17 April 2015

Dear Shareholder,

Shareholder Update – March Quarter 2015

Last month marked the completion of my second year as CEO at Pharmaxis – a period which has presented some significant challenges and opportunities. The management team has faced several complex business issues that have required hard work, determination and creativity to resolve. We dedicated ourselves to a plan to restructure and refocus Pharmaxis and it is only recently that we have started to see the results of that work after a significant reduction in the scale of the business and a series of global business to business negotiations.

Our intent is to create a company delivering significant long term value from its drug discovery expertise while continuing the global roll out of the mannitol products Pharmaxis has developed for cystic fibrosis (Bronchitol) and asthma (Aridol).

I am pleased to report some important progress during the quarter which is summarised as follows:

- In January the Company's Semicarbazide-Sensitive Amine Oxidase/Vascular Adhesion Protein-1 (SSAO) Inhibitor PXS4728A commenced a phase 1 clinical trial. PXS4728A is a highly selective small molecule inhibitor of SSAO that can be administered orally and has already demonstrated acceptable drug like properties during pre-clinical development. The SSAO enzyme is a target of interest for various inflammatory diseases including the liver related disease Non-Alcoholic Steatohepatitis (NASH) and Chronic Obstructive Pulmonary Disease (COPD). Both diseases are significant opportunities. Subsequent to the end of the quarter Pharmaxis announced positive interim results from the single ascending dose stage of the Phase 1 clinical trial with no safety concerns in patients receiving PXS4728A, and confirmation that PXS4728A is orally bioavailable and produces long lasting inhibition of SSAO after a single dose. In March the Company signed an Option and Asset Purchase Agreement with Boehringer Ingelheim International GmbH (Boehringer) for PXS4728A. Boehringer's primary interest in PXS4728A is directed at NASH. The option is expected to expire on 15 May 2015 and the fee payable to Pharmaxis for grant of the option was €1.25 million. If the option is exercised, Boehringer will acquire Pharmaxis' entire PXS4728A program and will then be responsible for all development, regulatory, manufacturing and commercialisation activities. Pharmaxis will receive an upfront payment of €27.5 million and, subject to the continuing successful development and commercialisation of the PXS4728A program, significant development and commercialisation milestones and sales related earn outs. This is potentially a very significant transaction for our Company.

- The Company's discussion with potential research collaborators for its LOXL2 program has moved to the contract negotiation stage. Negotiations are well advanced and expected to complete in the June quarter. LOXL2 is an area of significant interest to large pharmaceutical

Pharmaxis Ltd
ABN 75 082 811 630
20 Rodborough Road
Locked Bag 5015
Frenchs Forest NSW 2086
Australia
T 02 9454 7200
F 02 9451 3622
www.pharmaxis.com.au

companies, and Pharmaxis believes its approach is unique and potentially first in class. LOXL2 plays a role in several fibrotic diseases and some cancers.

- Having entered into an exclusive distribution and supply agreement on 23 December 2014 with global pharmaceutical company Chiesi Farmaceutici SpA (Chiesi) for the commercialisation of Bronchitol® for cystic fibrosis (CF) in the United States, Pharmaxis has continued partnering activities for the CF Bronchitol business in the EU. Negotiations with a potential distributor are well advanced and expected to complete in the June quarter. The Pharmaxis EU commercial infrastructure will not be required after the appointment of an EU distributor and the Company is in the process of closing its existing EU commercial operations.

Drug discovery

Expertise in amine oxidase chemistry is a major part of the new Pharmaxis business. PXS4728A and the LOXL2 work are our most advanced programs. The agreement with Boehringer is a demonstration of the Company's capability and validates the drug discovery pipeline on which it is based. If the option under the Boehringer agreement is exercised it will be a transformational event that allows Pharmaxis to further exploit this expertise in other diseases with high unmet need. We continue to attract interest in our programs from international pharmaceutical companies and intend to work collaboratively to augment our capability, accelerate programs and share risk.

Bronchitol

The agreement with Chiesi provides Pharmaxis with an opportunity to access the comparatively large US CF market through Chiesi's specialist commercial infrastructure. The Phase 3 clinical trial being conducted to gain approval for Bronchitol to treat cystic fibrosis in the United States (funded by Chiesi) continues to recruit with enrolment expected to complete by the end of the calendar year.

The distributor arrangements currently being negotiated for the EU are designed to give Pharmaxis ongoing access to the CF market through specialist CF commercial infrastructure without the fixed overhead of a dedicated Pharmaxis team.

The closure of the Company's EU commercial operations is scheduled to be completed by 31 May 2015. A total of 23 FTE positions across sales, marketing, medical affairs and safety have been made redundant and the related restructuring charge was booked this quarter. This 28% reduction in FTE positions represents a cost reduction of approximately $3.8 million per annum. The Company will retain its European- based distributor manager and use consultants to support the EU marketing authorisation as needed. Sales and marketing expenses (other than employees) are expected to reduce to approximately $150,000 per quarter. We extend our thanks to the members of our EU team for the energy and dedication they brought to the launch of Bronchitol and the high level of professionalism they have displayed since partnering plans were announced late last year.

Bronchitol sales for the quarter in units (14 day packs) increased 15% compared to the March 2014 quarter with the UK increasing by 20%, Germany 4% and Australia 40%. Compared to the December 2014 quarter, unit sales decreased by 15% overall. Approximately half of this decrease relates to sales outside the major countries which are uneven from quarter to quarter and approximately a quarter of the decrease relate to Australia, in part reflecting the January summer holiday period. Unit sales in Germany and the UK were slightly below the December level.

Financial statements

	Three months ended		Nine months ended	
A$'000	31-Mar-15	31-Mar-14	31-Mar-15	31-Mar-14
Income Statement				
Revenue				
Revenue from sale of goods				
Bronchitol	939	801	3,002	2,284
Aridol	372	413	1,323	1,312
Other products	3	-	29	-
	1,314	1,214	4,354	3,596
Other revenue	115	385	518	1,394
Other income	2,568	622	11,663	2,613
	3,997	2,221	16,535	7,603
Expenses				
Employee costs	(3,528)	(4,585)	(11,012)	(14,833)
Administration & corporate	(721)	(704)	(2,517)	(2,440)
Rent, occupancy & utilities	(378)	(365)	(1,191)	(1,283)
Clinical trials	(1,526)	(974)	(6,897)	(2,344)
Drug development	(284)	(233)	(817)	(687)
Sales, marketing & distribution	(287)	(408)	(1,613)	(2,308)
Safety, medical and regulatory affairs	(334)	(423)	(1,092)	(1,226)
Manufacturing purchases	(160)	(426)	(1,342)	(1,441)
Other	(1,424)	(364)	(2,240)	(766)
Depreciation & amortisation	(963)	(1,336)	(2,667)	(3,808)
Finance expenses	(241)	(2,337)	2,804	(7,017)
Impairment expenses	-	-	(277)	-
Total expenses	(9,846)	(12,156)	(28,861)	(38,153)
Net Loss before tax	(5,849)	(9,935)	(12,326)	(30,550)
Income tax expense	-	(48)	(95)	(109)
Net Loss after tax	(5,849)	(9,983)	(12,421)	(30,659)

Commentary:

- Sales of Bronchitol for the quarter of $939,000 increased 17% compared to the March 2014 quarter and decreased 11% compared to the December 2014 quarter.
- Sales of Aridol for the quarter of $372,000 decreased 10% compared to the March 2014 quarter predominantly due to the timing of shipments to the Company's Korean distributor.
- Other income for the March 2015 quarter includes the option grant fee of $1,789,000 received from Boehringer during the quarter and $672,000 received from Chiesi for the reimbursement of clinical trial costs. The total reimbursement received from Chiesi for the nine months is $9.2 million. Other income for the March 2014 quarter includes $603,000 in relation to the 2014 R&D tax credit.
- Employee costs for the March quarter of $3,528,000 include a redundancy expense of $410,000 in relation to the closure of Pharmaxis EU commercial operations. Share based (non-cash) payment expense included in employee costs was $426,000 in the March 2014 quarter and a credit of $201,000 associated with the lapsing of employee performance rights in the March 2015 quarter. At 31 March 2015 the Company employed 83 full time equivalents of which approximately 40% were engaged in production, quality and engineering, 25% were engaged in sales and marketing, predominantly in Europe, 12% in

drug discovery, 10% in clinical trials and 13% across administration, medical affairs and safety.

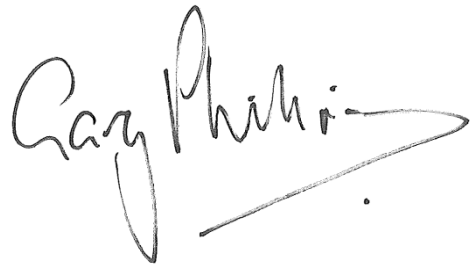
- Administration & corporate expenses for the March 2015 quarter include $114,000 of non-recurring legal and business development expenditure.
- Clinical trial expenditure for the March 2015 quarter includes $1,151,000 ($4.5 million for the nine months) of clinical trial costs (CF303) which are reimbursed by Chiesi and $413,000 ($839,000 for the nine months) in relation to the phase 1 trial for PXS4728A which commenced recruitment during the quarter.
- Other expenses (net) for the quarter of $1,424,000 include an unrealised (non-cash) foreign exchange loss of $1,666,000 primarily related to the NovaQuest non-current liability
- Finance expenses relate to the finance lease over the Company's Sydney facilities and the financing agreement with NovaQuest. The latter agreement was renegotiated in December 2014.
- Normalised cash expenses. One objective of the current business plan, including our partnering projects, is to simplify the Pharmaxis business model. The following table summarises changes in the recurring cash expense base of the business:

Recurring cash expenses	**Three months ended**		**Nine months ended**	
	31-Mar-15	**31-Mar-14**	**31-Mar-15**	**31-Mar-14**
Total expenses	(9,846)	(12,156)	(28,861)	(38,153)
Non-recurring and reimbursed expenses				
Redundancy costs	410	-	528	-
Non-recurring legal and BD expenses	114	34	865	71
Phase 1 trial of PXS4728A	413	-	839	-
Phase 3 CF trial - funded by Chiesi	1,151	773	4,456	773
Non-cash items				
Unrealised FX loss (gain) - mainly NovaQuest	1,666	26	1,609	(137)
NQ finance charge	-	2,145	(3,419)	6,435
Depreciation and amortisation expense	963	1,336	2,667	3,808
Impairment of patents and other assets	-	-	277	-
Share-based payment expenses	(201)	426	(111)	1,455
Recurring cash expenses	(5,330)	(7,416)	(21,150)	(25,748)

- Cash Flow. A quarterly cash flow statement has today been filed with the ASX. The Company recorded positive cash flow for the quarter of $3.2 million and cash at the end of the quarter was $23 million.

The next quarter will see us complete the restructuring of Pharmaxis and embark on the next part of our journey. Our aim is to conclude a number of critical agreements; the Boehringer option agreement to acquire PXS4728A, the research collaboration to accelerate the LOXL2 program towards a significant value point and a Bronchitol EU distribution agreement that will permit us to focus on the efficient manufacturing of Bronchitol for global markets, each of which will be served by experienced local distributors. I look forward to providing further details of these milestone events in the months ahead.

Sincerely



Gary Phillips
Chief Executive Officer