30 October 2014

Dear Shareholder,

Quarterly Shareholder Letter – September 2014

The Company commenced the September quarter of 2014 expecting that a US partnering agreement for Bronchitol, the foundation of our plan to redefine the Pharmaxis business model, would soon be in place. The decision by the Company's financier in the first week of the quarter to allege a breach of our financing agreement was a significant setback to our partnering and other plans. Rather than completing the Bronchitol transaction and then moving to other priorities, most of our corporate efforts over the quarter have been directed at renegotiating the agreement with our prospective Bronchitol partner to incorporate funding of the Phase 3 clinical trial required for US approval. Pharmaxis initiated legal action against its financier to protect its position but, as previously noted, remains open to a commercial resolution.

We have made significant progress in the Bronchitol partnering negotiations and we are working towards completing an agreement before the end of the calendar year. As part of this we are exploring future supply chain initiatives that can significantly reduce our cost base.

While these matters have been at the forefront of our corporate activity, other areas of the business progressed as outlined below:

1. **Bronchitol for the US:**

   Key to the value of Bronchitol to both Pharmaxis and our prospective partner is the international Phase 3 clinical trial in an adult cystic fibrosis (CF) population which is designed to meet the remaining clinical requirements of the US Food and Drug Administration. The funding uncertainty early in the quarter required us to reduce our expenditure and defer patient start dates while we renegotiated with our prospective partner. It was only late in the quarter that we had sufficient confidence of being able to fund the trial and started to initiate clinical trial sites. The first patients were screened towards the end of September and we have today announced the first enrolment in the trial. During this period of uncertainty we have continued to work very closely with INC, the contract research organisation running what is a large and complex international study in more than 100 sites across 19 countries. Enrolment will take place over a twelve month period.

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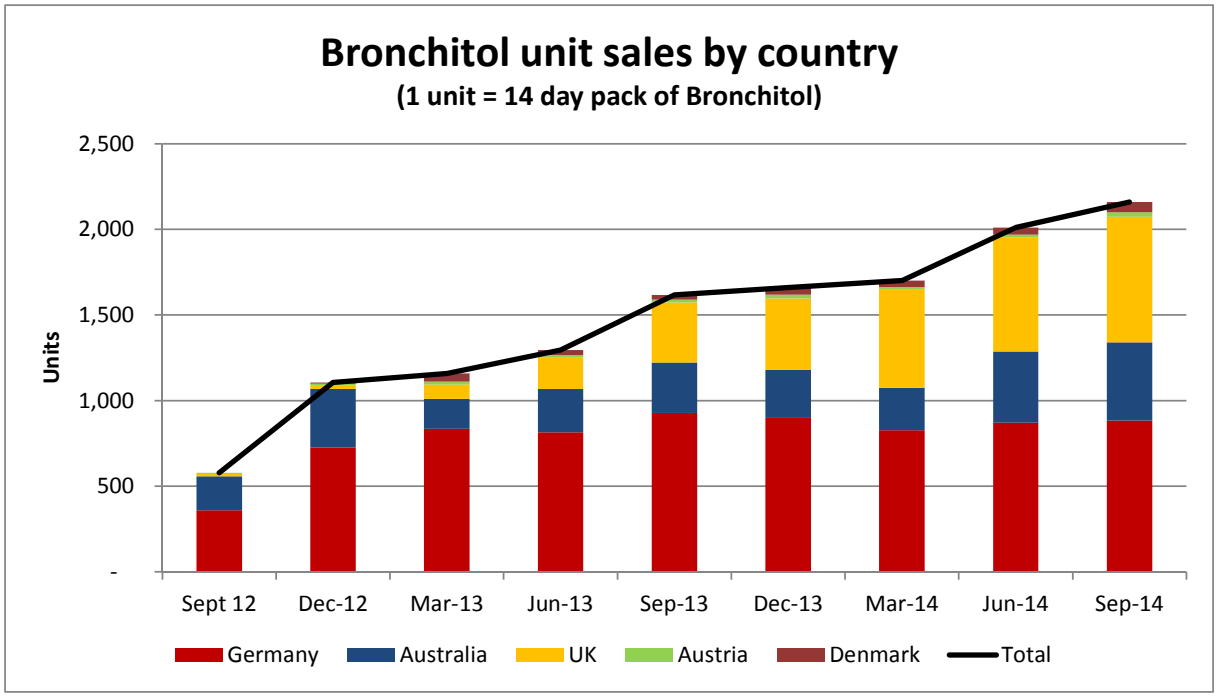
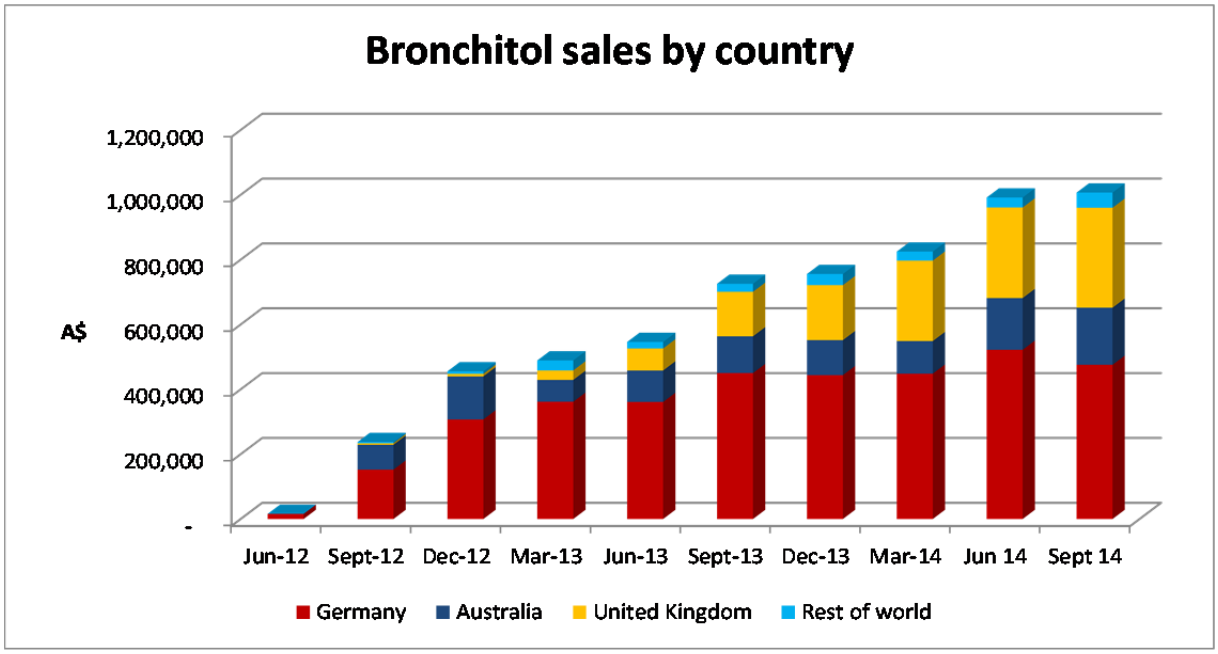
**2. Sales of Bronchitol for CF:**

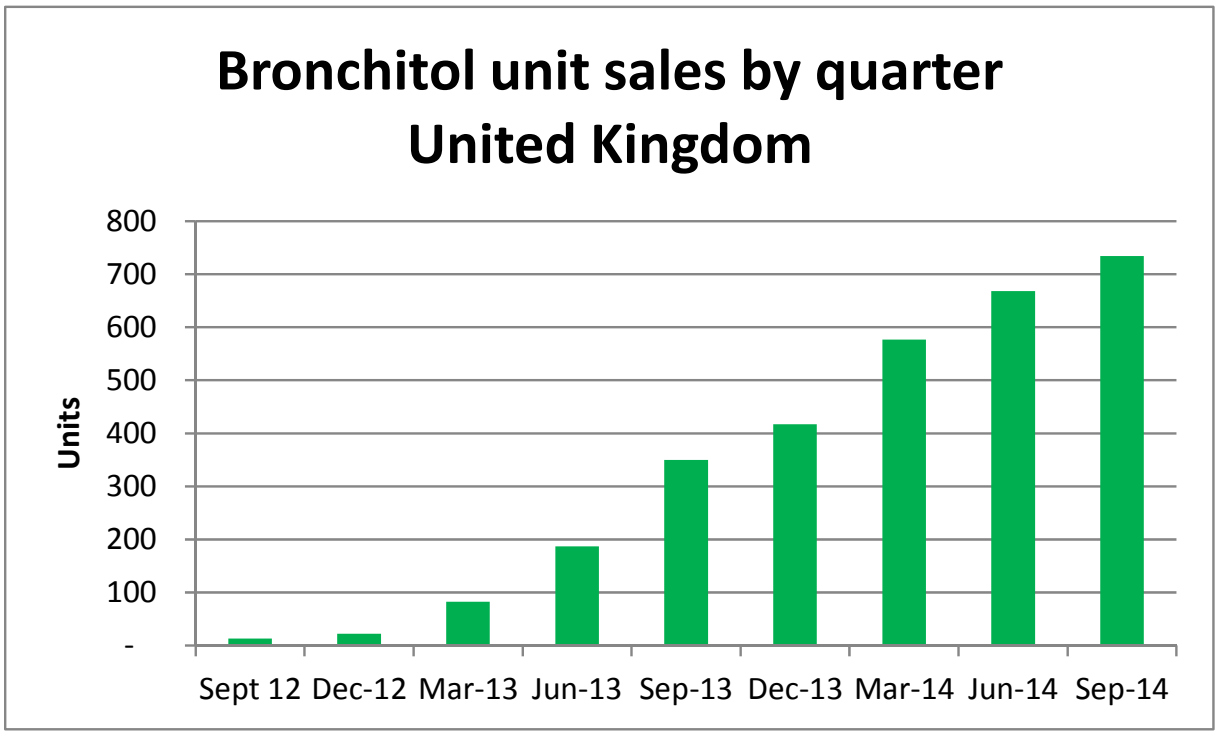



Sales for the September quarter of 2,160 Bronchitol 14 day packs reflected continued growth in the UK and Australia, and stable sales in Germany. In total, unit sales were 34% above the September of 2013 and 7% higher than the previous quarter (June 2014).

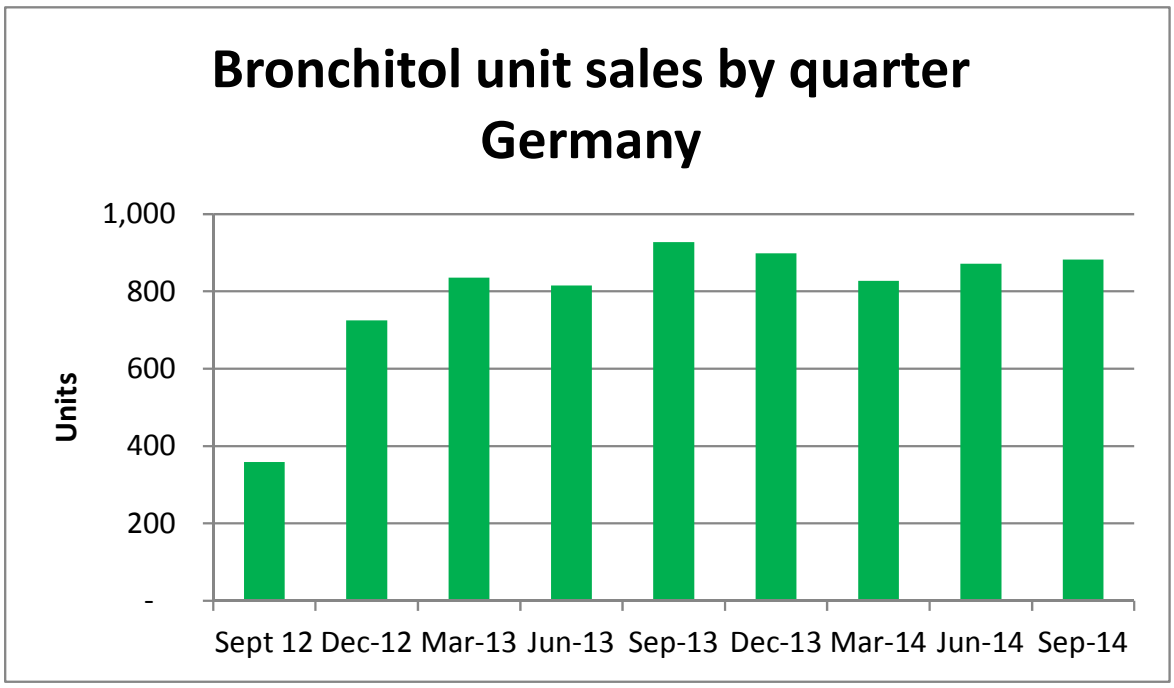
In dollar terms, Bronchitol sales for the quarter of $1,007,000 represent an increase of 39% over the September quarter of 2013 and were marginally above sales for the previous quarter. The percentage changes dollar sales differ to the percentage changes in unit sales due to varying Bronchitol selling prices in each country.



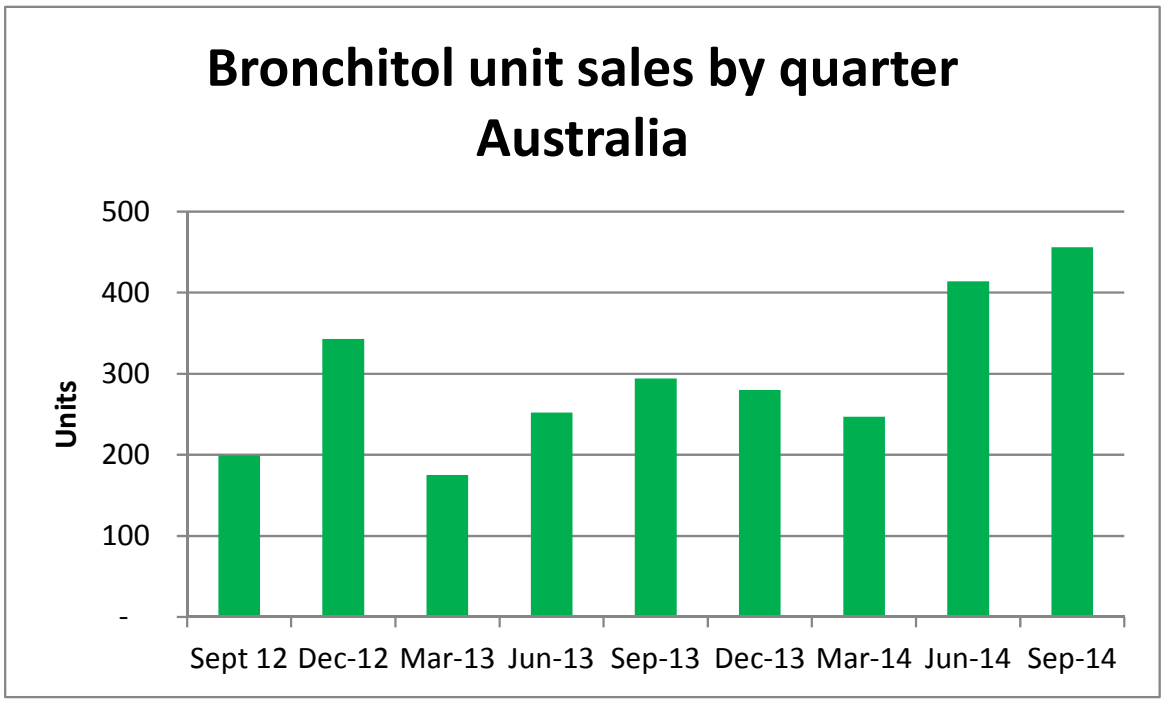
The UK continues to achieve quarter on quarter growth as CF centres introduce new patients to Bronchitol. Unit sales for the quarter were 110% higher than the quarter of September 2013 and 10% higher than the previous quarter (June 2014).




In Germany, while sales levels have been maintained, we have not seen the growth that is possible given the size of the opportunity. The impediment to improved sales has been identified as patient adherence and Pharmaxis therefore continues to introduce and closely monitor the effectiveness of patient support programs in the larger CF centres.



Australian unit sales increased following the relaunch of Bronchitol to CF centres earlier in the year with an improved PBS reimbursement status. Unit sales for the quarter were 55% higher than the September quarter of 2013 and 10% higher than the previous quarter (June 2014).




We continue to progress pricing reimbursement applications in Ireland, the Netherlands and Italy, despite a very unfavourable economic environment across the entire EU. The support of the CF community continues to be key to progressing government processes.

### 3. Early stage pipeline

Pharmaxis has been running a process to identify and secure funding for our two early stage drug discovery programs, 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 $313,000.

During the quarter the Company successfully completed the necessary toxicological studies on our SSAO inhibitor (PXS4728A) so that it is ready to proceed to Phase I studies in man, and progressed its LOXL2 inhibitor program into lead optimisation. LOXL2 plays a role in several fibrotic diseases and some cancers.

Our business development activities over the past year have confirmed that the LOXL2 program is focussing in an area of significant interest to large pharmaceutical companies, and that our approach is unique and potentially first in class. However the current lead optimisation phase of the program is still early and we continue to balance the opportunity to attract a partnering deal now versus continuing a modest internal investment to advance the program to a point of greater value.

By contrast, after further strategic investments in pre-clinical development, the SSAO inhibitor program with PXS4728A is now ready for studies in man; a major achievement and a significant value point. In the last two quarters a number of companies have shown interest in the effect of inhibiting the SSAO enzyme in a number of fibrotic and inflammatory diseases. The scientific interrogation of our data on PXS4728A by these companies is intense and we remain optimistic

of an outcome that will not only see it go into full clinical development for a major disease, but also generate the funds needed to further prepare the LOXL2 inhibitor for full clinical development. We expect to receive term sheets for PXS4728A this quarter.

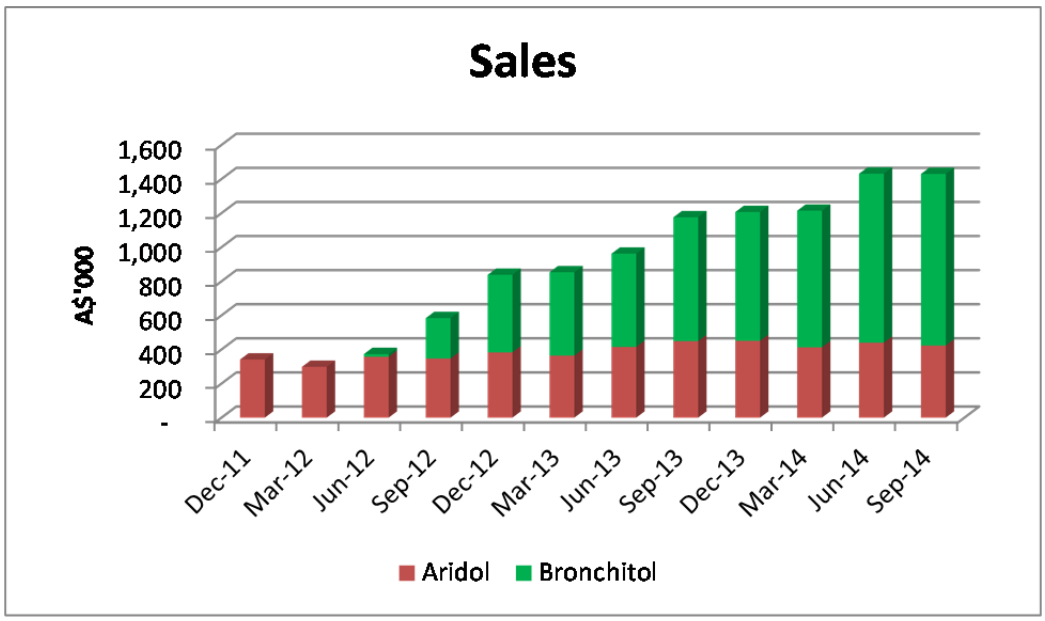
## 4. Financial Statements

Income Statement

| **Financial Statement Data - unaudited** | | | |
|---|---|---|---|
| **(International Financial Reporting Standards)** | | | |
| | | | |
| **Income statement - unaudited** | Three months ended | | |
| **('000 except per share data)** | 30-Sep-14 | 30-Jun-14 | 30-Sep-13 |
| | A$ | A$ | A$ |
| Revenue from sale of goods | 1,443 | 1,441 | 1,175 |
| Cost of sales | (518) | (462) | (405) |
| Gross profit | 925 | 979 | 770 |
| Interest income | 237 | 340 | 544 |
| Grant and other income | 1,400 | 1,102 | 832 |
| Expenses | | | |
| Sales & marketing | (1,521) | (2,419) | (2,271) |
| Regulatory, safety & medical affairs | (922) | (1,209) | (933) |
| Administration | (1,509) | (2,329) | (2,102) |
| Available manufacturing capacity | (1,299) | (627) | |
| Research & development - Bronchitol | (2,623) | (6,510) | (2,807) |
| Research & development - new drug development | (633) | (1,523) | (757) |
| Finance & royalties | (2,365) | 22 | (2,185) |
| Restructuring charges | - | (8,783) | - |
| Total expenses | (10,872) | (23,378) | (11,056) |
| Net loss before tax | (8,309) | (20,957) | (8,909) |
| Income tax expense | (25) | 6 | (18) |
| Net loss after tax | (8,334) | (20,951) | (8,927) |
| Basic and diluted earnings (loss) per share - $ | (0.028) | (0.068) | (0.030) |

Income

- Sales for the September 2014 quarter of $1.4 million were 23% higher than the September quarter of 2013, and unchanged overall from the June quarter of 2014.




- Grant and other income includes the Australian R&D tax credit – expected to be received in the fourth quarter of calendar 2015 after lodgement of the Company's 2015 income tax return.

Expenses

- Sales & marketing expenses include costs associated with the Bronchitol sales force in Europe and Australia, management of our distributors in Eastern Europe, patient support initiatives, costs to promote Bronchitol at international conferences and costs to prepare and prosecute pricing reimbursement applications. These costs have decreased from last year consistent with changes in our business plan. The prior (June 2014) quarter was particularly high due mainly to major international cystic fibrosis conferences held at that time, the launch of several patient support programs and new pricing and reimbursement applications.
- Regulatory, safety and medical affairs include the costs to obtain and then maintain approval of our products, including the safety reporting and medical information support of patients required by regulatory agencies. These costs vary by quarter depending upon the timing of annual fees.
- Administration expenses include audit, tax compliance, public company costs, legal and business development expenses, etc. In the current quarter legal and business development expenses totalled $345,000.
- Research & development – Bronchitol includes clinical trial costs of $1.5 million of which $0.9 million related to management of CF303 ($3.2 million in June 2014 and nil in September 2013).
- Research & development – new drug development. The net cash cost after R&D tax credits for the quarter was $313,000 ($578,000 in June 2014 and $247,000 in September 2013)

- Restructuring and impairment expenses for the previous (June) quarter related exclusively to the write down to nil of the ASM8 patent suite and was separately discussed in the last quarterly update.

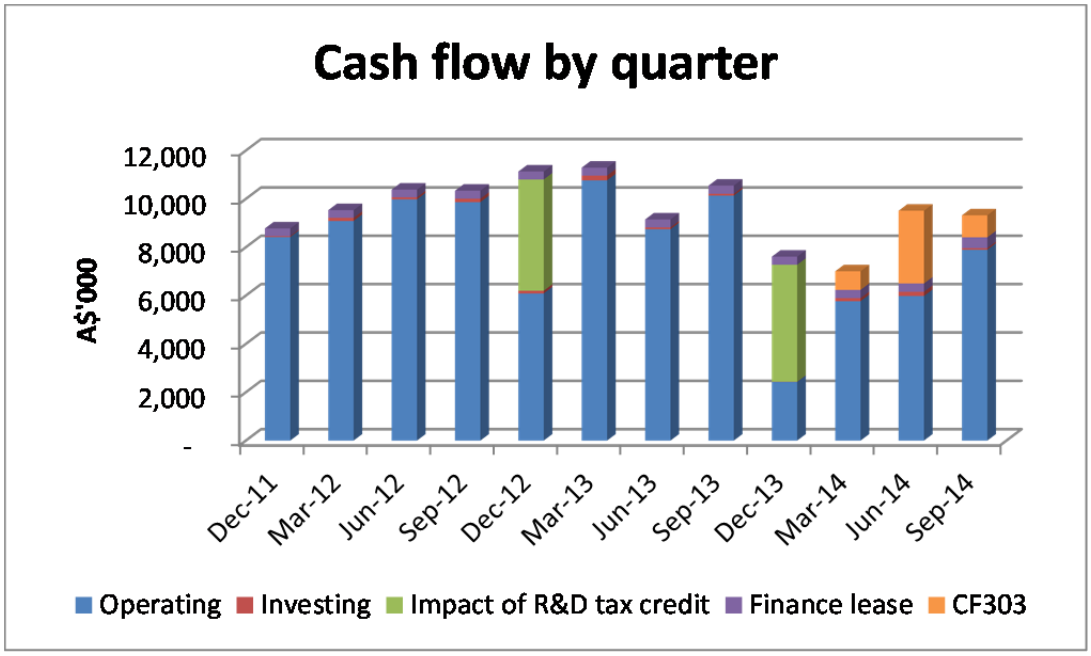
Normalised cash expenses

- One objective of the current business plan, including our partnering projects, is to simplify the Pharmaxis business model. As the plan progresses the Company is able to simplify its cost structure. Employee costs continue to reduce from $5.1 million in the September quarter of 2013 to $4.1 million in the June quarter of 2014 to $3.6 million in the September quarter of 2014.
- The following table summarises changes in the recurring cash expense base of the business:

| **Normalised cash expenses - unaudited** | Three months ended | | |
|---|---|---|---|
| **('000 except per share data)** | 30-Sep-14 | 30-Jun-14 | 30-Sep-13 |
| Total expenses | (10,872) | (23,378) | (11,056) |
| Non cash expenses | | | |
| Depreciation | 464 | 469 | 501 |
| Amortisation | 395 | 854 | 632 |
| Share based compensation | 83 | 464 | 473 |
| NovaQuest finance charge | 2,310 | (64) | 2,145 |
| | 3,252 | 1,723 | 3,751 |
| Restructuring charges | - | 8,783 | - |
| CF303 expenses | 930 | 3,204 | - |
| Manufacturing costs to/from inventory | (66) | 336 | (857) |
| Normalised cash expenses | (6,756) | (9,332) | (8,162) |

Cash Flow

A quarterly cash flow statement has today been filed with the ASX. The following graph provides a comparison of the current quarter with prior quarters



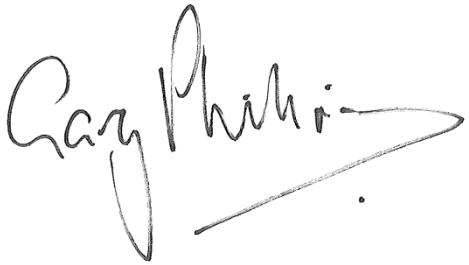

- The September 2014 quarter net operating cash outflow of $8.8 million compares to $10.1m in the September 2013 quarter and $9.0m in the June 2014 quarter. The September quarter

is impacted by the typically higher level of June expenses most of which are paid in the subsequent quarter as well as certain annual expenses which occur in the September quarter such as annual insurance premiums and financial year end reporting costs.

- The Company had $25 million in cash and cash equivalents at 30 September 2014
- The Company expects to receive an R&D tax credit of approximately $3.3 million in relation to the 2014 year subsequent to filing of its tax return which occurred in October.

The last Quarter presented some unwelcome challenges that caused us to pause our business re-engineering projects. Looking ahead, the activities for the next quarter will aim to build on the constructive discussions we have had and conclude negotiations to fully fund the phase III clinical study necessary for US approval, continue to grow our Bronchitol business and partner our pre-clinical pipeline assets.

Sincerely



Gary Phillips
Chief Executive Officer