipment.

15. Current liabilities – Provisions

	2022	2021
	\$'000	\$'000
Employee benefits - long service leave	1,107	1,072

16. Non-current liabilities – Borrowings

	2022	2021
	\$'000	\$'000
Secured		
Lease liabilities (note 23)	2,259	4,290

Secured liabilities and assets pledged as security

Lease liabilities are effectively secured, as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

17. Non-current liabilities – Other liabilities

	2022	2021
	\$'000	\$'000
Financing agreement (a)	5,938	18,515

- (a) On 30 January 2013, the company entered a financing agreement (as subsequently amended on 24 December 2014) with NovaQuest Pharma Opportunities Fund III, LP (NovaQuest) under which NovaQuest agreed to invest US\$20 million to support the continued development, manufacturing and commercialisation of Bronchitol for cystic fibrosis in the European Union (“EU”) and the United States (“US”). As consideration for its investment, NovaQuest will only receive payments based upon the EU and US revenue of Bronchitol for cystic fibrosis for a term of eight years in the EU (ceased 1 April 2021) and seven years from the launch of Bronchitol in the US (from 1 April 2021). Payments that may become due are determined by reference to EU and US sales revenue bands and corresponding annual payment percentages.

The balance represents the initial investment by NovaQuest of US\$20 million plus accrued finance costs (calculated based on forecast future sales of Bronchitol in the EU and US over the term of the finance agreement) less product net sales payments up to 30 June 2022 in accordance with accounting policy note 1(r)(i).

The EU liability term ceased from 1 April 2021 and the remaining EU liability was written off resulting in a \$0.1m reduction of the liability recorded as a negative finance cost.

At 30 June 2022 the forecast future sales of Bronchitol in the US within the term of the financing agreement were revised down resulting in a \$12 million reduction of the liability recorded as a negative finance cost.

18. Non-current liabilities – Provisions

	2022	2021
	\$'000	\$'000
Employee benefits - long service leave	86	53

19. Contributed equity

	Notes	Consolidated and		Consolidated and	
		Parent entity		Parent entity	
		2022	2021	2022	2021
Share capital (note (a))		Shares	Shares	\$'000	\$'000
Ordinary shares	(b),(c)				
Fully paid		549,078,163	452,824,164	380,440	371,366

Movements in ordinary share capital:

Details	Number of shares	Issue price	\$'000
Opening balance as at 1 July 2020	395,249,198		367,301
Exercise of employee options ⁽¹⁾	2,452,025	\$ –	–
Employee Share Plan ⁽²⁾	536,800	\$ –	–
Issuance of shares	54,586,141	\$0.08	4,366
Transaction costs arising on share issue	–		(301)
Closing Balance at 30 June 2021	452,824,164		371,366
Exercise of employee options ⁽¹⁾	2,947,450	\$ –	–
Employee Share Plan ⁽²⁾	522,000	\$ –	–
Issuance of shares	92,784,549	\$ 0.105	9,742
Transaction costs arising on share issue	–		(668)
Closing Balance at 30 June 2022	549,078,163		380,440

19. Contributed equity (continued)

- (1) These related to options issued under the Performance Rights Plan, which are issued with a zero grant price and zero exercise price.
 (2) These shares are issued to eligible employees of the Group for a zero issue price.

(a) 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.

(b) Equity plans

Information relating to the Pharmaxis Employee Equity Plans, including details of equity instruments issued, exercised and lapsed during the financial year and outstanding at the end of the financial year, is set out in note 30.

(c) Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital.

The Group predominately uses equity to finance its projects. In order to maintain or adjust the capital structure, the Group may issue new shares.

20. Reserves and accumulated losses

	2022	2021
	\$'000	\$'000
(a) Reserves		
Share-based payments reserve	23,457	22,636
<i>Share-based payments reserve</i>		
Balance 1 July	22,636	22,317
Equity expense / (credit)	821	319
Balance 30 June	23,457	22,636

(b) Accumulated losses

Movements in accumulated losses were as follows:

	2022	2021
	\$'000	\$'000
Balance 1 July	(391,157)	(388,187)
Net profit / (loss) for the year	(1,936)	(2,970)
Balance 30 June	(393,093)	(391,157)

(c) Nature and purpose of reserves*(i) Share-based payments reserve*

The share-based payments reserve is used to recognise the fair value of equity instruments granted.

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21. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2022	2021
	\$	\$
(a) Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports	141,088	122,000
Other Auditing services	11,000	11,000
Total remuneration for audit services	<u>152,088</u>	<u>133,000</u>
(b) Tax services		
PricewaterhouseCoopers Australian firm		
Tax compliance services	26,205	20,990
International tax consulting and other tax advice	14,094	169,665
	<u>40,299</u>	<u>190,655</u>
Other PricewaterhouseCoopers firms		
Tax compliance services	16,761	28,535
Total remuneration for tax services	<u>57,060</u>	<u>219,190</u>

For the year ending 30 June 2021, the Australian firm international tax services primarily included assistance in relation to the Chiesi US transactions.

22. Contingent liabilities

The Group had contingent liabilities at 30 June 2022 in respect of:

Guarantees

The Group's bankers have issued bank guarantees secured by deposits at the bank for which no provision has been made in the accounts. The Group at 30 June 2022 had total deposits of \$0.9 million (2021: \$0.9 million) covering a rental bond and corporate credit card.

23. Commitments**(a) Capital Commitments**

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2022	2021
	\$'000	\$'000
<i>Plant and equipment</i>		
Payable: Within one year	–	5

(b) Lease Commitments*(i) Lease expenses not capitalised in lease liabilities*

The Company has recognised a right of use asset for the land lease portion of the Frenchs Forest facility.

	2022	2021
	\$'000	\$'000
<i>Commitments for the service agreement in relation to Frenchs Forest facility lease, low value and short terms leases are payable as follows:</i>		
Within one year	236	224
Later than one year but not later than five years	433	470
Later than 5 years	–	–
	669	694

Amounts recognised in the income statement as expensives of AASB-16:

	2022	2021
	\$'000	\$'000
Expense relating to short term leases	–	10
Expense relating to leases of low value assets	–	5
Expense relating to lease outgoings	208	207

(ii) Lease liabilities

	2022	2021
	\$'000	\$'000

Commitments in relation to lease liabilities are payable as follows:

Within one year	2,459	2,382
Later than one year but not later than five years	2,105	4,564
Minimum lease payments	4,564	6,946
Future finance charges	(274)	(624)
Total lease liabilities	4,290	6,322
Current (note 13)	2,031	2,032
Non-current (note 16)	2,259	4,290
	4,290	6,322

(iii) Other commitments

The Company has in place a number of contracts with consultants and contract research organisations in relation to its business activities. The terms of these contracts are for relatively short periods of time and/or allow for the contracts to be terminated with relatively short notice periods. The actual committed expenditure arising under these contracts is therefore not material.

24. Related party transactions

(a) Parent entities

The parent entity within the Group is Pharmaxis Ltd (incorporated in Australia).

(b) Subsidiaries

Interests in subsidiaries are set out in note 25.

(c) Key management personnel compensation

	2022	2021
	\$	\$
Short-term employee benefits	2,456,859	2,552,747
Post-employment benefits	205,727	171,054
Leave entitlement benefits	44,453	34,523
Share-based payments	256,494	133,693
	2,963,533	2,892,017

Detailed remuneration disclosures are provided in the remuneration report under section 2.2.

25. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2022	2021
			%	%
Pharmaxis Pharmaceuticals Limited	United Kingdom	Ordinary	100	100
Technology Innovation Limited	United Kingdom	Ordinary	100	100
Pharmaxis Europe Limited	Ireland	Ordinary	100	100

26. Events occurring after the balance sheet date

On 4 August 2022 the Group announced it would receive US\$5 million from Aptar Pharma for the exercise of options to acquire the Orbital high payload dry powder inhaler. The funds (A\$6.9 million net of withholding taxes) were subsequently received on 16 August 2022.

Except for the above, no other matter or circumstance has arisen since 30 June 2022 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.

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27. Reconciliation of profit / (loss) after income tax to net cash inflows / (outflows) from operating activities

	2022	2021
	\$'000	\$'000
(Loss) for the year	(1,936)	(2,970)
Depreciation of property, plant & equipment	3,080	3,010
Amortisation & impairment of intangibles	158	142
Finance credits (charges)	(13,456)	369
Financing agreement unrealised foreign exchange (gains) losses	1,110	(1,776)
Non-cash share-based payments expense	821	319
Net (gain) / loss on disposal of non-current assets	–	–
Change in operating assets and liabilities		
Decrease / (increase) in trade receivables	(1,414)	289
(Increase) / decrease in inventories	1,301	(1,008)
Decrease / (increase) in other operating assets	(4,282)	3,985
(Decrease) / increase in trade payables	(625)	(520)
Increase / (decrease) in other operating liabilities	(892)	1,264
(Decrease) / increase in other provisions	33	(32)
Net cash inflow / (outflow) from operating activities	(16,102)	3,072

28. Earnings per share

	2022	2021
	Cents	Cents
(a) Basic earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the company	(0.04)	(0.7)
(b) Diluted earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the company	(0.03)	(0.7)
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings / (loss) per share	562,901,834	407,282,655
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings / (loss) per share	480,096,520	419,128,005

(d) Information concerning the classification of option securities

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. Details relating to the options are set out in note 30.

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29. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

Risk management is carried out by the Chief Financial Officer under policies approved by the Board of Directors. The Board provides written principles of overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. The Group holds the following financial instruments:

	2022	2021
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	8,937	18,712
Trade and other receivables (current)	7,958	2,959
Other receivables (non-current)	1,718	942
	18,613	22,613
Financial liabilities		
Trade and other payables	2,702	3,765
Borrowings	4,290	6,322
Other liabilities	6,197	19,533
	13,189	29,620

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. The Group's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2022			30 June 2021		
	USD \$'000	GBP \$'000	EUR \$'000	USD \$'000	GBP \$'000	EUR \$'000
Cash and cash equivalents	1,245	79	994	6,526	114	1,451
Trade receivables	320	50	1,105	697	127	869
Other receivables	1,771	–	–	–	–	667
Trade payables	218	45	227	144	75	261
Other payables	213	78	66	431	46	194
Other liabilities	6,196	–	–	19,079	–	–

Group sensitivity

Based on the financial instruments held at 30 June 2022, had the Australian dollar weakened/strengthened by 5% against the USD with all other variables held constant, the Group's post-tax results for the year would have been \$4,422,000 lower / \$3,202,000 higher (2021: \$1,789,000 lower / \$1,619,000 higher), mainly as a result of foreign exchange gains/losses on translation of USD denominated financial assets/liabilities as detailed in the above table.

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29. Financial risk management (continued)

(i) Cash flow and fair value interest rate risk

The Group's main interest exposure arises from term deposits held. As at the reporting date, the Group had the following cash profile:

	30 June 2022		30 June 2021	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	\$'000	%	\$'000
Cash at bank & deposits at call	0.0	2,941	0.0	10,184
Term deposits	0.60	5,996	0.29	8,528
Other receivables	0.27	1,718	0.27	942

Group sensitivity

The Group's main interest rate risk arises from cash and cash equivalents. At 30 June 2022, if interest rates had changed by +/- 50 basis points from the year-end rates with all other variables held constant, post-tax results for the year would have been \$34,700 lower/higher (2021 – change of 50 bps: \$47,000 lower/higher), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independent rated parties with a minimum short term money market rating of 'A-2' and a long term credit rating of 'A+' are accepted. Credit risk on term deposits is further managed by spreading a minimum of 50% of the investment portfolio across the four major Australian banks (with a short term rating of A1+).

Customer credit risk is managed by the establishment of credit limits. The compliance with credit limits by customers is regularly monitored by management, as is the ageing analysis of receivable balances. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in note 7 and note 9. The Group has assessed the expected credit loss impact on adopting AASB 9 as immaterial due to the historically low level of default.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings:

	2022	2021
	\$'000	\$'000
Cash and cash equivalents		
A-1+	7,779	16,602
A-1	–	700
A-2	1,158	1,406
Not rated	–	4
	8,937	18,712
Trade receivables		
Not rated	7,958	1,170
Other receivables		
AA-	1,718	942
A+	–	–
Not rated	–	–
	1,718	942

Other receivables primarily represent bank guarantee facilities related to the Frenchs Forest lease liability and corporate credit card facilities.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets with short term maturity profiles.

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29. Financial risk management (continued)

Maturities of financial liabilities

The table below analyses the Group's financial liabilities, into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Group - at 30 June 2022						
Non-interest bearing	2,702	-	-	-	2,702	2,702
Fixed rate	2,459	2,105	-	-	4,564	4,290
Total non-derivatives	5,161	2,105	-	-	7,266	6,992
Group - at 30 June 2021						
Non-interest bearing	4,199	-	-	-	4,199	4,199
Fixed rate	2,382	2,459	2,105	-	6,946	6,322
Total non-derivatives	6,581	2,459	2,105	-	11,145	10,521

Included on the balance sheet is a financial liability related to a financing agreement of \$6,196,000 (2021: \$19,079,000). This liability is accounted for in accordance with Accounting Policy note 1(r)(i) and the term of the agreement and forecast product related payment obligations are as detailed in Note 17(a).

(d) Fair value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The carrying value of financial liabilities for disclosure purposes is estimated by discounting future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

30. Share-based payments

Performance Rights Plan

The Pharmaxis Performance Rights Plan enables the grant of employee options with a zero grant price and a zero exercise price, known commonly as "Performance Rights" to eligible employees of the Group. Senior Executives will, together with other eligible employees be invited by the Remuneration and Nomination Committee to participate in this plan. The key features of the plan are as follows:

- Performance Rights are granted under the Pharmaxis Employee Option Plan ("EOP"), approved by shareholders at the 2021 annual general meeting.
- Grant price and exercise price of zero, with a life of 10 years from grant date.
- The number of performance rights to be granted is determined by the Board, taking into account the employee's position and responsibility, salary, and the Pharmaxis share price and until the end of the 2018 financial year, the employee's performance.
- The vesting of performance rights is set by the Board at an appropriate future date or dates and vesting will only occur if the employee remains an employee of the Group. The performance rights will lapse in the event the employee ceases to be an employee before the vesting date.
 - The performance rights issued in 2016 have various vesting dates with 37% vesting on 30 June 2016, 38% on 30 June 2017 and 25% on 30 June 2018. This reflects a mix of an additional grant of performance rights to four senior executives in recognition of significant achievements in 2015 with a one year vesting from grant date, and a general grant of performance rights with half the performance rights vesting two years from the grant date and the other half vesting three years from the grant date.
 - In 2017 the Board determined to vest half the performance rights two years from the grant date and the other half to vest three years from the grant date.
 - Until the end of the 2018 financial year and apart from performance rights granted in 2013, the Board did not impose additional performance criteria at the point of vesting. Performance rights were granted at the end of the financial year and performance during the year was one factor considered by the Board in determining the quantum of grants. As more fully described in the Remuneration Report, during the 2018 year the Board undertook a review of the Performance Rights Plan and introduced performance vesting conditions to be assessed 12 months from the time of grant.

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30 June 2022

30. Share-based payments (continued)

- Shares issued upon exercise of performance rights are restricted from sale by the employee as follows:
 - for performance rights granted from 2016 onwards shares issued upon exercise were restricted from sale for three years from grant date.
 - shares issued upon exercise of performance rights to Senior Executive Officers are restricted from sale by the officer as long as they are employed by the Group, without prior approval of the Board. The guidelines under which the Board will determine whether to give its approval include the progress of the Group in achieving its stated goals over the period since grant, the impact of a sale on the market in the Group's shares, the Pharmaxis share price, and whether it is an appropriate time for such a sale, amongst other criteria.

There were 11,193,850 vested performance rights at 30 June 2022 (11,845,350 at 30 June 2021). Set out below are summaries of the performance rights granted under the plan:

Grant Date	Expiry Date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated 2022								
29-Jun-12	28-Jun-22	\$ –	107,000		107,000	–	–	–
7-Jun-13	6-Jun-23	\$ –	134,750		68,250	–	66,500	66,500
31-Jul-15	30-Jun-25	\$ –	1,824,500		299,000	–	1,525,500	1,525,500
20-Nov-15	30-Jun-25	\$ –	811,000		811,000	–	–	–
26-Jul-16	30-Jun-26	\$ –	2,702,000		232,000	–	2,470,000	2,470,000
29-Nov-16	31-Aug-26	\$ –	53,000		53,000	–	–	–
29-Nov-16	29-Nov-26	\$ –	827,000		827,000	–	–	–
18-Jul-17	30-Jun-27	\$ –	2,292,000		257,000	–	2,035,000	2,035,000
14-Nov-17	30-Jun-27	\$ –	839,000		26,000	–	813,000	813,000
25-Jul-18	30-Jun-28	\$ –	1,113,525		186,525	–	927,000	927,000
22-Nov-18	30-Jun-28	\$ –	310,500		–	–	310,500	310,500
14-Aug-19	30-Jun-29	\$ –	1,337,700		80,675	27,125	1,229,900	614,950
21-Nov-19	30-Jun-29	\$ –	324,450		–	–	324,450	1,091,225
13-Aug-20	30-Jun-30	\$ –	1,935,000		–	20,500	1,914,500	957,250
4-Nov-20	30-Jun-30	\$ –	471,000		–	–	471,000	235,500
12-Aug-21	30-Jun-31	\$ –	–	4,055,600	–	2,216,560	1,839,040	–
3-Nov-21	30-Jun-31	\$ –	–	2,374,000	–	1,305,700	1,068,300	–
5-Nov-21	30-Jun-31	\$ –	–	6,348,400	–	3,470,590	2,877,810	–
Total			15,082,425	12,778,000	2,947,450	7,040,475	17,872,500	11,046,425

Pharmaxis Ltd

Notes to the financial statements

30 June 2022

30. Share-based payments (continued)

Grant Date	Expiry Date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated 2021								
20 Oct 2010	6 Sept 2020	\$ –	5,000		5,000	–	–	–
29 Jun 2012	28 Jun 2022	\$ –	152,000		45,000	–	107,000	107,000
7 Jun 2013	6 Jun 2023	\$ –	134,750		.	–	134,750	134,750
31 Jul 2015	30 Jun 2025	\$ –	2,719,500		895,000	–	1,824,500	1,824,500
20 Nov 2015	30 Jun 2025	\$ –	811,000		-	–	811,000	811,000
26 Jul 2016	30 Jun 2026	\$ –	3,302,000		600,000	–	2,702,000	2,702,000
29 Nov 2016	31 Aug 2026	\$ –	53,000		-	–	53,000	53,000
29 Nov 2016	29 Nov 2026	\$ –	827,000		-	–	827,000	827,000
18 Jul 2017	30 Jun 2027	\$ –	2,784,000		492,000	–	2,292,000	2,292,000
14 Nov 2017	30 Jun 2027	\$ –	1,039,000		200,000	–	839,000	839,000
25 Jul 2018	30 Jun 2028	\$ –	1,318,050		173,025	31,500	1,113,525	1,113,525
22 Nov 2018	30 Jun 2028	\$ –	310,500		-	–	310,500	310,500
14 Aug 2019	30 Jun 2029	\$ –	1,487,500		42,000	107,800	1,337,700	668,850
21 Nov 2019	30 Jun 2029	\$ –	324,450		-	–	324,450	162,225
13 Aug 2020	30 Jun 2030	\$ –	–	4,419,000	-	2,484,000	1,935,000	–
04 Nov 2020	30 Jun 2030	\$ –	–	942,000	-	471,000	471,000	–
Total			15,267,750	5,361,000	2,452,025	3,094,300	15,082,425	11,845,350

There were 7,121,875 performance rights forfeited during 2022 (2021: 3,094,300). The weighted average remaining contractual life of performance rights outstanding at the end of the period was 5.9 years (2021 – 6.2 years).

Fair value of performance rights granted

The assessed fair value at grant date of performance rights granted during the year ended 30 June 2022 is detailed in the table below. The fair value at grant date is taken as the closing share price on the date of grant.

Year ended 30 June 2022				Year ended 30 June 2021			
Grant date	No. of options granted	Exercise Price	Share Price	Grant date	No. of options granted	Exercise Price	Share Price
12 Aug 2021	4,055,600	–	\$0.0950	13 Aug 2020	4,419,000	–	\$0.0995
03 Nov 2021	2,374,000	–	\$0.1150	4 Nov 2020	942,000	–	\$0.1084
05 Nov 2021	6,348,400	–	\$0.1200				

(c) Employee Share Plan

The Pharmaxis Share Plan was launched in September 2010 and will grant up to A\$1,000 of fully paid Pharmaxis ordinary shares to eligible employees of the Group. For employees outside of Australia, Pharmaxis Ltd may grant A\$1,000 of options (refer note (d) below) in place of ordinary shares. Senior executives do not participate in this plan. Set out below are summaries of employee shares granted under the plan

	2022	2021
Number of shares issued under the plan to participating employees	522,000	536,800

Pharmaxis Ltd

Notes to the financial statements

30 June 2022

(d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2022	2021
	\$'000	\$'000
Equity instruments issued under employee equity plans	821	319

31. Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts.

	2022	2021
	\$'000	\$'000
Balance sheet		
Current assets	19,232	25,309
Total assets	25,186	33,590
Current liabilities	6,099	7,887
Total liabilities	14,382	30,745
<i>Shareholders' equity</i>		
Issued capital	380,440	371,366
Share based payments reserve	23,457	22,636
Accumulated losses	(393,093)	(391,157)
	10,804	2,845
Profit / (loss) for the year	(1,936)	(2,970)
Total comprehensive income	(1,936)	(2,970)

(b) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2022, the parent entity had no contractual commitments for the acquisition of property, plant or equipment. (30 June 2021 - \$5,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

6.2 DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 24 to 57 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 30 June 2022 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

A handwritten signature in black ink that reads "Gary Phillips". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Gary J Phillips
Director
Sydney
30 August 2022



Independent auditor's report

To the members of Pharmaxis Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Pharmaxis Ltd (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2022
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated income statement for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999

Liability limited by a scheme approved under Professional Standards Legislation.

Material uncertainty related to going concern

We draw attention to Note 1 (a) (iii) in the financial report, which indicates that the Group incurred a net loss after tax of \$1.9m and a net cash outflow from operating activities of \$16.1m during the year ended 30 June 2022, and the Group's ability to continue as a going concern is dependent on achieving sales targets, managing its cost base and securing additional funding when necessary. These conditions, along with other matters set forth in Note 1 (a) (iii), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$0.9 million, which represents approximately 5% of the Group's loss before tax and before sale of distribution rights revenue and finance income. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and we adjusted for sale of distribution rights and finance income as it is an infrequently occurring item. We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds. 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. Pharmaxis is a pharmaceutical research company with approved products in various markets around the world, and a drug discovery program dedicated to finding new treatments for patients in areas of high unmet clinical need. Their accounting processes are structured around a group finance function at its head office in Sydney. Our audit procedures were predominately performed in Sydney.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter(s) described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Financial liability <i>(Refer to note 14 & 17) \$6,197 thousand financing agreement</i></p> <p>The Group has a financing agreement with NovaQuest Pharma Opportunities Fund III, LP (NovaQuest) under which Pharmaxis received US\$20 million to support the continued development, manufacturing and commercialisation of Bronchitol for cystic fibrosis in the European Union (EU) and the United States of America (US). The repayment amounts and timing of the NovaQuest financing are dependent on the quantum and timing of forecast sales in territories covered by the agreement.</p> <p>The accounting for the NovaQuest financial liability was assessed as a key audit matter given:</p> <ul style="list-style-type: none">the financial significance of the liability to the statement of financial position; andthe judgement applied by the Group in assessing the assumptions deriving the liability's balance and associated finance costs, including forecast sales in territories covered by the agreement and timing of launch into these territories.	<p>Our audit procedures included:</p> <ul style="list-style-type: none">reading the applicable executed contracts and checking that the basis and composition of the financing in the executed contracts was consistent with the accounting principles applied for the liability recognitionassessing the assumptions of the quantum and timing of forecast sales in applicable territories within the financial liability calculations, including considering consistency with Group forecasts and other available external datatesting the mathematical accuracy of the calculations of the principal financial liabilitycomparing the exchange rates used in the financial liability calculations to market data. <p>We assessed the appropriateness of the Group's disclosure in the financial report in light of the requirements of the Australian Accounting Standards.</p>

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' report and Corporate Governance statement. We expect the remaining other information to be made available to us after the date of this auditor's report.



Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 8 to 16 of the directors' report for the year ended 30 June 2022.

In our opinion, the remuneration report of Pharmaxis Ltd for the year ended 30 June 2022 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'David Ronald' in a cursive script.

David Ronald
Partner

Sydney
30 August 2022

7 SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 23 September 2022.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Class of equity security Ordinary shares	Shares	Restricted Shares	Performance Rights
1-1000	358	–	–
1,001 – 5,000	1,139	–	–
5,001 – 10,000	853	2	–
10,001 – 100,000	1,900	52	1
100,001 and over	547	–	29
	4,797	54	30

There were 1,655 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	Number Held	Percentage of issued shares
Citicorp Nominees Pty Limited	129,428,771	23.57
HSBC Custody Nominees (Australia) Limited - A/C 2	71,233,304	12.97
HSBC Custody Nominees (Australia) Limited	12,368,266	2.25
Lawn Views Pty Ltd <Angela Williams Family A/C>	10,350,966	1.88
D and A Income Limited	9,523,810	1.73
Dr Toby David Cohen	6,749,457	1.23
BNP Paribas Noms Pty Ltd <DRP>	5,226,634	0.95
Healthcare Management Consulting (Australia) Pty Ltd	3,858,000	0.70
Ms Bei Xu + Mr Dongning Wu	3,293,891	0.60
Indcorp Consulting Group Pty Limited <Superannuation Fund A/C>	3,000,001	0.55
Mr Alvin Liau	2,950,000	0.54
Pakasoluto Pty Limited <Barkl Family Super Fund A/C>	2,622,007	0.48
BNP Paribas Nominees Pty Ltd acf Clearstream	2,608,308	0.47
Bunyula Super Pty Ltd <Bunyula Super Fund A/C>	2,477,076	0.45
Mr Joseph Wallace Carson	2,476,192	0.45
Mr Xing Jiang Xue	2,393,886	0.44
Mr David Curzon Smith + Mrs Diane Maurine Smith <Badham Family A/C>	2,355,715	0.43
Mr Peter John Carr	2,240,000	0.41
Mr Yingkai Li	2,060,000	0.38
BNP Paribas Noms Pty Ltd <Global Markets DRP>	2,025,439	0.37
<i>Unquoted equity securities</i>		
	Number Held	Number of Holders
Performance rights issued under the Pharmaxis Ltd Employee Option Plan	18,506,050	30

C. Substantial holders

Substantial holders in the Company are set out below:

	Number Held	Percentage
Biotechnology Value Fund, Inc	102,778,714	18.7%
Karst Peak Capital Limited	67,940,615	12.4%
D&A Income Limited	40,434,640	7.4%

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options

No voting rights.

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8 CORPORATE DIRECTORY

Directors

Malcolm McComas – Chair
Gary Phillips – Chief Executive Officer
Neil Graham
Kathleen Metters

Company Secretary and Chief Financial Officer

David McGarvey

Registered Office

20 Rodborough Road
Locked Bag 5015
Frenchs Forest NSW 2086
Telephone: +61 2 9454 7200
Fax: +61 2 9451 3622
Email: info@pharmaxis.com.au

Incorporation Information

Incorporated in Australia
Australian Company Number 082 811 630
Australian Business Number 75 082 811 630

Web Site

www.pharmaxis.com.au

Legal Advisors

PFM Legal Pty Ltd
Level 7, 257 Clarence Street
Sydney NSW 2000, Australia

Auditor

PricewaterhouseCoopers
One International Towers Sydney
Watermans Quay
Barangaroo NSW 2000, Australia

Bankers

Westpac Banking Corporation

Securities Exchange Listings

Pharmaxis shares are listed on the Australian
Securities Exchange (Code: PXS)

Share Registry

Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney NSW 2000
Australia
Telephone: +61 3 9415 4000 (within Australia: 1300 855 080)
Fax: +61 3 9473 2500
www.computershare.com



pharmaxis

Pharmaxis Ltd

20 Rodborough Rd
Frenchs Forest NSW 2086
AUSTRALIA

Phone: +61 2 9454 7200

Fax: +61 2 9451 3622

Email: info@pharmaxis.com.au

Web: www.pharmaxis.com.au