

Pharmaxis Ltd

ABN 75 082 811 630

ASX Half year report – 31 December 2019

Lodged with the ASX under Listing Rule 4.2A

This report is to be read in conjunction with the financial statements for the year ended 30 June 2019 and any public announcements made by Pharmaxis Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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Pharmaxis Ltd

ABN 75 082 811 630

Reporting period: Half year ended 31 December 2019
(Previous corresponding period: Half year ended 31 December 2018)

Results for announcement to the market

		<u>A\$'000</u>	to	<u>A\$'000</u>
Revenue from sale of goods	Up	1,022		3,259
Other revenue from ordinary activities	Up	49		762
Total revenue from ordinary activities	Up	1,071		4,021
Loss from ordinary activities after tax	Down	2,268		(10,319)
Net loss for the year attributable to members	Down	2,268		(10,319)

Dividends

It is not proposed to pay a dividend.

Other Appendix 4D information

	<u>31</u> <u>December</u> <u>2019</u>	<u>31</u> <u>December</u> <u>2018</u>
Net tangible assets per ordinary share	\$ 0.011	\$ 0.054

Pharmaxis Ltd

Half-Year Report - 31 December 2019

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This half-year report covers the consolidated entity consisting of Pharmaxis Ltd and its subsidiaries. The financial statements are 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 2086
Australia

This interim financial report does not include all the notes of the type normally included in the annual financial statements. Accordingly, this report is to be read in conjunction with the financial statements for the year ended 30 June 2019 and any public announcements made by Pharmaxis Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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 these financial statements.

The half-year report was authorised for issue by the directors on 13 February 2020. The Company has the power to amend and reissue the financial statements.

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

Pharmaxis Ltd

Directors' Report

For the half-year ended 31 December 2019

Your directors present their report on the consolidated entity consisting of Pharmaxis Ltd and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

Directors

The following persons were directors of the Company during the half-year and up to the date of this report:

Malcolm McComas (Chairman)
Gary Phillips (Chief Executive Officer)
William Delaat
Kathleen Metters
Edward Rayner

Principal activities, review of operations and significant changes in the state of affairs

Overview

Pharmaxis is an Australian pharmaceutical research company focused on inflammation and fibrosis 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 development pipeline is centred on its expertise in amine oxidase chemistry and includes:

- a series of Lysyl Oxidase Like 2 (LOXL2) inhibitors targeting fibrotic diseases of the lung, liver, heart and kidney that has completed phase 1 clinical trials and 3-month toxicology studies;
- a systemic Lysyl Oxidase (LOX) inhibitor in development for cancer with prominent connective tissue or fibrotic metastatic niches, such as myelofibrosis and pancreatic cancer. This program is part way through phase 1 clinical trials;
- a topical Lysyl Oxidase (LOX) inhibitors in development for scar revision, keloid scarring and scarring from burn wounds, currently in preclinical development; and
- BI 1467335, a potent inhibitor of Semicarbazide-Sensitive Amine Oxidase (SSAO) acquired by Boehringer Ingelheim in 2015 to develop for the treatment of the liver-related condition Non-alcoholic Steatohepatitis (NASH) diabetic retinopathy (DR). As further explained below, in December 2019 Boehringer advised that it was discontinuing development of BI 1467335 for NASH. A phase 2a clinical trial in DR will report in H2 2020.

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 marketed in Europe, Russia and Australia and the US Food and Drug Administration is expected to complete its review of Bronchitol in 2020
- 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, Canada and Asia.

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

New drug development

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

Anti-inflammatory drug BI 1467335

This drug was sold to Boehringer Ingelheim in 2015. Under the terms of our agreement Boehringer has total responsibility for the development program and is required to make milestone payments to Pharmaxis as BI 1467335 progresses towards approval, as well as other sales related payments post approval. The Company has received A\$83 million to date from Boehringer.

In December 2019 Boehringer advised it was discontinuing the development of BI 1467335 for the treatment of NASH. The reason provided by BI for the discontinuation after a successful phase 2a study that met its safety and efficacy endpoints was the potential for drug interactions in NASH patients arising from another recently completed phase 1 study.

A second study of the drug in diabetic retinopathy with associated milestone payments will continue with future development to be decided by BI following completion of the current phase 2a study due to report 2H 2020. Future potential payments by Boehringer to Pharmaxis for this program include:

- Commencement of phase 3 clinical trial milestone : €37m (approximately A\$62m)
- Filing, approval and pricing milestones: total of €140m (approximately A\$235m)
- Sales related payments increasing from high single digits
- Sales milestones

Pharmaxis Ltd

Directors' Report

For the half-year ended 31 December 2019

Anti-fibrotic program targeting the LOXL2 enzyme

The Pharmaxis drug discovery group has developed a small number of selective inhibitors to the lysyl oxidase type 2 enzyme (LOXL2). LOXL2 is important in NASH, kidney fibrosis, and the fatal lung disease idiopathic pulmonary fibrosis (IPF). During the half year the Company expanded the preclinical scientific data package.

Pharmaxis is currently pursuing a number of different partnering options to enable this drug to enter the clinic in phase 2 trials and will provide more information when the process concludes.

Systemic LOX inhibitor program

Pharmaxis is also progressing two lysyl oxidase (LOX) programs from its amine oxidase chemistry platform, both of which are planned to partner after phase 2 clinical trials.

The most advanced LOX program has developed an oral once-a-day drug that inhibits all lysyl oxidase family members (LOX, LOXL1, 2, 3 & 4). The compound has shown significant reductions in fibrosis in in-vivo models of kidney, liver and lung fibrosis, myelofibrosis as well as pancreatic cancer. It is suited to the treatment of severe fibrosis as well as cancer with prominent stroma (connective tissue) or fibrotic metastatic niches.

During the half year, Pharmaxis announced positive results from the clinical phase 1a study. The double-blind placebo-controlled study commenced in February 2019 and consists of two stages. In the first single ascending dose stage (phase 1a) the drug was well tolerated and no safety signals were identified during the study. Importantly for potential clinical benefit, the data showed a drug with good pharmacokinetics and a dose related inhibition of members of the LOX family with the upper doses causing significant inhibition for a full 24 hours after a single application. The second multiple ascending dose stage (phase 1b) commenced in October and is due to report in Q1 2020.

After successful completion of the phase 1 study, Pharmaxis will have all the data required to support the commencement of clinical proof of concept studies in either myelofibrosis or pancreatic cancer. The Company plans to discuss the program with the FDA prior to filing an Investigational New Drug (IND) that supports entering phase 2 studies in H2 2020.

Topical LOX inhibitor program

The Company's other LOX program has developed a drug for topical application with the potential for use in scar revision, keloid scarring and scarring from burn wounds. A lead candidate has been selected and is currently in pre-clinical development including initial stability of the topical formulation, ongoing evaluation in various disease models of scarring and tox studies. Three month tox studies commenced this quarter.

The program aims to commence phase 1 studies in 2020.

Mannitol business

Approved products - Bronchitol for cystic fibrosis

Bronchitol is an inhaled dry powder for the treatment of cystic fibrosis. The product is approved and marketed in Europe, Russia and Australia.

- Pharmaxis has partnered its work on Bronchitol for the United States with Chiesi Group (Chiesi), a global pharmaceutical company headquartered in Parma, Italy. Chiesi USA, the American affiliate of Chiesi Group is responsible for completing and filing the updated Bronchitol NDA with the FDA. Based on the international phase 3 trial of Bronchitol in adults with cystic fibrosis that reported in June 2017, Chiesi filed a resubmission of the Bronchitol New Drug Application (NDA) to the US Food and Drug Administration (FDA) in December 2018. Following a positive recommendation from a Pulmonary-Allergy Drugs Advisory Committee meeting convened by the FDA on 8 May 2019, Chiesi received a complete response letter from the FDA in June 2019 detailing the remaining matters to be addressed before Bronchitol can be approved for adult cystic fibrosis patients in the United States. The main requirement included in the FDA complete response letter is that Chiesi revise the product packaging and user instructions; and then conduct a human factor study demonstrating that the revised user components enable healthcare professionals to properly administer the mannitol tolerance test. These remaining requirements are targeted for completion by the end of the first quarter of 2020. Pharmaxis believes that the FDA review of the Bronchitol NDA will be completed in mid 2020. Subject to approval, Pharmaxis will receive a US\$10 million milestone on the commercial launch of Bronchitol in the US, mid to high teen percentage royalties and will be the exclusive supplier of Bronchitol for the US market. Under the terms of the agreement Chiesi has responsibility for commercialisation of Bronchitol in the United States.
- In the EU, Pharmaxis has appointed Chiesi as its exclusive distributor for the markets of the UK, Ireland, Italy, Germany, Norway, Sweden, Finland, Denmark, Cyprus and Greece. Unit sales of Bronchitol by Chiesi in the UK, Germany and Italy for the half year increased 10% over the December 2018 half year.
- Pharmaxis received marketing approval of Bronchitol in Russia in September 2016 for the treatment of both paediatric and adult CF patients and in December 2018 Bronchitol was added to the Essential Drugs List and thereby received national reimbursement. Sales to Russia in the December 2019 half year were \$0.6 million compared to \$nil in the 2018 half year.

Pharmaxis Ltd

Directors' Report

For the half-year ended 31 December 2019

Approved products – 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 the U.S.A., Australia, South Korea and a number of European countries. Subsequent to approval for Aridol from Canadian regulatory authorities in June 2019, the Company sold its first order to its North American distributor in the December 2019 half year.

Financial Highlights

Revenue from sale of goods

Sales for the half year ended 31 December 2019 were \$3.3 million, an increase of \$1.0 million on the 31 December 2018 half year.

Sales of Bronchitol for the half year ended 31 December 2019 were \$2.2 million compared to \$0.7 million for the half-year ended 31 December 2018. The increase is due to the timing of our distributors orders with a shipment to Chiesi for Bronchitol in the UK and Italy in the current half year of \$0.8m, and a shipment to our Russian distributor for \$0.6 million versus \$nil in the half year ended 31 December 2018.

The group sold Aridol to customers in North America, Europe, Australia and Asia during the period. Sales of Aridol in the half-year ended 31 December 2019 were \$1.1 million, a decrease of \$0.5 million on the half year ended 31 December 2018. The decrease was due to the company's sale of re-launch stock to its North American distributor in the half year ending 31 December 2018 with no subsequent order as yet required.

Interest

The decrease in interest income was driven by lower cash and cash equivalent balances and lower market interest rates available.

Other revenue and income

The Company received other income of \$0.5 million for the half year ended 31 December 2019 representing the sub-leasing of parts of the Company's Frenchs Forest premises and an additional R&D tax credit claim from the 2019 financial year.

Employee costs

Employee related expenses were \$6.0 million in the half-year ended 31 December 2019, in line with the half-year ended 31 December 2018. Employee costs include share based payments (non-cash) totalling \$0.5 million in the 2019 half year period, compared to \$0.6 million in the corresponding 2018 half year period. At 31 December 2019 the Company employed 70 full time equivalents (31 December 2018: 69) of whom 70 percent were in the Bronchitol and Aridol business, 23 percent in drug development, and 7 percent in corporate.

Administration & corporate

Administration and corporate expenses include accounting & IT, legal & compliance, public company costs, patent portfolio and insurance costs. Administration expenses were \$1.2 million in the 2019 half-year period similar to 2018.

Clinical trials

Clinical trials expenses were \$1.1 million in the half-year ended 31 December 2019 compared to \$0.4 million in the half-year ended 31 December 2018, an increase of \$0.7 million. Clinical trial expenses relate to external costs incurred and are predominately driven by fees paid to the clinical research organisations contracted to manage the clinical trials. Clinical trials related to New Drug Development were \$1.2 million in the December 2019 half year compared to \$1.1 million in the December 2018 half year. Clinical trial costs in relation to the Mannitol Business were a credit of \$0.1 million in the December 2019 half year compared to a credit of \$0.6 million in the December 2018 half year. The credits were received from the contract research organisation that managed the clinical trial CF303.

Drug development

Drug development expenses were \$1.3 million for the half-year ended 31 December 2019 compared to \$3.2 million in the half-year ended 31 December 2018. The decrease in the drug development expenditure is due to the LOXL2 and LOX Systemic programs advancing to clinical trials. The drug development expenses predominantly consist of external costs paid to contract research organisations to support the development and selection of new drug candidates that are then progressed through the pre-clinical development path. Drug development expenses also include the costs incurred in running the Company's research laboratory (excluding any allocation of lease and utilities).

Pharmaxis Ltd

Directors' Report

For the half-year ended 31 December 2019

Sales, marketing & distribution

Sales & marketing expenses are external costs incurred in selling Bronchitol globally, primarily through distributors. Limited resources are directed at the sale of Aridol. Sales & marketing expenses for the current half-year were \$0.7 million compared to \$0.5 million in the half-year ended 31 December 2018.

Safety, medical and regulatory affairs expenses

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. Expenses for the current half-year were \$0.5 million in line with the half year ended 31 December 2018.

Manufacturing purchases

Manufacturing purchases were \$1.0 million in the half-year ended 31 December 2019 compared to \$0.6 million in the half-year ended 31 December 2018. This group of costs includes raw material and consumable purchases, costs associated with running the production and quality control processes and repair & maintenance costs associated with manufacturing equipment and our manufacturing facility.

Other

Other expenses were \$0.1 million in the half-year ended 31 December 2019 compared to a gain of \$0.2 million in the half-year ended 31 December 2018. These expenses include corporate travel related costs, shared office administration costs, and other costs as well as the net transfer of manufacturing labour and overhead to and/or from inventory.

The gain in the half year to 31 December 2018 was mainly the result of the net transfer of manufacturing labour and overhead to inventory of \$0.6 million associated with the build-up of inventory for orders in 2019, compared to a \$0.3 million movement in the half-year ended 31 December 2019.

Also included in other expenses are royalty costs payable to the Sydney Local Health District, based on gross profit on product sales of Aridol and Bronchitol.

Foreign exchange gains & losses

Foreign exchange losses were \$0.1 million in the half-year ended 31 December 2019 compared to losses of \$1.2 million in the half-year ended 31 December 2018. The foreign exchange losses are largely unrealised and relate to the movement on the USD denominated NovaQuest finance agreement.

Depreciation & amortisation

Depreciation and amortisation expense was \$1.6 million in the half-year ended 31 December 2019 an increase of \$1.3 million on the half-year ended 31 December 2018.

Finance expenses

Finance expenses were \$0.3 million in the 2019 half-year period compared to \$2,000 in the 2018 half-year period. The finance expense relates to the capitalised lease of our corporate manufacturing facility in Frenchs Forest, Sydney. In the 2018 half year the Company realised a gain of \$0.3 million when the European component of the NovaQuest liability was reduced. This gain was offset by the finance charges related to the capitalised lease.

Income tax expense

The Company does not earn any taxable income.

Balance Sheet

The group ended the half-year with \$26 million in cash and cash deposits. The Company adopted the new lease accounting standard resulting in the recognition of right to use assets of \$1.5 million reported under property, plant and equipment with a \$2.6 million increase in the lease liabilities reported under borrowings. Right-of use assets were measured at the amount equal to the lease liability, adjusted by incentives relating to the leases.

Pharmaxis Ltd

Directors' Report

For the half-year ended 31 December 2019

Events occurring after the end of the reporting period

No other matters or circumstances have arisen since 31 December 2019 that have 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.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

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Pharmaxis Ltd

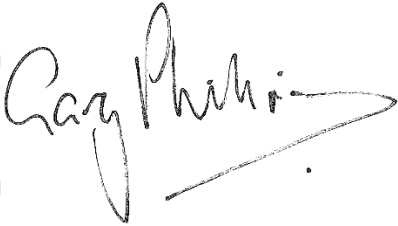
Directors' Report

For the half-year ended 31 December 2019

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in the Financial/Directors' Report) 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 directors' report and financial statements have been rounded off to the nearest thousand dollars in accordance with that Instrument.

This report 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
13 February 2020



Auditor's Independence Declaration

As lead auditor for the review of Pharmaxis Ltd for the half-year ended 31 December 2019, 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'Mark Dow', with a long horizontal flourish extending to the right.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
13 February 2020

PricewaterhouseCoopers, ABN 52 780 433 757

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Pharmaxis Ltd**Consolidated income statement**

For the half-year ended 31 December 2019

		31 December 2019 \$'000	31 December 2018 \$'000
	Notes		
Revenue from continuing operations			
Revenue from sale of goods	3	3,259	2,237
Other revenue	3	230	449
Other income	4	532	264
		4,021	2,950
Expenses from ordinary activities			
Employee costs		(6,005)	(5,989)
Administration & corporate		(1,153)	(1,198)
Rent, occupancy & utilities		(483)	(679)
Clinical trials		(1,069)	(441)
Drug development		(1,311)	(3,201)
Sales, marketing & distribution		(668)	(534)
Safety, medical and regulatory affairs		(487)	(478)
Manufacturing purchases		(1,040)	(632)
Other		(80)	154
Depreciation & amortisation		(1,616)	(1,292)
Foreign exchange gains & losses		(121)	(1,245)
Finance costs		(307)	(2)
		(14,340)	(15,537)
Loss before income tax		(10,319)	(12,587)
Income tax		-	-
Loss for the period		(10,319)	(12,587)
Earnings per share:			
		Cents	Cents
Basic (loss) / earnings per share	8	(0.03)	(0.03)
Diluted (loss) / earnings per share	8	(0.03)	(0.03)

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

Pharmaxis Ltd

Consolidated statement of comprehensive income

For the half-year ended 31 December 2019

	31 December 2019 \$'000	31 December 2018 \$'000
(Loss) / Profit for the period	(10,319)	(12,587)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	-	-
Other comprehensive (loss) / income for the period, net of tax	-	-
Total comprehensive (loss) / income for the period	(10,319)	(12,587)
Total comprehensive (loss) / income for the period is attributable to:		
Owners of Pharmaxis Ltd	(10,319)	(12,587)

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

Pharmaxis Ltd
Consolidated balance sheet
As at 31 December 2019

	Notes	31 December 2019 \$'000	30 June 2019 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		25,864	31,124
Trade and other receivables		1,663	7,335
Inventories		2,452	2,116
Total current assets		29,979	40,575
Non-current assets			
Receivables		1,078	1,074
Property, plant and equipment		10,315	10,264
Intangible assets		905	755
Total non-current assets		12,298	12,093
Total assets		42,277	52,668
LIABILITIES			
Current liabilities			
Trade and other payables		3,335	4,826
Borrowings		1,738	1,203
Other liabilities		1,370	1,107
Provisions		984	976
Total current liabilities		7,427	8,112
Non-current liabilities			
Borrowings		7,259	5,968
Other liabilities		22,444	23,659
Provisions		114	115
Total non-current liabilities		29,817	29,742
Total liabilities		37,244	37,854
Net assets		5,033	14,814
EQUITY			
Contributed equity	5 (a)	367,301	367,301
Reserves		22,295	21,757
Accumulated losses		(384,563)	(374,244)
Total equity		5,033	14,814

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

Pharmaxis Ltd
Consolidated statement of changes in equity
For the half-year ended 31 December 2019

	Notes	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000
Balance at 30 June 2018		344,623	20,681	(354,186)	11,118
Loss for the period		-	-	(12,587)	(12,587)
Other comprehensive income		-	-	-	-
Total comprehensive income for the half year		-	-	(12,587)	(12,587)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	5 (a)	22,678	-	-	22,678
Employee share options		-	660	-	660
		-	660	-	660
Balance at 31 December 2018		367,301	21,341	(366,773)	21,869
Balance at 30 June 2019		367,301	21,757	(374,244)	14,814
Loss for the period		-	-	(10,319)	(10,319)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the half year		-	-	(10,319)	(10,319)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs		-	-	-	-
Employee share options		-	538	-	538
		-	538	-	538
Balance at 31 December 2019		367,301	22,295	(384,563)	5,033

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 half-year ended 31 December 2019

	31 December 2019 \$'000	31 December 2018 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	3,973	3,130
Payments to suppliers and employees (inclusive of goods and services tax)	(14,116)	(13,848)
Payments in relation to the change in the Synairgen collaboration arrangement	-	(11)
	(10,143)	(10,729)
Receipt of the R&D tax incentive	6,221	-
Interest received	230	449
Income taxes refunded	-	-
Net cash inflow / (outflow) from operating activities	(3,692)	(10,280)
Cash flows from investing activities		
Payments for plant and equipment	(117)	(251)
Proceeds from disposal of plant & equipment	-	-
Payments for intangible assets	(211)	(311)
Net cash outflow from investing activities	(328)	(562)
Cash flows from financing activities		
Proceeds from issues of shares	-	24,000
Transaction costs arising on share issue	-	(1,322)
Lease payments	(1,111)	(793)
Financing agreement payments	(129)	(112)
Net cash inflow / (outflow) from financing activities	(1,240)	21,772
Net increase / (decrease) in cash and cash equivalents	(5,260)	10,930
Cash and cash equivalents at the beginning of the financial period	31,124	31,073
Effects of exchange rate changes on the balance of cash held in foreign currencies	-	-
Cash and cash equivalents at the end of the financial period	25,864	42,003

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

1. Basis of preparation of half-year report

This condensed consolidated interim financial report for the interim half-year reporting period ended 31 December 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial statement does not include all the notes of the type normally included in annual financial statements. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Pharmaxis Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

New accounting standards and interpretations

The group has adopted AASB 16 Leases retrospectively from 1 July 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

This standard replaces AASB 117 Leases and will result in almost all leases being recognised on the balance sheet. Leases will no longer be classified as either operating or finance leases for the lessee - effectively treating all leases as a finance lease. A lessee will recognise a right-of-use (ROU) asset, which represents its right to use the underlying asset, and a lease liability, which represents its obligation to make future lease payments. The Group does not apply AASB 16 Leases to arrangements which fall within the scope of AASB 138 Intangible Asset.

Adjustments recognised on adoption of AASB 16

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. Repayments of lease liabilities are separated into principal portion (presented within financing activities) and interest portion (presented in operating 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.

On adoption the Company recognised right of use asset of \$1.5 million in property, plant and equipment with the associated lease liability (\$2.6 million) reported under borrowings. This represented the former operating lease component of the Frenchs Forest facility lease agreement. The carrying amount of the right to use asset has been reduced by the lease incentive previously reported under other liabilities.

For leases previously classified as finance leases the group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of AASB 16 are only applied after that date.

2. Segment information

(a) Description of segments

The group's senior management committee, consisting of the chief executive officer, chief financial officer, medical director, head of drug development and head of alliance management, considers the business from a product family group perspective and has identified two reportable segments:

1. Mannitol 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 inflammatory and respiratory 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 half-year ended 31 December 2019 is as follows:

2. Segment information (continued)

	Mannitol	New Drug Development	Corporate	Total
Half-year 2019	\$'000	\$'000	\$'000	\$'000
Total segment revenue	3,269	259	263	3,791
Expenses from ordinary activities				
Employee costs	(3,037)	(1,529)	(901)	(5,467)
Administration & corporate	(188)	(87)	(878)	(1,153)
Rent, occupancy & utilities	(386)	(37)	(60)	(483)
Clinical trials	98	(1,167)	-	(1,069)
Drug development	-	(1,311)	-	(1,311)
Sales, marketing & distribution	(668)	-	-	(668)
Safety, medical and regulatory affairs	(487)	-	-	(487)
Manufacturing purchases	(1,040)	-	-	(1,040)
Other	170	(157)	(125)	(112)
	(5,538)	(4,288)	(1,964)	(11,790)
Adjusted EBITDA	(2,269)	(4,029)	(1,701)	(7,999)
Half-year 2018				
Total segment revenue	2,251	-	250	2,501
Expenses from ordinary activities				
Employee costs	(2,881)	(1,414)	(1,034)	(5,329)
Administration & corporate	(237)	(95)	(866)	(1,198)
Rent, occupancy & utilities	(282)	(43)	(354)	(679)
Clinical trials	621	(1,062)	-	(441)
Drug development	-	(3,201)	-	(3,201)
Sales, marketing & distribution	(534)	-	-	(534)
Safety, medical and regulatory affairs	(478)	-	-	(478)
Manufacturing purchases	(632)	-	-	(632)
Other	383	(108)	(94)	181
	(4,040)	(5,923)	(2,348)	(12,311)
Adjusted EBITDA	(1,789)	(5,923)	(2,098)	(9,810)

The senior management committee uses the adjusted EBITDA as a measure to assess performance of the segments. This excludes the effects of material non-recurring expenditure such as redundancy costs, partnering 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.

2. Segment information (continued)

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

	31 December	31 December
	2019	2018
	\$'000	\$'000
Adjusted EBITDA	(7,999)	(9,810)
Interest revenue	230	449
Finance costs		
Unrealised (losses) / gains on financial instruments	(89)	(1,015)
Finance lease charges	(307)	(259)
Depreciation and amortisation expense	(1,616)	(1,292)
Share-based payment expenses	(538)	(660)
Loss before income tax	(10,319)	(12,587)

3. Revenue

<i>Sales revenue</i>		
Sale of goods	3,259	2,237
<i>Other revenue</i>		
Interest	230	449
Other	-	-
	230	449

4. Other income

R&D tax credits	259	-
Other income	273	264
	532	264

5. Contributed equity

	Parent entity		Parent entity	
	31 December 2019	30 June 2019	31 December 2019	30 June 2019
	Shares	Shares	\$'000	\$'000
(a) Share capital				
Ordinary shares				
Fully paid	394,672,198	394,315,798	367,301	367,301

Movements in ordinary share capital:

Details	Number of shares	Issue price	\$'000
Opening balance as at 1 July 2019	394,315,798		367,301
Exercise of employee options	117,000	\$ - (1)	-
Employee Share Plan	239,400	\$ - (2)	-
Closing Balance at 31 December 2019	394,672,198		367,301

(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.

(b) 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.

6. Contingent liabilities

The group had contingent liabilities at 31 December 2019 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 31 December 2019 had a total deposits of \$0.9 million (2018: \$0.9 million) covering a rental bond and corporate credit card facility.

7. Events occurring after the end of the reporting period

No matters or circumstance have arisen since 31 December 2019 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.

8. Earnings per share

	31 December 2019 Cents	31 December 2018 Cents
(a) Basic earnings per share		
(Loss) / profit attributable to the ordinary owners of the Company	(0.03)	(0.03)
(b) Diluted earnings per share		
(Loss) / profit attributable to the ordinary owners of the company	(0.03)	(0.03)
(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	394,566,595	368,695,959
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings / (loss) per share	405,059,345	374,973,709

(d) Information concerning the classification of securities

Options

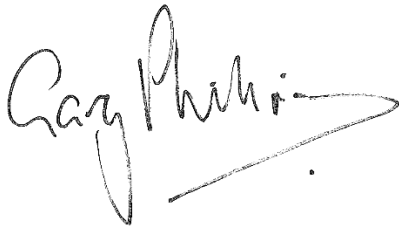
Options granted to employees under the Pharmaxis Ltd Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive.

Pharmaxis Ltd
Directors' declaration
31 December 2019

In the directors' opinion:

- (a) the financial statements and notes set out on pages 9 to 18 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standard AASB 134 "Interim Financial Reporting", 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 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Pharmaxis Ltd will be able to pay its debts as and when they become due and payable.

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



Gary J Phillips
Director

Sydney
13 February 2020



Independent auditor's review report to the members of Pharmaxis Ltd

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Pharmaxis Ltd (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2019, the consolidated statement of changes in equity, consolidated statement of cash flows, the consolidated income statement and the consolidated statement of comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pharmaxis Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Pharmaxis Ltd is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A stylized, handwritten signature of 'PricewaterhouseCoopers' in black ink.

PricewaterhouseCoopers

A handwritten signature of 'Mark Dow' in black ink.

Mark Dow
Partner

Sydney
13 February 2020