28 August 2014

Dear Shareholder,

Pharmaxis has today filed its 2014 financial statements and directors' report with the Australian Securities Exchange. The following information provides an update on the Company's progress during the fourth quarter ending 30 June 2014 in implementing the four elements of its business plan.

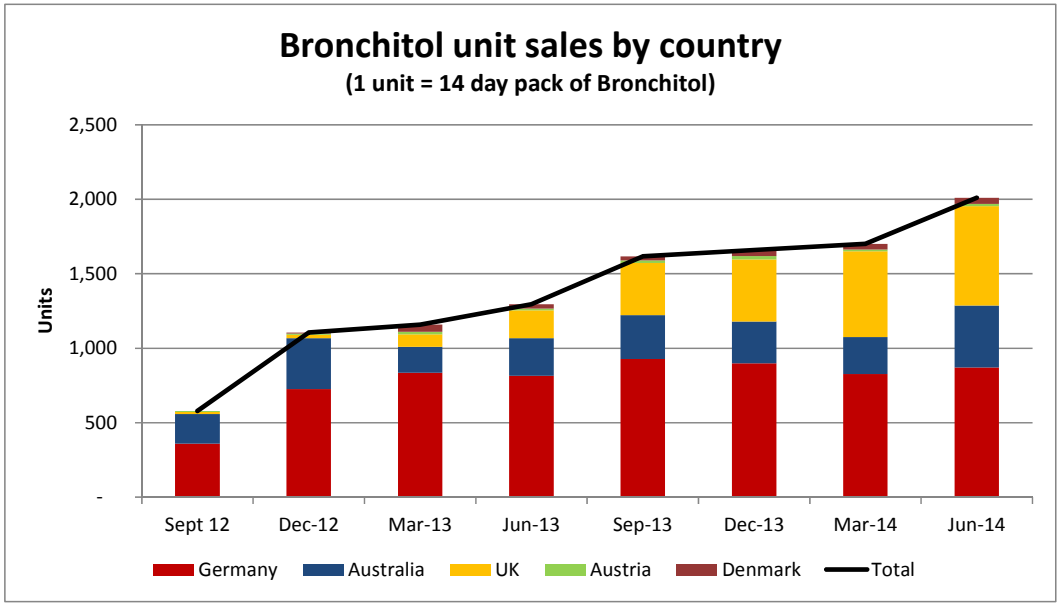
1. Bronchitol for the US

Pharmaxis is planning to conduct an international Phase 3 clinical trial in an adult cystic fibrosis (CF) population to meet the remaining clinical requirements of the US Food and Drug Administration (FDA) which provided comments on the trial design earlier this year. The trial is being conducted by INC, a global contract research organisation with experience in running international studies in cystic fibrosis. The fourth quarter activity was focussed on discussions and negotiations with more than 110 individual sites regarding participation in the study. Progress in clinical trial preparations for the quarter was in line with the agreed plan.

Discussions with potential partners for the US progressed satisfactorily and at the end of the quarter the Company had substantially negotiated a valuable commercialisation agreement for the US with a global pharmaceutical company.

Unfortunately, the receipt of a default notice from financier NovaQuest early in the new financial year meant Pharmaxis could not proceed with the commercialisation agreement as negotiated for the US and as a result the implementation of the Phase III clinical trial is now uncertain. We are however continuing to pursue negotiations with the potential partner.

2. Sales of Bronchitol for CF



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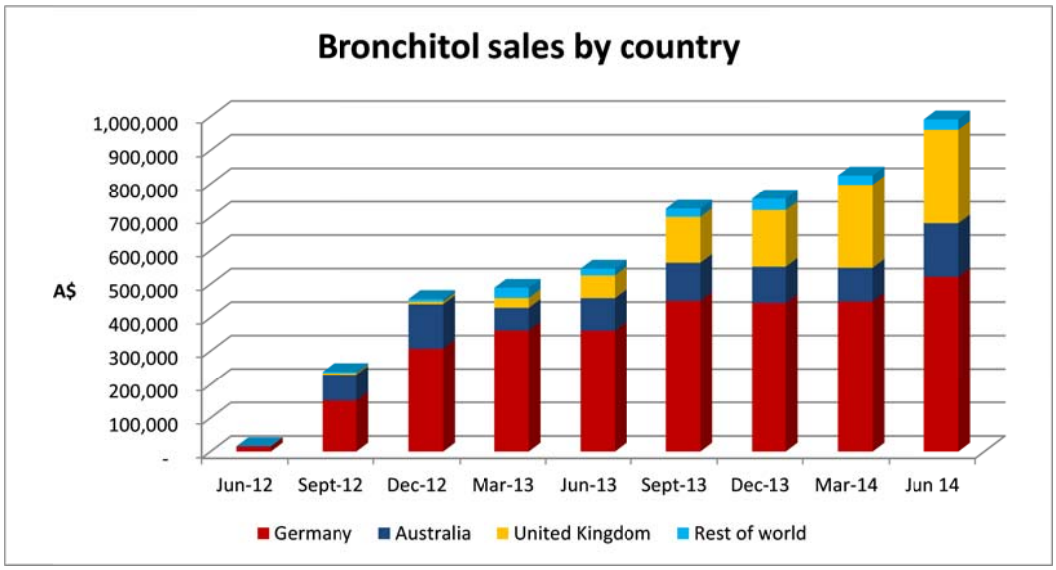
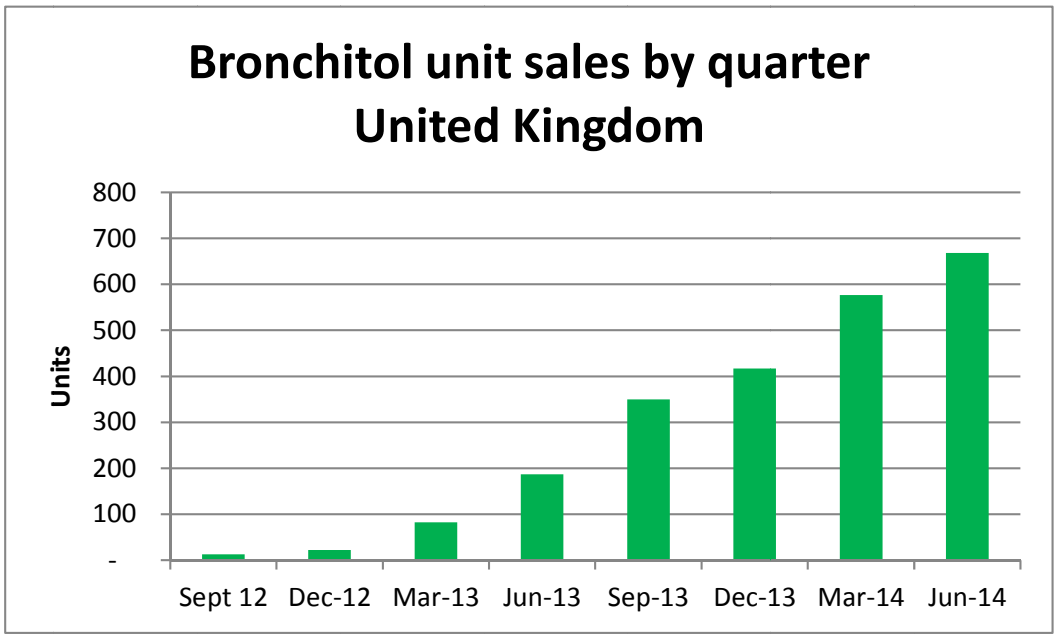
Sales of 2,011 Bronchitol 14 day packs for the June quarter were 55% above June 2013 and 18% higher than the previous quarter (March 2014). Growth was achieved in all countries.

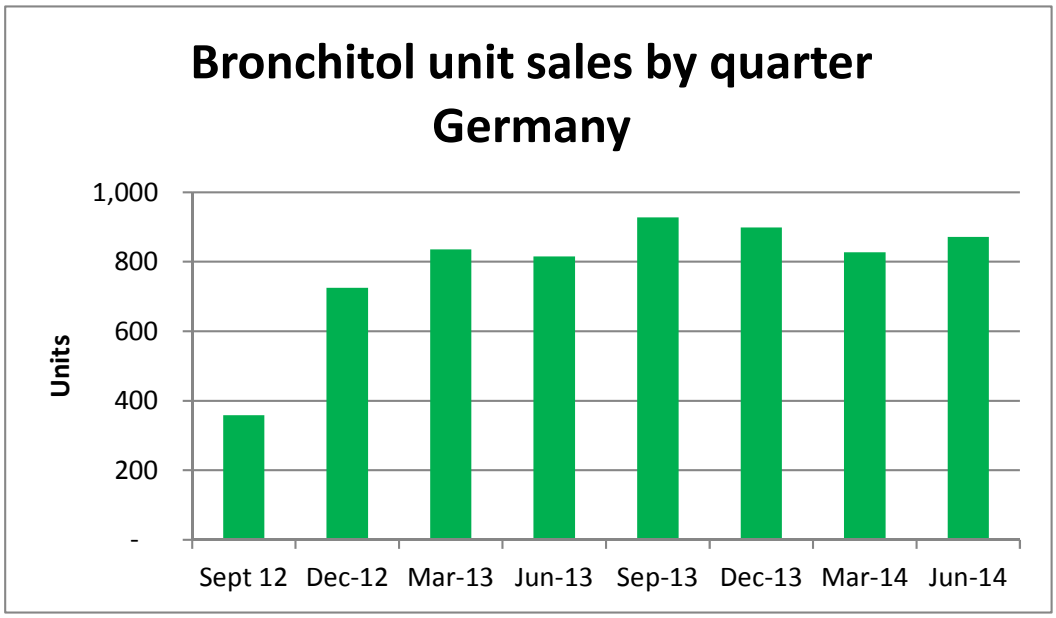


In dollar terms, sales for the quarter of $992,000 represent an increase of 82% over June 2013 and 24% over the previous quarter.

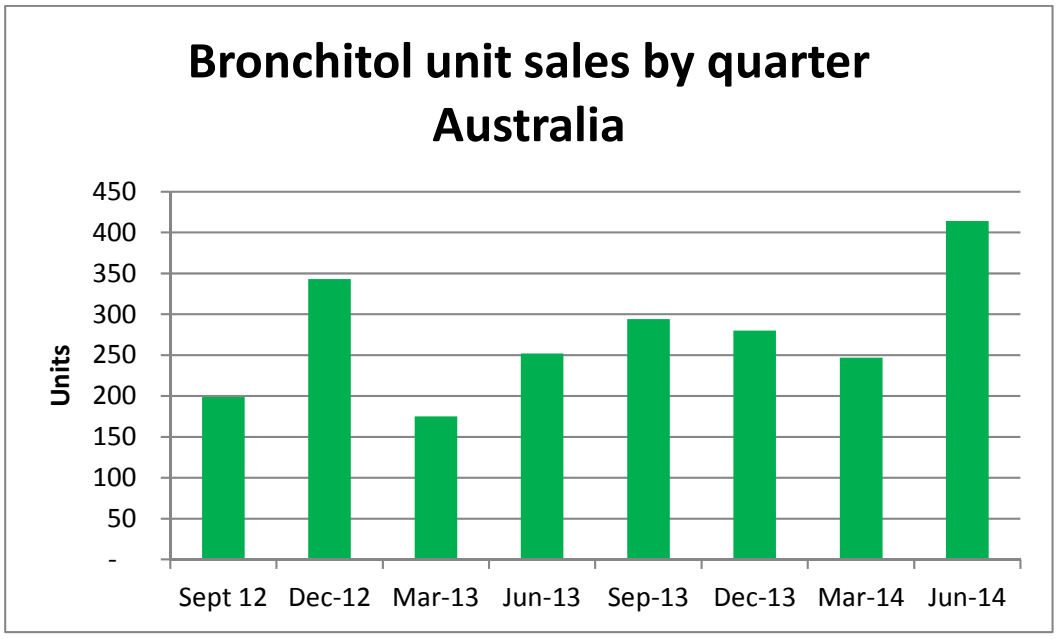
A reduction in the statutory German pharmacy rebate has improved the net selling price received per pack.



In the UK there is continued quarter on quarter growth as CF centres introduce new patients to Bronchitol.



In Germany, Pharmaxis has continued to implement patient support programs to improve adherence with focus on the larger CF centres.



Australian sales increased following the relaunch of Bronchitol to CF centres earlier in the year with an improved PBS reimbursement status.

The Company commenced promotion of Bronchitol from the beginning of the June quarter in both Ireland and the Netherlands in anticipation of receiving pricing approval later in the year. We were successful in an application to the Danish authorities to have Bronchitol given the same prescription status as Pulmozyme® and are preparing to submit a pricing application in Italy.

It was particularly pleasing to see presentations by cystic fibrosis healthcare professionals at the recent European Cystic Fibrosis Conference reinforcing the fact that clinics are adopting Bronchitol as an increasingly important part of their standard of care and are able to repeat the benefits shown in the clinical studies.

3. Early stage pipeline

Pharmaxis has been conducting a process to identify and secure funding for two of our early stage drug discovery programs (LOXL2 and SSAO), while investing in research work that will enhance the short term value of each. Our drug discovery group which manages these programs consists of ten scientists and the majority of their work is eligible for the Australian R&D tax credit. As such the cash cost for the quarter was approximately $572,000 ($1.7 million for the full year).

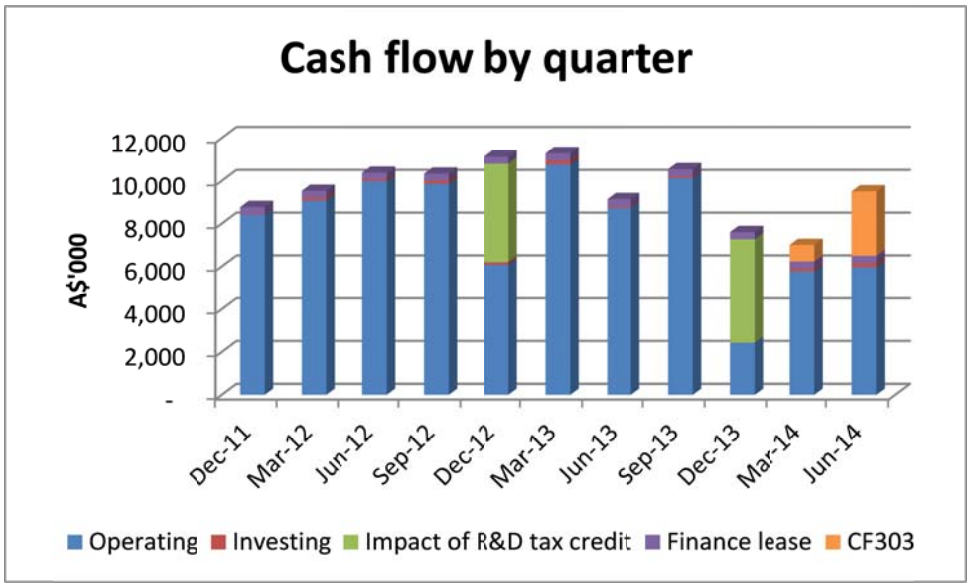
The LOXL-2 program has developed a first-in-class, mechanism-based small molecule that selectively inhibits LOXL2 for the treatment of fibrotic diseases and some cancers and during the quarter progressed into lead optimisation.

With successful completion of the necessary toxicological studies for the Company's SSAO inhibitor (PXS4728A), the program is now ready to proceed to studies in man (ie Phase I). The SSAO enzyme contributes to various forms of chronic inflammation in humans and is a marker for disease severity in conditions such as atherosclerosis, liver and kidney inflammation. Pharmaxis will focus the clinical development on inflammatory diseases with high unmet clinical need including Chronic Obstructive Pulmonary Disease and Non-Alcoholic Steatohepatitis.

The early stage nature of these programs presents challenges in pursuing partnering deals with large pharmaceutical companies, but we remain encouraged by the level of interest shown in Pharmaxis science, the disease targets and the capability of the Company's drug discovery team.

4. Secure financial footing

The Company's progress in reducing its cost base was reported in the March 2014 quarter and as also previously reported, the plan calls for separate funding of the US clinical trial and the early stage pipeline. The core business cost reductions achieved in the March quarter have been maintained in the June quarter, while expenditure increased on the US clinical trial for which we are seeking separate funding.



Aridol

Outside the primary objectives of the business plan we have continued to sell Aridol in Europe, Australia and South Korea with a minimal investment in customer support. Aridol sales for the

quarter were $440,000 ($1.75 million for the year) compared to $415,000 for the corresponding quarter in 2013 ($1.51 million for the year). Sales to South Korea make up approximately half of Aridol sales. In the US, the import ban imposed by the FDA in May 2013 resulted in no product being available for sale from December 2013 onwards. Pharmaxis worked with the contract packaging supplier to address the issues and the FDA has recently advised that its concerns have been addressed. The lifting of the import ban is however a separate process. As a consequence of an inability to supply the market, the significant annual US government costs and other business considerations, the Company has recently decided to close its small residual US operation.

NovaQuest Financing Agreement

Refer to section 1.10 of the 2014 Directors' Report (Matters subsequent to the end of the financial year) for information concerning a dispute with NovaQuest Pharma Opportunities Fund III, L.P.

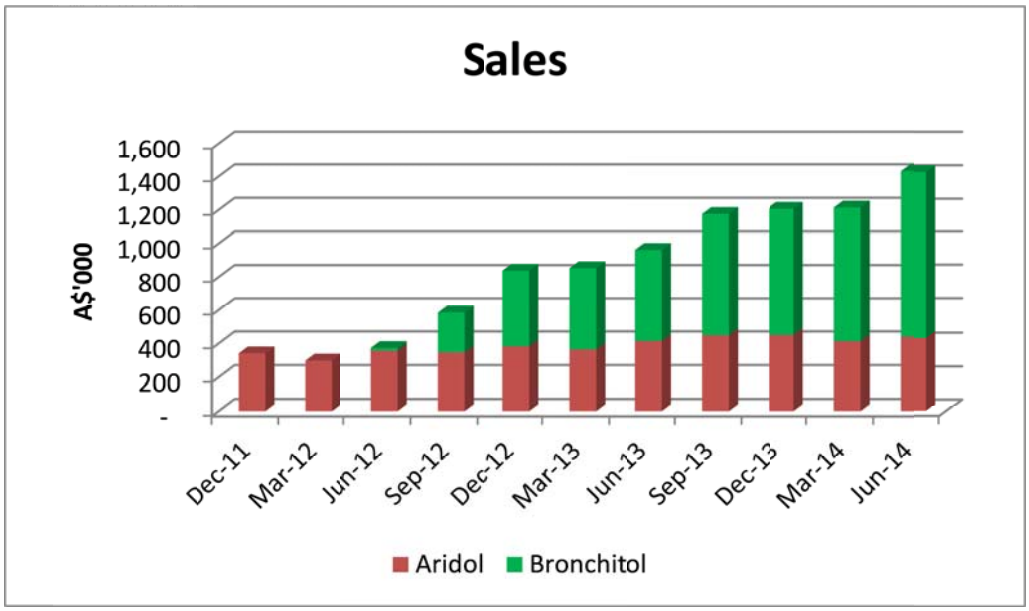
Financial statements

Financial Statement Data - unaudited				
(International Financial Reporting Standards)				
Income statement - unaudited	Three months ended		Year-to-date	
('000 except per share data)	30-Jun-14	30-Jun-13	30-Jun-14	30-Jun-13
	A$	A$	A$	A$
Revenue from sale of goods	1,441	962	5,036	3,237
Cost of sales	(462)	(326)	(1,858)	(1,140)
Gross profit	979	636	3,178	2,096
Interest income	340	708	1,735	2,695
Grant and other income	1,102	1,687	3,715	5,675
Expenses				
Sales & marketing	(2,419)	(3,794)	(9,522)	(13,893)
Regulatory, safety & medical affairs	(1,209)	(1,117)	(4,495)	(5,581)
Administration	(2,329)	(1,303)	(8,268)	(6,030)
Available manufacturing capacity	(627)		(4,271)	
Research & development - Bronchitol	(6,510)	(4,356)	(12,801)	(18,531)
Research & development - new drug development	(1,523)	(1,643)	(4,901)	(5,331)
Finance & royalties	22	(2,068)	(7,302)	(2,130)
Restructuring and impairment expenses	(8,783)	(1,690)	(8,783)	(1,690)
Total expenses	(23,378)	(15,971)	(60,343)	(53,187)
Net loss before tax	(20,957)	(12,941)	(51,715)	(42,721)
Income tax expense	6	63	(103)	(2)
Net loss after tax	(20,951)	(12,878)	(51,818)	(42,723)
Basic and diluted earnings (loss) per share - $	(0.068)	(0.042)	(0.168)	(0.141)

Comments on the financial statement data for the quarter

- Sales

  Sales for the June 2014 quarter of $1.4 million were 50% higher than the corresponding quarter in 2013 while sales for the full year of $5.0 million were 56% higher than the prior year.



- Grant and other income includes the Australian R&D tax credit – expected to be received in the fourth quarter of calendar 2014 after lodgement of the Company's 2014 income tax return.
- The decrease in sales and marketing expenses reflects decreases in staff and a higher cost base in 2013 related to product launch.
- The increase in Administration reflects non cash employee equity expense and the impact of changing foreign currency rates between the recording of a receivable or payable and the period end or settlement of the receivable or payable.
- Bronchitol R&D has increased due to the preparatory work on the US Phase 3 clinical trial including both costs paid to the contract research organisation and the manufacture of drug and control for the trial.
- As noted above the net cash cost of new drug development was $572,000 for the quarter and $1.7 million for the full year.
- The decrease in finance and royalties reflects a decrease in the full year accrued finance costs associated with the NovaQuest financing agreement subsequent to a review of payments expected to be made over the term of the financing agreement.
- Restructuring and impairment expenses for the quarter relate exclusively to the write down to nil of the ASM8 patent suite acquired by the Company when it acquired the Canadian company Topigen Pharmaceuticals Inc. in 2010. Pharmaxis believes the unique ASM8 oligonucleotide technology, including additional patents filed based on post-acquisition work carried by Pharmaxis, will prove valuable after the successful conclusion of further clinical development work. However, a partnering project conducted over the past twelve months has failed to identify an external party willing to fund further development. The Company believes its limited funding available for earlier stage pipeline assets are better directed at the LOXL2 and SSAO projects at this time. Given these factors and the patent life of the original acquired patents, the Company has written down the carrying value of the acquired ASM8 patents to nil. Pharmaxis will continue to seek partners to further develop the asset.
- A detailed balance sheet is included in the 2014 financial report filed today with the Australian Securities Exchange.

Looking ahead, the activities for the next quarter will focus on the ongoing negotiations to fund the phase III clinical study necessary for US approval, continuing to grow our Bronchitol business and partnering our pre-clinical pipeline assets.

Sincerely,

Gary Phillips
Chief Executive Officer