

13 August 2020

The Manager-Listings
Australian Securities Exchange Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Via Electronic lodgement

Dear Sir

Appendix 4E and 2020 Directors' Report and Financial Statements

Pharmaxis Ltd lodges the following documents in relation to its announcement to the market of its financial results for the year ended 30 June 2020.

1. Appendix 4E – Preliminary Final Report for the year ended 30 June 2020;
and
2. Pharmaxis 2020 Directors' Report and Annual Financial Report for the
year ended 30 June 2020.

Yours faithfully



David McGarvey
Pharmaxis Ltd
Chief Financial Officer / Company Secretary

Pharmaxis Ltd
ABN 75 082 811 630

Appendix 4E
Preliminary final report
Reporting period: Year ended 30th June 2020
(Previous corresponding period: Year ended 30th June 2019)

Results for announcement to the market

| | | <u>A\$'000</u> | | <u>A\$'000</u> |
|--|-------------|-----------------------|----|----------------------|
| Revenue from sale of goods | Up | 1,351 | to | 7,027 |
| Other revenue from ordinary activities | Down | <u>(1,402)</u> | to | <u>6,002</u> |
| Total revenue from ordinary activities | Down | <u>(51)</u> | to | <u>13,029</u> |
| Loss from ordinary activities after tax | Down | 6,115 | to | (13,943) |
| Net loss for the year attributable to members | Down | 6,115 | to | (13,943) |

Dividends

It is not proposed to pay a dividend.

Other Appendix 4E information

| | <u>30 June</u> <u>2020</u> | <u>30 June</u> <u>2019</u> |
|--|-------------------------------|-------------------------------|
| Net tangible assets per ordinary share | \$ 0.00 | \$ 0.04 |

A commentary on these results and additional Appendix 4E disclosure requirements can be found in the attached Pharmaxis 2020 Directors' Report and Annual Financial Report. This report is based on the consolidated financial statements which have been audited by PwC.

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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 2020.

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. Malcolm McComas is a company director and a former investment banker and commercial lawyer. Mr McComas was previously a consultant and 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 organisations Salomon Smith Barney and 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 equity and debt finance, acquisitions, divestments, and privatisations. Mr McComas has led more than 50 initial public offerings and significant secondary offerings for companies, institutions and governments. Mr McComas is a director of Australasian Leukaemia and Lymphoma Group, Actinogen Medical Limited, Core Lithium Limited and Chairman of Fitzroy River Corporation Limited. Mr McComas is a member of the Audit Committee. 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.

William L. Delaat AM has been a member of the Board of Directors since June 2008. 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 a member of other Government appointed Councils and Not-for-Profit Boards. Mr Delaat is a non-executive director of two Sydney based unlisted start-up companies, Well Movement Ltd and Lucky Health Pty Ltd. 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 is a member of the Remuneration and Nomination Committee and chair of the Audit Committee.

Kathleen M. Metters PhD was appointed to the Board of Directors in June 2017. Dr. Kathleen 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 and as senior advisor for New York-based Bridge Medicines. 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. Under her leadership, Lycera developed a robust pipeline of proprietary and partnered immune modulator programs which led, in June 2015, to an exclusive global collaboration with Celgene Corporation. Dr Metters is currently a board member of HemoShear Therapeutics, LLC.

From 1988 to 2011 Dr Metters was employed by Merck & Co. In 2009 she was appointed to design and establish 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. In this role, she had oversight of all research activities at major sites around the globe; across all therapeutic modalities and all therapeutic areas. From 2002 to 2005 Dr Metters was head of Merck Frosst which under her leadership, additional compounds were moved into clinical development for treatment of respiratory, cardiovascular and bone disorders. 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 directing to the CEO, with responsibility for the discovery, development and commercialization strategy for all 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 is chair of the Remuneration and Nomination Committee.

Edward J. Rayner was appointed to the Board of Directors on 17 September 2018. Mr Rayner has over 20 years' experience in global capital markets and is currently Commercial Director at Blok BioScience, based in London. Before joining Blok BioScience Mr Rayner was an investment director at Aris Bioscience from 2016 to 2020. Prior to that appointment Mr Rayner spent 18 years as an equity analyst and portfolio manager in Europe and Australia. From 2004 to 2014, he was based in Sydney Australia, initially as a head of research at Alliance

Bernstein and then a senior portfolio manager at AMP Capital where he managed the growth equity portfolios and launched a small companies fund. As part of his responsibilities he focused on the healthcare sector. Prior to his move to Australia, Mr Rayner analysed European equities at UBS Asset Management and JP Morgan Investment Management.

Mr Rayner holds an MA in Chemistry and MSc in Management both from the University of Oxford and is a Chartered Financial Analyst. Mr Rayner is a member of the Audit Committee.

Neil Graham was appointed to the Board of Directors on 4 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 the former VP, Strategic Program Direction, Immunology & Inflammation at Regeneron Inc., a position he held from 2009 until his retirement in 2020. 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.

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 2020, 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 | 15 | 15 | 3 | 3 | 8 | 8 |
| GJ Phillips | 15 | 15 | | | | |
| WL Delaat | 15 | 15 | 3 | 3 | 8 | 8 |
| KM Metters | 15 | 15 | | | 8 | 7 |
| EJ Rayner | 15 | 15 | 3 | 3 | - | - |
| N Graham | 3 | 3 | - | - | - | - |

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 \$143,955 was paid to insure the directors and officers of the Group for the policy year ended 26 September 2020. 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 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 2020 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

No matter or circumstance has arisen since 30 June 2020 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 \$13.9 million (FY2019: \$20.1 million) and net operating cash outflows of \$13.2 million (FY2019: \$19.8 million). As at 30 June 2020, the Group has cash and cash equivalents of \$14.7 million (FY2019: \$31.1m) and had an R&D tax incentive of \$4.9 million expected to be received in the second half of 2020 (FY 2019: \$6.0 million).

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 cash currently available, realisation of its other current assets including the R&D tax incentive of \$4.9 million and with additional funding potentially available from:

- milestones receivable by Pharmaxis subsequent to regulatory approval for Bronchitol in the US;
- additional sales revenue subsequent to regulatory approval for Bronchitol in the US;
- securing new partnering arrangements for programs currently in its drug development pipeline.;
- restructuring the business to realise cost savings and bring forward the value of future sales.;
- 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 2020. 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 2020, 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, appearing to read 'Mark Dow', with a long horizontal stroke extending to the right.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
12 August 2020

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". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Gary J Phillips

Director
Sydney
12 August 2020

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 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 and responsibility, the employee's salary, and the Pharmaxis share price, defined as the thirty-day volume weighted average price leading up to the grant date. 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.

- Time based vesting of performance rights is as follows. Performance rights granted in 2015, 2016, 2017, 2018 and 2019 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:

- a flat annual fee of \$100,000 for the Chairman with no additional payments for serving on Board committees, and including any applicable statutory superannuation; and
- a base 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 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 9.5 percent of base salary;
- 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. The typical increase in base salary at 1 January 2020 was 1.6%, compared to 2.0% at 1 January 2019.

In establishing the 2020 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 2020 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 2020 included:

- Commercial partnering of the Company's LOXL2 program.
- Development of the Systemic LOX inhibitor program towards commencement of clinical proof of concept studies.
- Development of the Topical LOX inhibitor program towards commencement of clinical proof of concept studies.
- Progressing the Company's remaining amine oxidase pipeline assets towards clinical proof of concept.
- Identification of additional early stage drug discovery programs to expand the Company's development pipeline.
- Specific commercial objectives that transition the mannitol (Bronchitol and Aridol) business to profitability.
- Management of cash funds within budget to achieve business objectives.

In assessing overall corporate performance for 2020 the Remuneration and Nomination Committee and the Board assessed substantial achievement in relation to certain corporate objectives and less than satisfactory achievement in relation to other corporate objectives. The Board considered:

- The extended process of the LOXL2 partnering process compared to the planned timetable, while also recognising substantial efforts in generating additional data to respond to questions of interested potential commercial partners.
- Progress during the year against specific objectives in relation to the Russian Bronchitol market - a key to the profitability of the mannitol business.
- Pharmaxis support of Chiesi's FDA filing in relation to US approval for Bronchitol.
- Progress against specific objectives of the systemic LOX and topical LOX programs, particularly the systemic LOX program's readiness to move into clinical proof of concept studies, supported by pre-clinical studies in a number of diseases.
- Progress during the year in identifying and reviewing potential new drug development programs.

The Board also considered the December 2019 decision by Boehringer Ingelheim to discontinue development of its NASH program with the drug acquired from Pharmaxis in 2015, and the extended review timetable set by the FDA for Bronchitol thereby delaying a potential US\$10 million milestone payable to Pharmaxis by its US partner Chiesi.

- The Board assessed overall performance in achieving the 2020 corporate objectives at 30%. However, given the delay in achieving commercial partnering of the LOXL2 program and the overall business environment facing the Company at the present time the Board resolved to pay no bonuses in relation to corporate objectives in relation to the 2020 financial year. The chief executive officer will therefore not receive a bonus for the 2020 financial year. The performance of Other Senior Executive's is assessed based on corporate performance and individual performance, each weighted equally. The Board also resolved not to pay any bonuses in relation to individual performance to Other Senior Executives for the 2020 financial year.

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 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 2020 are also noted above. After reviewing achievement of these objectives for the purposes of vesting, the Board assessed corporate performance for the 2020 financial year at 35%. As such, 65% of the performance rights granted in August 2019 were lapsed on 12 August 2020.

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 |
| Brett Charlton | Medical Director | 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.

| 2020 | 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 ⁽³⁾ | |
| | A\$ | A\$ | A\$ | A\$ | A\$ | A\$ | A\$ |
| <i>Non executive Directors</i> | | | | | | | |
| MJ McComas Chairman | 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 ⁽⁴⁾ | – | – | – | – | – | – | – |
| N Graham ⁽⁵⁾ | 6,586 | – | – | 6,586 | – | – | 6,586 |
| <i>Sub total Non-executive Directors</i> | 240,513 | – | 6,073 | 246,586 | – | – | 246,586 |
| <i>Executive Director</i> | | | | | | | |
| GJ Phillips | 440,443 | – | 41,842 | 482,285 | 2,576 | 74,234 | 559,095 |
| <i>Senior Executive Officers</i> | | | | | | | |
| B Charlton | 365,913 | – | 34,762 | 400,675 | (7,005) | 36,757 | 430,427 |
| WG Jarolimek | 350,115 | – | 33,261 | 383,376 | 10,449 | 36,757 | 430,582 |
| DM McGarvey | 364,409 | – | 34,619 | 399,028 | 1,051 | 38,254 | 438,333 |
| K Morgan | 196,095 | – | 18,795 | 214,890 | 3,039 | 24,116 | 242,045 |
| Totals | 1,957,488 | – | 169,352 | 2,126,840 | 10,110 | 210,118 | 2,347,068 |

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

(2) There were no non-monetary benefits provided.

(3) 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.

(4) Until March 2020, Edward Rayner was an employee of a substantial shareholder. He does not receive any remuneration from Pharmaxis Ltd.

(5) Neil Graham was appointed to the board on 4 May 2020.

| 2019 | 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 ⁽³⁾ | |
| | A\$ | A\$ | A\$ | A\$ | A\$ | A\$ | A\$ |
| <i>Non executive Directors</i> | | | | | | | |
| MJ McComas Chairman | 100,000 | – | – | 100,000 | – | – | 100,000 |
| WL Delaat | 63,927 | – | 6,073 | 70,000 | – | – | 70,000 |
| SHW Buckingham ⁽⁴⁾ | 22,820 | – | 2,395 | 25,215 | – | – | 25,215 |
| KM Metters | 70,000 | – | – | 70,000 | – | – | 70,000 |
| EJ Rayner ⁽⁵⁾ | – | – | – | – | – | – | – |
| <i>Sub total Non-executive Directors</i> | 256,747 | – | 8,468 | 265,215 | – | – | 265,215 |
| <i>Executive Director</i> | | | | | | | |
| GJ Phillips | 432,663 | 65,542 | 41,103 | 539,308 | (5,371) | 79,550 | 613,487 |
| <i>Senior Executive Officers</i> | | | | | | | |
| B Charlton | 343,930 | 44,112 | 32,673 | 420,715 | (3,822) | 46,926 | 463,819 |
| WG Jarolimek | 343,930 | 47,238 | 32,673 | 423,841 | 15,221 | 46,926 | 485,988 |
| DM McGarvey | 357,972 | 46,636 | 34,007 | 438,615 | 7,563 | 48,775 | 494,953 |
| K Morgan | 196,179 | 46,152 | 20,537 | 262,868 | 4,801 | 26,734 | 294,403 |
| Totals | 1,931,421 | 249,680 | 169,461 | 2,350,562 | 18,392 | 248,911 | 2,617,865 |

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

(2) There were no non-monetary benefits provided.

(3) 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.

(4) Simon Buckingham retired from the board on the 22 November 2018.

(5) Edward Rayner was an employee of a substantial shareholder and 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⁾ | |
|----------------------------------|--------------------|------|---------------|------|------------------------------|------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| <i>Non executive Directors</i> | | | | | | |
| MJ McComas <i>Chairman</i> | 100% | 100% | – | – | – | – |
| WL Delaat | 100% | 100% | – | – | – | – |
| SHW Buckingham | 100% | 100% | – | – | – | – |
| KM Metters | 100% | 100% | – | – | – | – |
| EJ Rayner | – | – | – | – | – | – |
| <i>Executive Director</i> | | | | | | |
| GJ Phillips | 87% | 76% | – | 11% | 13% | 13% |
| <i>Senior Executive Officers</i> | | | | | | |
| B Charlton | 91% | 80% | – | 10% | 9% | 10% |
| WG Jarolimek | 91% | 80% | – | 10% | 9% | 10% |
| DM McGarvey | 91% | 81% | – | 9% | 9% | 10% |
| K Morgan | 90% | 75% | – | 16% | 10% | 9% |

(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 2020 ⁽¹⁾ \$ | Superannuation Contributions ⁽²⁾ \$ |
|--|---|---|
| Gary J Phillips, <i>Chief Executive Officer and Managing Director</i> | 443,939 | 42,174 |
| Brett Charlton, Ph.D., <i>Medical Director</i> | 352,894 | 33,525 |
| Wolfgang G Jarolimek <i>Head of Drug Discovery</i> | 352,894 | 33,525 |
| David M McGarvey, C.A., <i>Chief Financial Officer and Company Secretary</i> | 367,302 | 34,894 |
| Kristen Morgan ⁽⁴⁾ <i>Alliance Management-Head of Medical and Regulatory Affairs</i> | 231,486 | 21,991 |

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

(2) The Company pays superannuation equal to 9.5% 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⁾ |
|------------------|--------------|----------------|---|--------------------------------------|---------------------------|--|
| 18 July 2017 | 30 June 2026 | \$ Nil | \$0.257 | 1,325,000 | 4 | 50% at 30 June 2019 and 50% at 30 June 2020 |
| 14 November 2017 | 30 June 2026 | \$ Nil | \$0.258 | 770,000 | 1 | 50% at 30 June 2019 and 50% at 30 June 2020 |
| 25 July 2018 | 30 June 2028 | \$ Nil | \$0.316 | 1,191,000 | 4 | 55% of the rights have now lapsed ⁽²⁾ , the remaining balance vest: 50% at 30 June 2020 and 50% at 30 June 2021 |
| 22 November 2018 | 30 June 2028 | \$ Nil | \$0.256 | 690,000 | 1 | 55% of the rights have now lapsed ⁽²⁾ , the remaining balance vest: 50% at 30 June 2020 and 50% at 30 June 2021 |
| 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 |

(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 and 2020 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 | |
|---|--|----------------|---------|---------|---|---------|
| | 2020 | | | 2019 | 2020 | 2019 |
| | Expiration Date | Exercise Price | Number | Number | | |
| Directors of Pharmaxis Ltd | | | | | | |
| MJ McComas <i>Chairman</i> | - | - | - | - | - | - |
| GJ Phillips <i>Chief Executive Officer</i> | 30 June 2029 | - | 927,000 | 690,000 | 540,250 | 798,500 |
| WL Delaat | - | - | - | - | - | - |
| KM Metters | - | - | - | - | - | - |
| EJ Rayner | - | - | - | - | - | - |
| N Graham | - | - | - | - | - | - |
| Senior Executive Officers | | | | | | |
| B Charlton | 30 June 2029 | - | 442,000 | 330,000 | 257,750 | 380,500 |
| WG Jarolimek | 30 June 2029 | - | 442,000 | 330,000 | 257,750 | 469,000 |
| DM McGarvey | 30 June 2029 | - | 460,000 | 343,000 | 268,175 | 464,500 |
| K Morgan | 30 June 2029 | - | 290,000 | 188,000 | 146,800 | 217,000 |

Shares Issued on Exercise of Remuneration Options

No performance rights were exercised during the year ending 30 June 2020 (2019: Nil).

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 2020 vest 50% two years from the date of grant and 50% three years from the date of 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.

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 2020 are noted above. After reviewing achievement of corporate objectives for 2020 for the purposes of vesting, the Board assessed corporate performance for the 2020 financial year at 35% (2019: 45%). As such, 65% of the performance rights granted in August 2019 were lapsed on 12 August 2020 (2019: 55%).

| Name | Cash Bonus | | Performance Rights | | | | | |
|----------------------------------|------------|-----------|----------------------|----------------|---------------|---|---|---|
| | Payable | Forfeited | Year granted | Vested | Forfeited | Financial years in which options 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 | – | – | – | – | – | – | – | – |
| SHW Buckingham | – | – | – | – | – | – | – | – |
| KM Metters | – | – | – | – | – | – | – | – |
| EJ Rayner | – | – | – | – | – | – | – | – |
| <i>Executive Director</i> | | | | | | | | |
| GJ Phillips | 0% | 100% | 2018 2019 2020 | 100 50 – | – 55 65 | 2019, 2020 2020, 2021 2021, 2022 | – | – 39,775 74,234 |
| <i>Senior Executive Officers</i> | | | | | | | | |
| B Charlton | 0% | 100% | 2018 2019 2020 | 100 50 – | – 55 65 | 2019, 2020 2020, 2021 2021, 2022 | – | – 23,463 36,757 |
| WG Jarolimek | 0% | 100% | 2018 2019 2020 | 100 50 – | – 55 65 | 2019, 2020 2020, 2021 2021, 2022 | – | – 23,463 36,757 |
| DM McGarvey | 0% | 100% | 2018 2019 2020 | 100 50 – | – 55 65 | 2019, 2020 2020, 2021 2021, 2022 | – | – 24,387 38,254 |
| K Morgan | 0% | 100% | 2018 2019 2020 | 100 50 – | – 55 65 | 2019, 2020 2020, 2021 2021, 2022 | – | – 13,367 24,116 |

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 2020 are set out below:

| | A | B | C | D |
|---------------------------|------------------------------------|---------------------------|------------------------------|---------------------------|
| Name | Remuneration consisting of options | Value at grant date \$ | Value at exercise date \$ | Value at lapse date \$ |
| Performance Rights | | | | |
| GJ Phillips | 44% | 212,098 | – | 137,864 |
| B Charlton | 28% | 105,020 | – | 68,263 |
| WG Jarolimek | 28% | 105,020 | – | 68,263 |
| DM McGarvey | 28% | 109,296 | – | 71,042 |
| K Morgan | 28% | 68,904 | – | 44,788 |

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).

| 2020 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 | – | – | 679,694 |
| GJ Phillips | 2,326,154 | – | – | 2,326,154 |
| W Delaat | 53,334 | – | – | 53,334 |
| KM Metters | 20,000 | – | – | 20,000 |
| EJ Rayner ⁽¹⁾ | – | – | – | – |
| N Graham | – | – | – | – |
| Other key management personnel of the Group | | | | |
| Ordinary shares | | | | |
| B Charlton | 955,714 | – | – | 955,714 |
| WG Jarolimek | 621,550 | – | – | 621,550 |
| DM McGarvey | 910,127 | – | – | 910,127 |
| K Morgan | 7,860 | – | – | 7,860 |

(1) Until March 2020, Edward Rayner was an employee of a substantial shareholder and does not have a personal holding in Pharmaxis Ltd.

| 2019 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 | 557,126 | – | 122,568 | 679,694 |
| GJ Phillips | 2,280,000 | – | 46,154 | 2,326,154 |
| W Delaat | 33,334 | – | 20,000 | 53,334 |
| SHW Buckingham | 200,000 | 30,000 | 44,000 | 274,000 |
| KM Metters | – | – | 20,000 | 20,000 |
| EJ Rayner ⁽¹⁾ | – | – | – | – |
| Other key management personnel of the Group | | | | |
| Ordinary shares | | | | |
| B Charlton | 955,714 | – | – | 955,714 |
| WG Jarolimek | 621,550 | – | – | 621,550 |
| DM McGarvey | 900,127 | – | 10,000 | 910,127 |
| K Morgan | 7,860 | – | – | 7,860 |

(1) Edward Rayner was an employee of a substantial shareholder and did not have a personal holding in Pharmaxis Ltd.

Other transactions with key management personnel

There were no other transactions with key management personnel during the year ended 30 June 2020.

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 2020 – refer Note 30 to the Annual Financial Report included in Section 6 of this Statutory Annual Report | 15,267,750 |
| Performance rights exercised during the period 1 July 2020 to 12 August 2020 | – |
| Performance rights granted on 12 August 2020 | 4,419,000 |
| | 19,686,750 |

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 plan

The following ordinary shares were issued during the year ended 30 June 2020 on the exercise of performance rights granted under the Performance Rights 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 | 30,000 |
| 31 July 2015 | \$ Nil | 167,000 |
| 26 July 2016 | \$ Nil | 286,000 |
| 18 July 2017 | \$ Nil | 106,500 |
| 18 November 2017 | \$ Nil | 104,500 |
| | | 694,000 |

3. CORPORATE GOVERNANCE

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

The Board reviews and updates the corporate governance framework as required and in the current year amended the framework to comply with changes required by the Corporate Governance Principles and Recommendations 4th Edition.

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 12th August 2020.

Gary J. Phillips., Refer to Directors' Report.

Brett Charlton, Ph.D., is a co-founder of Pharmaxis and has been Medical Director since June 1998. 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 us, 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 M.B.B.S. with honors from the University of New South Wales and a Ph.D. from the University of New South Wales.

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 20 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, C.A. 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 U.S. Filter. From 1985 to 1997, Mr McGarvey served as Chief Financial Officer of Memtec Limited. While at Memtec, Mr McGarvey oversaw the U.S. 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 B.A. 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.

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 2020 Operations

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 product pipeline is founded on its expertise in the chemistry of amine oxidase inhibitors and includes Semicarbazide-Sensitive Amine Oxidase (SSAO) for diabetic retinopathy; selective Lysyl Oxidase Like Inhibitors (LOXL2) targeting chronic fibrotic diseases including NASH, pulmonary fibrosis, kidney fibrosis and cardiac fibrosis; and pan-Lysyl Oxidase Inhibitors (LOX) targeting severe fibrotic indications including cancers and scarring.

In May 2015, Boehringer Ingelheim acquired the Pharmaxis investigational drug PXS-4728A, a potent inhibitor of SSAO (also known as AOC3), which is currently being trialed in diabetic retinopathy - a leading cause of blindness.

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 and Asia.

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

Impact of COVID-19

Like all businesses Pharmaxis has re-organised the way it operates in response to the COVID-19 pandemic. In seeking to protect the community, Company's staff and ability to continue to manufacture its pharmaceutical products needed by the cystic fibrosis community, Pharmaxis quickly moved to home-based work broadly across the Company. The Company's IT infrastructure already supported remote work. Employees in manufacturing, quality and drug discovery who needed to come to the Frenchs Forest facility were divided into separate teams to increase resilience should individual members become infected. Given the level of uncertainty concerning potential lock downs the Company also increased production of Bronchitol to ensure it could fulfill customer orders.

The various clinical studies being conducted by Pharmaxis and its partners were not significantly impacted.

- The Company completed both its phase 1b trial of its systemic pan-LOX inhibitor and a further phase 1 dosing study of its LOXL2 inhibitor in March 2020.
- Chiesi completed the Bronchitol human factor study in early March.
- Boehringer fully recruited its phase 2a study with the AOC3 inhibitor acquired from Pharmaxis in diabetic retinopathy and final dosing completed in February – with only follow up visits remaining and which have been subsequently completed.

Two direct impacts of the pandemic on the Company's business have been identified:

- In a number of countries, including those where the Company markets Aridol, respiratory specialists were advised to limit lung function testing to more severe cases due to health risks arising from patients exhaling multiple times with force as part of a test. This is discussed further below.
- The significant reduction in international flights has made it more difficult to secure transport of the Company's products to overseas markets in suitable temperature controlled aircraft. To date the Company has been able to secure freight routes although costs are higher.

Other aspects of the business continue uninterrupted other than for delays in response times across business generally.

New drug development

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

Anti-inflammatory drug BI 1467335 (formerly known as PXS-4728A)

This drug was sold to Boehringer Ingelheim in 2015. Under the terms of the 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 identified in a separate phase 1 study recently completed by Boehringer.

A second study of the drug in diabetic retinopathy with associated milestone payments will continue with future development to be decided by Boehringer following completion of the current phase 2a study due to report in the second half of 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

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 year the Company expanded its preclinical scientific data package and conducted an additional small phase 1 study in response to questions from pharma companies interested in the program. The additional information was provided to interested companies in the June quarter of 2020.

Pharmaxis is currently pursuing a number of different partnering options to enable this drug to enter the clinic in phase 2 trials. While the process has taken longer than originally expected, the Company continues to have discussions with a number of potential partners. Pharmaxis will provide more information when the process concludes.

The LOXL2 program was developed in collaboration with UK biotechnology company Synairgen plc (LSE: SNG) from August 2015 until December 2017 at which time Pharmaxis announced significant changes to the collaboration agreement. Pharmaxis assumed full scientific and commercial control of the collaboration, substantially increased its interest in the program (to 83%) in return for a one-off payment to Synairgen of £5 million (approximately A\$9 million).

Systemic LOX inhibitor program

Pharmaxis has, in addition to the SSAO inhibitor (BI 1467335) and the LOXL2 program, two lysyl oxidase (LOX) programs from its amine oxidase chemistry platform, both of which are planned to be partnered at a later stage of development - after phase 2 clinical trials.

PXS-5505 is an oral drug that inhibits all lysyl oxidase family members (LOX, LOXL1, 2, 3 & 4). The compound successfully cleared pre-clinical safety including 6-month toxicity studies and has shown significant reductions in fibrosis in in-vivo models of myelofibrosis (MF), pancreatic cancer and other cancers. PXS-5505 has shown to be well tolerated in Phase 1 single and multiple ascending dose studies in humans with an excellent pharmacokinetic and pharmacodynamic profile. Myelofibrosis is a rare cancer in which normal bone marrow tissue is gradually replaced with a fibrous scar-like material. Over time, this leads to progressive bone marrow failure preventing the production of adequate numbers of red cells, white cells and platelets. Myelofibrosis has a poor prognosis and limited therapeutic options.

Pharmaxis received pre IND feedback from the US Food and Drug Administration (FDA) on the PXS-5505 program in MF and discussed the trial protocol with key opinion leaders in the US, Europe and Australia. Subsequent to year end the Company filed an investigational new drug (IND) application with the FDA with a view to commencing a phase 1 / 2 clinical trial in Q4 2020.

Pharmaxis has recently received orphan drug status from the FDA for this program in myelofibrosis.

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.

The program aims to commence phase 1 studies in 2020.

Other research initiatives

Expenditure on the Company's SSAO combination programs (MPO and MAOB) has been significantly reduced while further assessment of relevant disease indications is carried out.

Mannitol Business (approved products – Bronchitol and Aridol)

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, with the expectation that the US Food and Drug Administration will complete its review of Bronchitol in November 2020.

1. 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 was that Chiesi revise the product packaging and user instructions; and then conduct a human factor study (HFS) demonstrating that the revised user components enable healthcare professionals to properly administer the mannitol tolerance test – an initial test to ensure patients hypersensitive to mannitol are not prescribed Bronchitol. In the current year Chiesi completed the human factor study (HFS) and filed its updated response with the FDA. In acknowledging receipt of the filing, the FDA advised it will complete its review by 1 November 2020.

2. 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. During the year the Chiesi territory was expanded to include Spain.
3. In Russia, Bronchitol was approved for both adult and paediatric CF patients in 2016 and has been reimbursed nationally since January 2019.
4. During the year the Company received approval for Bronchitol in Brazil. The next step is filing a reimbursement application.

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.

5.2 Results of Operations

Sales

Sales for the year ended 30 June 2020 of \$7.0 million (2019: \$5.7 million) included Bronchitol sales of \$5.2 million (2019: \$2.6 million) and Aridol sales of \$1.8 million (2019: \$3.1 million).

Bronchitol sales by region are as follows:

| | 2020 | 2019 |
|----------------|---------------|--------|
| | \$'000 | \$'000 |
| Australia | 1,221 | 1,059 |
| Western Europe | 2,638 | 1,041 |
| Eastern Europe | 230 | 285 |
| Russia | 1,173 | 179 |
| | 5,262 | 2,564 |

In Western Europe, nearly all sales are through the Company's distributor Chiesi who purchase on an approximate six monthly cycle, depending on their local inventory management procedures. As a result of orders supplied to Chiesi at the end of the 2018 financial year and the beginning of the 2019 financial year, Chiesi only ordered one shipment during the 2019 financial year. In-market unit sales of Bronchitol by Chiesi for the 2020 financial year were 8% higher than 2019.

Revenue generated in Russia reflects two orders shipped to the Company's distributor compared to one order in 2019 that was reduced by credit notes issued with respect to a price reduction required to obtain national reimbursement on 1 January 2019 and expired product previously supplied in anticipation of the distributor receiving reimbursement.

The COVID-19 global pandemic has not to date impacted purchasing of Bronchitol by our international distributors. In Australia where Pharmaxis sells directly to clinics, unit sales in the June 2020 quarter were 18% lower than in the prior year, although unit sales from the start of the pandemic in March to June were marginally above the same period in 2019, possibly indicating clinics purchasing ahead of potential disruptions to supply.

Aridol sales by region are as follows:

| | 2020 | 2019 |
|--------------|---------------|--------|
| | \$'000 | \$'000 |
| Australia | 436 | 471 |
| Europe | 912 | 979 |
| USA & Canada | 72 | 1,003 |
| South Korea | 345 | 659 |
| | 1,765 | 3,112 |

At the beginning of the COVID-19 pandemic a number of countries, including those where Aridol is sold, respiratory specialists were advised to limit all lung function testing to more severe cases due to health risks arising from patients exhaling multiple times with force as part of the test. In the markets where Pharmaxis sells Aridol directly to lung function testing laboratories (Australia and Europe) average monthly sales for the period 1 March to 30 June 2020 were \$63,000 per month, compared to \$126,000 per month in the same period in 2019. April and May were the months most impacted with June 2020 sales increasing to 69% of June 2019. The Company has been advised that the limitation on lung function testing has been eased in a number of markets.

The Company continues to monitor the effect of the COVID-19 pandemic on sales of both Bronchitol and Aridol. While the impact to date has been modest, significant uncertainty clearly remains as to possible disruption to future sales.

Other revenue

Interest income for the year ended 30 June 2020 was \$0.4 million compared to \$0.9 million in 2019. The decrease in interest income was driven by a lower average balance of cash and cash equivalents available for investment and lower interest rates available during the period.

Other income

Other income for the year ended 30 June 2020 was \$5.6 million (2019: \$6.5 million). The components to this income group include:

- R&D tax incentive credits - \$5.2 million (2019: \$6.0 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 2020 and 2019. The current year revenue includes \$4.9 million in relation to the 2020 financial year and a \$0.3 million adjustment for the final 2019 credit received.
- Other, being predominantly the sublease of excess office and warehouse space of \$0.4 million for the year ended 30 June 2020 (2019: \$0.5 million), and

- Receipt of \$50,000 being the Government Covid-19 cash flow boost.

Employee costs

Employee related expenses were \$11.4 million in 2020 compared to \$11.9 million in 2019, a decrease of 4%. Employee costs include share based payments (non-cash) totaling \$0.6 million (2019: \$1.1 million).

The Company employed 69 FTEs at 30 June 2020 of which approximately 25% were engaged in new drug discovery, 7% in corporate, 2% in clinical services, 57% in the manufacturing of Bronchitol and Aridol, and the remaining 9% in sales and 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 \$2.0 million in 2020 compared to \$2.2 million in 2019.

Clinical trials

Clinical trials expenses were \$2.6 million in 2020 compared to \$2.4 million in 2019. 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.

The expense consists:

- Phase 1 trials for the Company's LOXL2 program: \$0.9 million (2019: 1.4 million)
- Phase 1 trial for the Companies LOX Systemic program: \$1.8 million (2019: \$1.6 million), and
- A refund from the clinical research organisation that managed the CF303 clinical trial: \$0.1 million (2019: \$0.6 million)

Drug development

Drug development expenses were \$3.7 million in 2020 compared to \$6.3 million in 2019. 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:

- LOX Systemic program: \$1.3 million (\$2.2 million in 2019)
- LOX Topical program: \$1.2 million (\$1.5 million in 2019)
- LOXL2 program: \$0.1 million (\$1.0 million in 2019)
- SSAO combo programs (MAOB and MPO): \$0.5 million (\$1.2 million in 2019).

Sales, marketing & distribution

Sales & marketing expenses are primarily focused on external costs incurred in selling Bronchitol globally, in support of the Company's exclusive distributors. Limited resources are directed at the sale of Aridol. Sales & marketing expenses for the current year were \$1.3 million compared to \$1.1 million in 2019. The expenses in both years included costs associated in applying for and/or extending pricing reimbursements. The increase in the current year primarily relates to increased Aridol distribution costs in Europe.

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 \$1.1 million in 2020 and \$0.9 million in 2019. Safety monitoring expenses increased during the year.

Manufacturing purchases and changes in inventory

Manufacturing purchases and changes in inventory were \$1.5 million in 2020 compared to \$1.7 million in 2019. 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.

Other

Other expenses were \$0.6 million in 2020 compared to \$1.1 million in 2019. This category encompasses royalties, corporate travel related costs, shared office administration costs, and other costs. Travel and conference costs decreased in the second half of the 2020 year.

Depreciation & amortisation

Depreciation and amortisation expense was \$3.2 million in 2020 compared to \$2.6 million in 2019. The increase primarily reflects the adoption of the new leasing standard AASB-16 and depreciation of \$0.3 million during the year ending 30 June 2020 on the recognised right of use asset.

Foreign currency exchange gains and losses

Foreign currency exchange gains and losses includes an unrealised loss of \$0.6 million (2019: \$1.4 million loss) in relation to the financing agreement with NovaQuest.

Finance income (costs)

Finance costs were an income of \$2.2 million in 2020 compared to an expense of \$0.2 million in 2019. 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 \$0.6 million (2019 \$0.5 million), and an adjustment to the NovaQuest financing agreement of \$2.7 million in the year ending 30 June 2020 (2019: \$0.3 million) subsequent to a review of the estimated cash flows expected to be paid under the financing agreement. The lease liability increased in 2020 and hence finance costs due to the adoption of AASB-16.

Income tax expense

The Group only operates in Australia and did not have taxable income in 2020 or 2019.

Loss

The Company recorded a loss of \$13.9 million in 2020 compared to a loss of \$20.1 million in 2019.

Basic and diluted net profit / (loss) per share

Basic and diluted net loss per share was \$0.035 in 2020 compared to \$0.051 in 2019.

5.3 Liquidity and Capital Resources

As at 30 June 2020 Pharmaxis had cash and cash equivalents of \$14.8 million as compared to \$31.1 million at 30 June 2019. The Company also had an R&D tax incentive of \$4.9 million expected to be received in the second half of 2020 as compared to \$6.0 million at 30 June 2019. The components of the Company's cash flow during 2020 were as follows:

- Net cash used in operating activities of \$13.3 million. This consisted of a net loss for the year of \$13.9 million, which included \$3.2 million of non-cash depreciation and amortisation, net non-cash finance income & foreign exchange charges of \$1.6 million, non-cash stock option charges of \$0.6 million, and other net negative working capital movements of \$1.6 million (which includes the R&D Tax Incentive of \$4.9 million expected to be received in the second half of calendar 2020).
- Net cash outflows from investing activities were \$0.6 million including capital expenditure of \$0.3 million and new patent applications of \$0.3 million.
- Net cash outflows from financing activities were \$2.5 million which included facility finance lease repayments of \$2.2 million and financing agreement repayments of \$0.3 million.

The attached annual report for the year ended 30 June 2020 contains an independent auditor's report which highlights the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. For further information, refer to note 1 (a) (iii) to the financial statements, together with the auditor's report.

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 12 August 2020. 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 2020

| | | 2020 | 2019 |
|--|-------|-----------------|----------|
| | Notes | \$'000 | \$'000 |
| Revenue from continuing operations | | | |
| Revenue from sale of goods | 3a | 7,027 | 5,676 |
| Other revenue | 3a | 364 | 909 |
| Other income | 3b | 5,638 | 6,495 |
| | | 13,029 | 13,080 |
| Other expenses from ordinary activities | | | |
| Other expenses from ordinary activities | 4 | | |
| Employee costs | | (11,425) | (11,928) |
| Administration & corporate | | (2,041) | (2,179) |
| Rent, occupancy & utilities | | (999) | (1,386) |
| Clinical trials | | (2,632) | (2,354) |
| Drug development | | (3,709) | (6,308) |
| Sales, marketing & distribution | | (1,346) | (1,136) |
| Safety, medical and regulatory affairs | | (1,058) | (896) |
| Manufacturing purchases and changes in inventory | | (1,456) | (1,689) |
| Other | | (592) | (1,065) |
| Depreciation & amortisation | | (3,236) | (2,619) |
| Foreign exchange gains & losses | | (638) | (1,340) |
| Finance income (costs) | | 2,160 | (238) |
| | | (26,972) | (33,138) |
| Loss before income tax | | (13,943) | (20,058) |
| Income tax expense | 5 | - | - |
| Loss for the year | | (13,943) | (20,058) |
| Earnings per share: | | | |
| | | Cents | Cents |
| Basic net loss per share | 28 | (3.5) | (5.1) |
| Diluted net loss per share | 28 | (3.5) | (5.3) |

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 2020

| | 2020 | 2019 |
|---|-----------------|----------|
| | \$'000 | \$'000 |
| Loss for the financial year | (13,943) | (20,058) |
| Other comprehensive income | | |
| Items that may be reclassified subsequently to profit or loss | | |
| Exchange differences on translation of foreign operations | - | - |
| Other comprehensive income / (loss) for the year, net of tax | - | - |
| Total comprehensive loss for the year | (13,943) | (20,058) |
| | | |
| Total comprehensive loss for the year is attributable to: | | |
| Owners of Pharmaxis Ltd | (13,943) | (20,058) |

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 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|--------------------------------|-------|----------------|----------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 6 | 14,764 | 31,124 |
| Trade and other receivables | 7 | 7,098 | 7,335 |
| Inventories | 8 | 2,630 | 2,116 |
| Total current assets | | <u>24,492</u> | <u>40,575</u> |
| Non-current assets | | | |
| Receivables | 9 | 1,077 | 1,074 |
| Property, plant and equipment | 10 | 8,906 | 10,264 |
| Intangible assets | 11 | 941 | 755 |
| Total non-current assets | | <u>10,924</u> | <u>12,093</u> |
| Total assets | | <u>35,416</u> | <u>52,668</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 12 | 3,475 | 4,826 |
| Borrowings | 13 | 1,832 | 1,203 |
| Other liabilities | 14 | 478 | 1,107 |
| Provisions | 15 | 1,040 | 976 |
| Total current liabilities | | <u>6,825</u> | <u>8,112</u> |
| Non-current liabilities | | | |
| Borrowings | 16 | 6,322 | 5,968 |
| Other liabilities | 17 | 20,722 | 23,659 |
| Provisions | 18 | 116 | 115 |
| Total non-current liabilities | | <u>27,160</u> | <u>29,742</u> |
| Total liabilities | | <u>33,985</u> | <u>37,854</u> |
| Net assets | | <u>1,431</u> | <u>14,814</u> |
| EQUITY | | | |
| Contributed equity | 19 | 367,301 | 367,301 |
| Reserves | 20(a) | 22,317 | 21,757 |
| Accumulated losses | 20(b) | (388,187) | (374,244) |
| Total equity | | <u>1,431</u> | <u>14,814</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 2020

| | 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 year | | – | – | (20,058) | (20,058) |
| Other comprehensive income | | – | – | – | – |
| Total comprehensive loss for the year | | – | – | (20,058) | (20,058) |
| Transactions with owners in their capacity as owners | | | | | |
| Contributions of equity, net of transaction costs | 19(a) | 22,678 | – | – | 22,678 |
| Employee share options | 20(a) | – | 1,076 | – | 1,076 |
| | | 22,678 | 1,076 | – | 23,754 |
| Balance at 30 June 2019 | | 367,301 | 21,757 | (374,244) | 14,814 |
| Loss for the year | | – | – | (13,943) | (13,943) |
| Other comprehensive income | | – | – | – | – |
| Total comprehensive loss for the year | | – | – | (13,943) | (13,943) |
| Transactions with owners in their capacity as owners | | | | | |
| Contributions of equity, net of transaction costs | 19(a) | – | – | – | – |
| Employee share options | 20(a) | – | 560 | – | 560 |
| | | – | 560 | – | 560 |
| Balance at 30 June 2020 | | 367,301 | 22,317 | (388,187) | 1,431 |

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 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|-------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of goods and services tax) | | 7,775 | 6,893 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (27,694) | (27,600) |
| | | (19,919) | (20,707) |
| Grant receipts from government | | 6,271 | - |
| Interest received | | 364 | 909 |
| Income tax received | | - | - |
| Net cash inflow / (outflow) from operating activities | 27 | (13,284) | (19,798) |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (259) | (576) |
| Proceeds from disposal of plant and equipment | | - | - |
| Payments for intangible assets | | (315) | (405) |
| Net cash outflow from investing activities | | (574) | (981) |
| Cash flows from financing activities | | | |
| Proceeds from the issues of shares | | - | 24,000 |
| Transactions costs related to the issue of shares | | - | (1,323) |
| Finance lease payments (adoption of AASB-16) | | (2,232) | (1,593) |
| Financing agreement payments | | (270) | (254) |
| Net cash inflow / (outflow) from financing activities | | (2,502) | 20,830 |
| Net increase / (decrease) in cash and cash equivalents | | (16,360) | 51 |
| Cash and cash equivalents at the beginning of the financial year | | 31,124 | 31,073 |
| Effects of exchange rate changes on cash and cash equivalents | | - | - |
| Cash and cash equivalents at the end of the financial year | 6 | 14,764 | 31,124 |

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

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 (ii). The finance cost 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 \$13.9 million (FY2019: \$20.1 million) and net operating cash outflows of \$13.2 million (FY2019: \$19.8 million). As at 30 June 2020, the Group has cash and cash equivalents of \$14.7 million (FY2019: \$31.1m) and had an R&D tax incentive of \$4.9 million expected to be received in the second half of calendar year 2020 (FY 2019: \$6.0 million).

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 its cash currently available, realisation of its other current assets including the R&D tax incentive of \$4.9 million and with additional funding potentially available from:

- milestones receivable by Pharmaxis subsequent to regulatory approval for Bronchitol in the US;
- additional sales revenue subsequent to regulatory approval for Bronchitol in the US;
- securing new partnering arrangements for programs currently in its drug development pipeline;
- amending existing commercial relationships to realise cost savings and bring forward the value of future sales; and
- and/or access 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 2020. 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. 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 2020 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.

(ii) Interest income

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

1. Summary of significant accounting policies (continued)

(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 a Drug Candidate Asset and Purchase agreement 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) Clinical trial cost reimbursements

Clinical trial cost reimbursement revenue is recognised in accordance with the stage of completion of the associated clinical trial and when the consideration can be reliably measured and the payment is unconditional only subject to passage of time.

The Group adopted the AASB 15 standard from 1 July 2018 after completing an impact assessment of the standard, including review of its revenue recognition policy, customer contracts and internal documents. The adoption of this standard did not have a material impact on the Group.

(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 \$325 million at 30 June 2020 as described in note 5.

(h) Leases

The Group has changed its accounting policy where the group is the lessee as described in note 1(x).

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 remeasured 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.

(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

1. Summary of significant accounting policies (continued)

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) Deferred lease incentive

Prior to the adoption of AASB-16 leasing standard on 1 July 2019, the deferred lease incentive related to a cash incentive received pursuant to a lease agreement. The deferred incentive was amortised to the income statement over the lease term of 15 years. On adoption of the new standard the deferred lease incentive reduced the carrying amount of the recognised right of use asset, see note 1.(x).

(ii) 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.

(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.

1. Summary of significant accounting policies (continued)

(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

The group has adopted AASB 16 Leases retrospectively from 1 July 2019 however has not restated comparatives for the 2019 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 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.

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 (note 14 and 17) 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.

1. Summary of significant accounting policies (continued)

| | |
|--|----------------|
| Lease liabilities recognised at 1 July 2019 | \$'000 |
| Operating lease commitments disclosed as at 30 June 2019 (note 23 (b)) | 4,127 |
| Discounted by the incremental borrowing rate (6.48%) at the date of initial application | 3,440 |
| <i>Discounted value adjusted by:</i> | |
| Short term lease recognised on a straight-line basis as expense | 54 |
| Low value leases recognised on a straight-line basis as expense | 11 |
| Lease outgoings and maintenance reassessed as service agreement | 745 |
| Recognised lease liability reported under borrowings on the associated right of use asset | <u>2,630</u> |
| Right of use asset recognised at 1 July 2019 | \$'000 |
| Recognised right of use asset representing the former operating lease of the Frenchs Forest facility | 2,630 |
| Less: Deferred lease incentive carrying value at 30 June 2019 | <u>(1,140)</u> |
| Carrying value of right of use asset recognised in property, plant and equipment | <u>1,490</u> |

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 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 2020 is as follows:

2. Segment information (continued)

| | Mannitol \$'000 | New Drug Development \$'000 | Corporate \$'000 | Total \$'000 |
|---|--------------------|-----------------------------------|---------------------|-----------------|
| 2020 | | | | |
| Segment Revenue | | | | |
| Sales revenue | 7,027 | – | – | 7,027 |
| R&D tax credit | – | 5,159 | – | 5,159 |
| Other revenue and income | 20 | – | 459 | 479 |
| | <u>7,047</u> | <u>5,159</u> | <u>459</u> | <u>12,665</u> |
| Expenses from ordinary activities | | | | |
| Employee costs | (5,855) | (3,373) | (1,637) | (10,865) |
| Administration & corporate | (349) | (152) | (1,540) | (2,041) |
| Rent, occupancy & utilities ⁽²⁾ | (823) | (90) | (86) | (999) |
| Clinical trials ⁽¹⁾ | 98 | (2,730) | – | (2,632) |
| Drug development | – | (3,709) | – | (3,709) |
| Sales, marketing & distribution | (1,346) | – | – | (1,346) |
| Safety, medical and regulatory affairs | (1,058) | – | – | (1,058) |
| Manufacturing purchases and change in inventory | (1,456) | – | – | (1,456) |
| Other | (235) | (218) | (186) | (639) |
| | <u>(11,024)</u> | <u>(10,272)</u> | <u>(3,449)</u> | <u>(24,745)</u> |
| Adjusted EBITDA | <u>(3,977)</u> | <u>(5,113)</u> | <u>(2,990)</u> | <u>(12,080)</u> |
| 2019 | | | | |
| Segment Revenue | | | | |
| Sales revenue | 5,676 | – | – | 5,676 |
| R&D tax credit | – | 5,962 | – | 5,962 |
| Other revenue and income | 27 | – | 506 | 533 |
| | <u>5,703</u> | <u>5,962</u> | <u>506</u> | <u>12,171</u> |
| Expenses from ordinary activities | | | | |
| Employee costs | (6,083) | (2,837) | (1,932) | (10,852) |
| Administration & corporate | (491) | (149) | (1,539) | (2,179) |
| Rent, occupancy & utilities ⁽²⁾ | (574) | (87) | (725) | (1,386) |
| Clinical trials ⁽¹⁾ | 621 | (2,975) | – | (2,354) |
| Drug development | – | (6,308) | – | (6,308) |
| Sales, marketing & distribution | (1,136) | – | – | (1,136) |
| Safety, medical and regulatory affairs | (896) | – | – | (896) |
| Manufacturing purchases and change in inventory | (1,689) | – | – | (1,689) |
| Other | (468) | (370) | (184) | (1,022) |
| | <u>(10,716)</u> | <u>(12,726)</u> | <u>(4,380)</u> | <u>(27,822)</u> |
| Adjusted EBITDA | <u>(5,013)</u> | <u>(6,764)</u> | <u>(3,874)</u> | <u>(15,651)</u> |

2. Segment information (continued)

- (1) The clinical trial costs for the year ending 30 June 2020 are split by the following projects in Bronchitol and Aridol: CF303 credit of \$0.1m (2019: \$0.6m expense), and Drug Discovery: LOXL2 \$0.9m and LOXL Systemic \$1.8m (2019: LOXL2 \$1.7m and LOX Systemic \$1.0m).
- (2) Prior to 1 July 2019 and adoption of AASB-16 the group reported the operating lease expenses relating to the Frenchs Forest facility in rent, occupancy and utilities.

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.

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

| | 2020 | 2019 |
|---|-----------------|----------|
| | \$'000 | \$'000 |
| Adjusted EBITDA | (12,080) | (15,651) |
| Interest revenue | 364 | 909 |
| Finance costs | | |
| Unrealised gains on financial instruments ⁽³⁾ | 2,745 | 259 |
| Finance lease charges ⁽⁴⁾ | (585) | (497) |
| Depreciation and amortisation expense | (3,236) | (2,619) |
| Share-based payment expenses | (560) | (1,076) |
| Unrealised foreign exchange losses on financial instruments | (591) | (1,383) |
| Loss before income tax | (13,943) | (20,058) |

- (3) 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 for the year ended 30 June 2020.
- (4) From 1 July 2019 the company adopted AASB-16 and recognised an additional lease liability of \$2.6 million, for the year ending 30 June 2020 the finance costs relating to this liability was \$0.2m.

3a. Revenue

| | 2020 | 2019 |
|----------------------|------------|--------|
| | \$'000 | \$'000 |
| <i>Sales revenue</i> | | |
| Sale of goods | 7,027 | 5,676 |
| <i>Other revenue</i> | | |
| Interest | 364 | 909 |
| | 364 | 909 |

3b. Other income

| | 2020 | 2019 |
|-------------------------------------|--------------|--------|
| | \$'000 | \$'000 |
| R&D Tax Incentive income | 5,159 | 5,962 |
| Other | 429 | 533 |
| Government COVID-19 cash flow boost | 50 | - |
| | 5,638 | 6,495 |

4. Expenses

| Profit / (loss) before income tax includes the following specific expenses: | 2020 | 2019 |
|--|--------------|-------------|
| | \$'000 | \$'000 |
| Depreciation (note 10) | | |
| Plant and equipment | 1,031 | 990 |
| Computer equipment | 77 | 79 |
| Leased building and improvements ⁽¹⁾ | 1,999 | 1,692 |
| Total depreciation | 3,107 | 2,761 |

(1) The depreciation expense for the leased buildings and improvements includes \$0.3 million relating to the right of use asset.

Amortisation & impairment (note 11)

| | | |
|--------------------|------------|----|
| Patents | 12 | 7 |
| Trademarks | 6 | 6 |
| Software | 111 | 83 |
| Total amortisation | 129 | 96 |

| | | |
|--|-------|-------|
| Amortisation of deferred lease incentive | - | (238) |
| Rental expense relating to operating leases | - | 773 |
| Net (gain) loss on disposal of plant and equipment | - | (1) |
| Net foreign exchange losses (gains) | 638 | 1,340 |
| Employee salaries and benefits expense: | | |
| Defined contribution superannuation | 771 | 773 |
| Share-based payment expenses | 560 | 1,076 |
| Contractor benefits expenses | 816 | 846 |
| Other employee benefits expenses | 9,278 | 8,969 |

5. Income tax expense

| | 2020 | 2019 |
|---|----------|----------|
| | \$'000 | \$'000 |
| (a) Numerical reconciliation of prima facie tax expense to actual income tax expense | | |
| Profit / (loss) before income tax expense | (13,943) | (20,058) |
| Tax at the Australian tax rate 27.5% (2019: 30%) | (3,834) | (6,017) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Share-based payments | 154 | 323 |
| Government tax incentives | 1,750 | 2,323 |
| Revaluation of NovaQuest liability | (755) | (77) |
| Other non-deductible adjustments and sundry items | (200) | 407 |
| Total | (2,885) | (3,041) |
| Deferred tax benefits (utilised) / not recognised | 2,885 | 3,041 |
| Income tax refund | - | - |

This represents current income tax expense.

(b) Tax losses

| | | |
|---|---------|---------|
| Unused tax losses for which no deferred tax asset has been recognised | 325,183 | 315,303 |
| Potential tax benefit at 27.5% (2019: 30%) | 89,425 | 94,591 |

All unused tax losses were incurred by the parent entity.

6. Current assets – Cash and cash equivalents

| | 2020 | 2019 |
|--------------------------|--------|--------|
| | \$'000 | \$'000 |
| Cash at bank and in hand | 749 | 145 |
| Deposits at call | 2,703 | 2,646 |
| Term deposits | 11,312 | 28,333 |
| | 14,764 | 31,124 |

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

| | 2020 | 2019 |
|--|--------|--------|
| | \$'000 | \$'000 |
| Trade receivables | 1,459 | 1,171 |
| Provision for impairment of receivables (note (b)) | - | - |
| | 1,459 | 1,171 |
| R&D Tax Incentive receivable | 4,900 | 5,962 |
| Prepayments (note (c)) | 162 | 144 |
| Tax related receivables | 577 | 58 |
| | 7,098 | 7,335 |

Notes to the financial statements

30 June 2020

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

As of 30 June 2020, trade receivables of \$74,564 (2019: \$129,887) 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:

| | 2020 | 2019 |
|---------------|-----------|------------|
| | \$'000 | \$'000 |
| Up to 1 month | 1 | 96 |
| 1 to 2 months | 2 | 1 |
| Over 2 months | 71 | 33 |
| | <u>74</u> | <u>130</u> |

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 2020 no trade receivables were impaired (2019: \$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

| | 2020 | 2019 |
|----------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Raw materials - at cost | 574 | 625 |
| Work-in-progress - at cost | 518 | 476 |
| Finished goods - at cost | 1,538 | 1,015 |
| | <u>2,630</u> | <u>2,116</u> |

9. Non-current assets – Receivables

| | 2020 | 2019 |
|-----------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Other receivables (a) | 946 | 944 |
| Prepayments | 131 | 130 |
| | <u>1,077</u> | <u>1,074</u> |

(a) Other receivables

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

(b) Prepayments

Prepayments represent an upfront contractual advance to a third party.

(c) Fair value

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

9. Non-current assets – Receivables (continued)

(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 2018 | | | | |
| Cost | 16,457 | 930 | 23,197 | 40,584 |
| Accumulated depreciation and impairment | (12,725) | (782) | (14,626) | (28,133) |
| Net book amount | 3,732 | 148 | 8,571 | 12,451 |
| Year ended 30 June 2019 | | | | |
| Opening net book amount | 3,732 | 148 | 8,571 | 12,451 |
| Additions | 511 | 48 | 17 | 576 |
| Disposals | – | (2) | – | (2) |
| Depreciation charge | (990) | (79) | (1,692) | (2,761) |
| Closing net book amount | 3,253 | 115 | 6,896 | 10,264 |
| At 30 June 2019 | | | | |
| Cost | 16,967 | 795 | 23,220 | 40,982 |
| Accumulated depreciation and impairment | (13,714) | (680) | (16,324) | (30,718) |
| Net book amount | 3,253 | 115 | 6,896 | 10,264 |
| Year ended 30 June 2020 | | | | |
| Opening net book amount | 3,253 | 115 | 6,896 | 10,264 |
| Adjustment on adoption of AASB 16 leasing standard | – | – | 1,490 | 1,490 |
| Restated opening net book amount | 3,253 | 115 | 8,386 | 11,754 |
| Additions | 160 | 97 | 2 | 259 |
| Disposals | – | – | – | – |
| Depreciation charge | (1,031) | (77) | (1,999) | (3,107) |
| Closing net book amount | 2,382 | 135 | 6,389 | 8,906 |
| At 30 June 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 |

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 regulatory approval and 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.

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 under a finance lease:

| | 2020 | 2019 |
|--|-----------------|---------|
| | \$'000 | \$'000 |
| Cost | 13,916 | 13,916 |
| Recognition of right of use asset (note 1 (x)) | 1,490 | – |
| Accumulated amortisation | (11,604) | (9,404) |
| Net book amount | 3,802 | 4,512 |

11. Non-current assets – Intangible assets

| | Patents | Trademarks | Software | Total |
|---|----------------|-------------------|-----------------|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| At 30 June 2018 | | | | |
| Cost | 19,159 | 111 | 926 | 20,196 |
| Accumulated amortisation and impairment | (19,012) | (63) | (675) | (19,750) |
| Net book amount | 147 | 48 | 251 | 446 |
| Year ended 30 June 2019 | | | | |
| Opening net book amount | 147 | 48 | 251 | 446 |
| Additions | 324 | – | 81 | 405 |
| Disposals | – | – | – | – |
| Amortisation charge | (7) | (6) | (83) | (96) |
| Impairment charge | – | – | – | – |
| Closing net book amount | 464 | 42 | 249 | 755 |
| At 30 June 2019 | | | | |
| Cost | 19,483 | 111 | 1,007 | 20,601 |
| Accumulated amortisation and impairment | (19,019) | (69) | (758) | (19,846) |
| Net book amount | 464 | 42 | 249 | 755 |
| Year ended 30 June 2020 | | | | |
| Opening net book amount | 464 | 42 | 249 | 755 |
| Additions | 221 | – | 94 | 315 |
| Disposals | – | – | – | – |
| Amortisation charge | (12) | (6) | (111) | (129) |
| Impairment charge | – | – | – | – |
| Closing net book amount | 673 | 36 | 232 | 941 |
| At 30 June 2020 | | | | |
| Cost | 19,704 | 111 | 1,101 | 20,916 |
| Accumulated amortisation and impairment | (19,031) | (75) | (869) | (19,975) |
| Net book amount | 673 | 36 | 232 | 941 |

12. Current liabilities – Trade and other payables

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------|----------------|----------------|
| Trade payables | 1,760 | 2,197 |
| Other payables (note (a)) | 1,715 | 2,629 |
| | <u>3,475</u> | <u>4,826</u> |

(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

| | 2020 \$'000 | 2019 \$'000 |
|-----------------------------|----------------|----------------|
| Secured | | |
| Lease liabilities (note 23) | 1,832 | 1,203 |

(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

| | 2020 \$'000 | 2019 \$'000 |
|------------------------------|----------------|----------------|
| Deferred lease incentive (a) | – | 236 |
| Financing agreement (a) | 478 | 871 |
| | <u>478</u> | <u>1,107</u> |

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

15. Current liabilities – Provisions

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Employee benefits - long service leave | 1,040 | 976 |

16. Non-current liabilities – Borrowings

| | 2020 \$'000 | 2019 \$'000 |
|-----------------------------|----------------|----------------|
| Secured | | |
| Lease liabilities (note 23) | 6,322 | 5,968 |

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.

Notes to the financial statements

30 June 2020

17. Non-current liabilities – Other liabilities

| | 2020 | 2019 |
|------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Deferred lease incentive (a) | – | 904 |
| Financing agreement (b) | 20,722 | 22,755 |
| | 20,722 | 23,659 |

(a) The deferred lease incentive relates to a cash incentive received pursuant to a lease agreement. Prior to the adoption of AASB-16 on the 1st July 2019 the deferred incentive was amortised over the 15-year lease term on a straight-line basis. On adoption of the new standard the carrying amount of the deferred lease incentive reduced the carrying amount of the recognised right of use asset in note 10.

(b) 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 (1 April 2021) and seven years from the launch of Bronchitol in the US. 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 2020 in accordance with accounting policy note 1(r)(ii). The EU sales are in the last year of the agreement and are represented only in the current portion of this liability.

At 30 June 2020 the forecast future sales of Bronchitol in the EU and US within the term of the financing agreement were revised down resulting in a \$2.7m reduction of the liability recorded as a negative finance cost.

18. Non-current liabilities – Provisions

| | 2020 | 2019 |
|--|------------|--------|
| | \$'000 | \$'000 |
| Employee benefits - long service leave | 116 | 115 |

19. Contributed equity

| | Notes | Consolidated and Parent entity | | Consolidated and Parent entity | |
|--------------------------|---------|-----------------------------------|----------------|-----------------------------------|----------------|
| | | 2020 Shares | 2019 Shares | 2020 \$'000 | 2019 \$'000 |
| Share capital (note (a)) | | | | | |
| Ordinary shares | (b),(c) | | | | |
| Fully paid | | 395,249,198 | 394,315,798 | 367,301 | 367,301 |

Movements in ordinary share capital:

| Details | Number of shares | Issue price (1) | \$'000 |
|--|---------------------|--------------------|---------|
| Opening balance as at 1 July 2018 | 319,778,344 | | 344,623 |
| Exercise of employee options | 511,500 | \$ – | – |
| Employee Share Plan (2) | 179,800 | \$ – | – |
| Issuance of shares | 73,846,154 | \$0.325 | 24,000 |
| Transaction costs arising on share issue | – | | (1,322) |
| Closing Balance at 30 June 2019 | 394,315,798 | | 367,301 |
| Exercise of employee options | 694,000 | \$ – | – |
| Employee Share Plan (2) | 239,400 | \$ – | – |
| Closing Balance at 30 June 2020 | 395,249,198 | | 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.

(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

| | 2020 | 2019 |
|--------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| (a) Reserves | | |
| Share-based payments reserve | 22,317 | 21,757 |
| Foreign currency translation reserve | – | – |
| | <u>21,317</u> | <u>21,757</u> |
| <i>Share-based payments reserve</i> | | |
| Balance 1 July | 21,757 | 20,681 |
| Equity expense / (credit) | 560 | 1,076 |
| Balance 30 June | <u>22,317</u> | <u>21,757</u> |

(b) Accumulated losses

Movements in accumulated losses were as follows:

| | 2020 | 2019 |
|----------------------------------|------------------|------------------|
| | \$'000 | \$'000 |
| Balance 1 July | (374,244) | (354,186) |
| Net profit / (loss) for the year | (15,741) | (20,058) |
| Balance 30 June | <u>(389,985)</u> | <u>(374,244)</u> |

(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.

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:

| | 2020 | 2019 |
|---|----------------|----------------|
| | \$ | \$ |
| (a) Audit services | | |
| PricewaterhouseCoopers Australian firm | | |
| Audit and review of financial reports | 106,135 | 105,848 |
| Total remuneration for audit services | <u>106,135</u> | <u>105,848</u> |
| (b) Tax services | | |
| PricewaterhouseCoopers Australian firm | | |
| Tax compliance services | 17,340 | 43,230 |
| International tax consulting and other tax advice | – | 32,640 |
| | <u>17,340</u> | <u>75,870</u> |
| Other PricewaterhouseCoopers firms | | |
| Tax compliance services | 26,466 | 33,983 |
| Total remuneration for tax services | <u>43,806</u> | <u>109,853</u> |

For the year ending 30 June 2019, the Australian firm tax compliance included specialist advice in preparing and filing R&D tax incentive application and assistance in filing the Company's income tax return. Australian firm international services included advice in relation to the renegotiation of the Synairgen collaboration agreement.

For the year ending 30 June 2020, the Australian firm tax compliance included assistance in filing the Company's income tax return.

Other firm services relate to assistance with overseas income tax and VAT filings of the Group.

Notes to the financial statements

30 June 2020

22. Contingent liabilities

The Group had contingent liabilities at 30 June 2020 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 2020 had total deposits of \$0.9 million (2019: \$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:

| | 2020 | 2019 |
|----------------------------|---------------|--------|
| | \$'000 | \$'000 |
| <i>Plant and equipment</i> | | |
| Payable: Within one year | 38 | 44 |

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

From 1 July 2019, the Company has recognised a right of use asset for the land lease portion of the Frenchs Forest facility.

| | 2020 | 2019 |
|---|---------------|--------|
| | \$'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 | 229 | 816 |
| Later than one year but not later than five years | 682 | 3,311 |
| Later than 5 years | - | - |
| | 911 | 4,127 |

| | 2020 | 2019 |
|--|---------------|--------|
| | \$'000 | \$'000 |

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

| | | |
|--|------------|---|
| Expense relating to short term leases | 13 | - |
| Expense relating to leases of low value assets | 4 | - |
| Expense relating to lease outgoings | 216 | - |

(ii) Lease liabilities

The Group adopted AASB-16 for leases from 1 July 2019 and the lease liability is disclosed in note 13, and 16.

| | 2020 | 2019 |
|---|----------------|---------|
| | \$'000 | \$'000 |
| Commitments in relation to lease liabilities are payable as follows: | | |
| Within one year | 2,307 | 1,654 |
| Later than one year but not later than five years | 6,946 | 6,694 |
| Minimum lease payments | 9,253 | 8,348 |
| Future finance charges | (1,099) | (1,217) |
| Total lease liabilities | 8,154 | 7,171 |
| Current (note 13) | 1,832 | 1,203 |
| Non-current (note 16) | 6,322 | 5,968 |
| | 8,154 | 7,171 |

23. Commitments (continued)*(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

| | 2020 | 2019 |
|------------------------------|------------------|------------------|
| | \$ | \$ |
| Short-term employee benefits | 1,957,488 | 2,181,101 |
| Post-employment benefits | 169,352 | 169,461 |
| Leave entitlement benefits | 10,110 | 18,392 |
| Share-based payments | 210,118 | 248,911 |
| | 2,347,068 | 2,617,865 |

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 | |
|-----------------------------------|--------------------------|-----------------|----------------|------|
| | | | 2020 | 2019 |
| | | | % | % |
| 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

No matter or circumstance has arisen since 30 June 2020 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.

Pharmaxis Ltd

Notes to the financial statements

30 June 2020

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

| | 2020 | 2019 |
|--|-----------------|-----------------|
| | \$'000 | \$'000 |
| Profit / (loss) for the year | (13,943) | (20,058) |
| Depreciation of property, plant & equipment | 3,107 | 2,761 |
| Amortisation & impairment of intangibles | 129 | 96 |
| Amortisation of lease incentive | – | (238) |
| Finance charges | (2,160) | 238 |
| Financing agreement unrealised foreign exchange (gains) losses | 591 | 1,383 |
| Non-cash share-based payments expense | 560 | 1,076 |
| Net (gain) / loss on disposal of non-current assets | – | 1 |
| Change in operating assets and liabilities | | |
| (Increase) / decrease in trade receivables | (288) | 616 |
| Decrease / (increase) in inventories | (514) | 282 |
| Decrease / (increase) in other operating assets | 522 | (5,296) |
| (Decrease) / increase in trade payables | (437) | 67 |
| (Decrease) in other operating liabilities | (915) | (839) |
| Increase in other provisions | 64 | 113 |
| Net cash inflow / (outflow) from operating activities | <u>(13,284)</u> | <u>(19,798)</u> |

28. Earnings per share

| | 2020 | 2019 |
|---|-------------|-------------|
| | Cents | Cents |
| (a) Basic earnings per share | | |
| Profit / (loss) attributable to the ordinary equity holders of the company | (3.5) | (5.1) |
| (b) Diluted earnings per share | | |
| Profit / (loss) attributable to the ordinary equity holders of the company | (3.5) | (5.3) |
| (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 | 394,743,488 | 381,392,939 |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings / (loss) per share | 407,743,488 | 391,976,189 |

(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.

Notes to the financial statements

30 June 2020

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:

| | 2020 | 2019 |
|---------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Financial assets | | |
| Cash and cash equivalents | 14,764 | 31,124 |
| Trade and other receivables (current) | 7,098 | 7,335 |
| Other receivables (non-current) | 1,077 | 1,075 |
| | 22,939 | 39,534 |
| Financial liabilities | | |
| Trade and other payables | 3,475 | 4,826 |
| Borrowings | 8,154 | 7,171 |
| Other liabilities | 21,200 | 23,626 |
| | 32,829 | 35,623 |

(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 2020 | | | 30 June 2019 | | |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | USD \$'000 | GBP \$'000 | EUR \$'000 | USD \$'000 | GBP \$'000 | EUR \$'000 |
| Cash and cash equivalents | 413 | 38 | 966 | 432 | 112 | 348 |
| Trade receivables | – | 78 | 1,235 | 375 | 101 | 374 |
| Other receivables | – | – | 406 | – | – | – |
| Trade payables | 541 | 97 | 196 | 1,152 | 53 | 123 |
| Other payables | 137 | 32 | 380 | 918 | 71 | 103 |
| Other liabilities | 21,200 | – | – | 23,626 | – | – |

Group sensitivity

Based on the financial instruments held at 30 June 2020, 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 \$1,354,000 lower / \$1,225,000 higher (2019: \$1,463,000 lower / \$1,323,000 higher), mainly as a result of foreign exchange gains/losses on translation of USD denominated financial assets/liabilities as detailed in the above table.

Notes to the financial statements

30 June 2020

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 2020 | | 30 June 2019 | |
|---------------------------------|------------------|---------|------------------|---------|
| | Weighted average | Balance | Weighted average | Balance |
| | interest rate | | interest rate | |
| | % | \$'000 | % | \$'000 |
| Cash at bank & deposits at call | 0.0 | 2,791 | 0.0 | 2,791 |
| Term deposits | 0.92 | 11,312 | 2.20 | 28,333 |
| Other receivables | 1.54 | 946 | 2.22 | 962 |

Group sensitivity

The Group's main interest rate risk arises from cash and cash equivalents. At 30 June 2020, 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 \$61,000 lower/higher (2019 – change of 50 bps: \$146,000 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:

| | 2020 | 2019 |
|----------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | | |
| A-1+ | 12,195 | 28,582 |
| A-1 | – | 2,536 |
| A-2 | 2,559 | – |
| Not rated | 10 | 6 |
| | 14,764 | 31,124 |
| Trade receivables | | |
| Not rated | 1,459 | 1,171 |
| Other receivables | | |
| AA- | 946 | 962 |
| A+ | – | – |
| Not rated | – | – |
| | 946 | 962 |

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.

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 2020 | | | | | | |
| Non-interest bearing | 3,475 | - | - | - | 3,475 | 3,475 |
| Fixed rate | 2,307 | 2,382 | 4,564 | - | 9,253 | 8,154 |
| Total non-derivatives | 5,782 | 2,382 | 4,564 | - | 12,728 | 11,629 |
| Group - at 30 June 2019 | | | | | | |
| Non-interest bearing | 5,062 | 236 | 668 | - | 5,966 | 5,966 |
| Fixed rate | 1,655 | 1,707 | 4,986 | - | 8,348 | 7,171 |
| Total non-derivatives | 6,717 | 1,943 | 5,654 | - | 14,314 | 13,137 |

The maturities of financial liabilities as reported at 30 June 2020 take into account the adoption of AASB-16 from 1st July 2019 as per in note 1(x).

Included on the balance sheet is a financial liability related to a financing agreement of \$21,200,000 (2019: \$23,626,000). This liability is accounted for in accordance with Accounting Policy note 1(r)(ii) and the term of the agreement and forecast product related payment obligations are as detailed in Note 17(b).

(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"), initially approved by shareholders in 1999.
- 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.

30 June 2020

30. Share-based payments (continued)

- 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.
- Shares issued upon exercise of performance rights are restricted from sale by the employee as follows:
 - for performance rights granted from 2016 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 12,641,525 vested performance rights at 30 June 2020 (10,583,250 at 30 June 2019). 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 2020 | | | | | | | | |
| 20 Oct 2010 | 6 Sept 2020 | \$ – | 5,000 | – | – | – | 5,000 | 5,000 |
| 29 Jun 2012 | 28 Jun 2022 | \$ – | 182,000 | – | 30,000 | – | 152,000 | 152,000 |
| 7 Jun 2013 | 6 Jun 2023 | \$ – | 134,750 | – | – | – | 134,750 | 134,750 |
| 31 Jul 2015 | 30 Jun 2025 | \$ – | 2,886,500 | – | 167,000 | – | 2,719,500 | 2,719,500 |
| 20 Nov 2015 | 30 Jun 2025 | \$ – | 811,000 | – | – | – | 811,000 | 811,000 |
| 26 Jul 2016 | 30 Jun 2026 | \$ – | 3,588,000 | – | 286,000 | – | 3,302,000 | 3,302,000 |
| 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 | \$ – | 2,997,000 | – | 106,500 | 106,500 | 2,784,000 | 2,784,000 |
| 14 Nov 2017 | 30 Jun 2027 | \$ – | 1,248,000 | – | 104,500 | 104,500 | 1,039,000 | 1,039,000 |
| 25 Jul 2018 | 30 Jun 2028 | \$ – | 1,488,150 | – | – | 170,100 | 1,318,050 | 659,025 |
| 22 Nov 2018 | 30 Jun 2028 | \$ – | 310,500 | – | – | – | 310,500 | 155,250 |
| 14 Aug 2019 | 30 Jun 2029 | \$ – | – | 4,341,000 | – | 2,853,500 | 1,487,500 | – |
| 6 Nov 2019 | 30 Jun 2029 | \$ – | – | 251,000 | – | 251,000 | – | – |
| 21 Nov 2019 | 30 Jun 2029 | \$ – | – | 927,000 | – | 602,550 | 324,450 | – |
| Total | | | 14,530,900 | 5,519,000 | 694,000 | 4,088,150 | 15,267,750 | 12,641,525 |

Notes to the financial statements

30 June 2020

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 2019 | | | | | | | | |
| 20 Oct 2010 | 6 Sept 2020 | \$– | 10,000 | – | 5,000 | – | 5,000 | 5,000 |
| 29 Jun 2012 | 28 Jun 2022 | \$– | 202,000 | – | 20,000 | – | 182,000 | 182,000 |
| 18 Oct 2012 | 17 Oct 2022 | \$– | 30,000 | – | 30,000 | – | – | – |
| 7 Jun 2013 | 6 Jun 2023 | \$– | 134,750 | – | – | – | 134,750 | 134,750 |
| 31 Jul 2015 | 30 Jun 2025 | \$– | 3,318,500 | – | 432,000 | – | 2,886,500 | 2,886,500 |
| 20 Nov 2015 | 30 Jun 2025 | \$– | 811,000 | – | – | – | 811,000 | 811,000 |
| 26 Jul 2016 | 30 Jun 2026 | \$– | 3,637,000 | – | 24,500 | 24,500 | 3,588,000 | 3,588,000 |
| 29 Nov 2016 | 31 Aug 2026 | \$– | 53,000 | – | – | – | 53,000 | 26,500 |
| 29 Nov 2016 | 29 Nov 2026 | \$– | 827,000 | – | – | – | 827,000 | 827,000 |
| 18 Jul 2017 | 30 Jun 2027 | \$– | 3,045,000 | – | – | 48,000 | 2,997,000 | 1,498,500 |
| 14 Nov 2017 | 30 Jun 2027 | \$– | 1,248,000 | – | – | – | 1,248,000 | 624,000 |
| 25 Jul 2018 | 30 Jun 2028 | \$– | – | 3,353,000 | – | 1,864,850 | 1,488,150 | – |
| 22 Nov 2018 | 30 Jun 2028 | \$– | – | 690,000 | – | 379,500 | 310,500 | – |
| Total | | | 13,316,250 | 4,043,000 | 511,500 | 2,316,850 | 14,530,900 | 10,583,250 |

There were 4,088,150 performance rights forfeited during 2020 (2019: 2,316,850). The weighted average remaining contractual life of performance rights outstanding at the end of the period was 6.54 years (2019 – 6.77 years).

Fair value of performance rights granted

The assessed fair value at grant date of performance rights granted during the year ended 30 June 2020 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 2020 | | | | Year ended 30 June 2019 | | | |
|-------------------------|------------------------|----------------|-------------|-------------------------|------------------------|----------------|-------------|
| Grant date | No. of options granted | Exercise Price | Share Price | Grant date | No. of options granted | Exercise Price | Share Price |
| 14 Aug 2019 | 4,341,000 | – | \$0.2376 | 25 Jul 2018 | 3,353,000 | – | \$0.3160 |
| 6 Nov 2019 | 251,000 | – | \$0.1943 | 22 Nov 2018 | 690,000 | – | \$0.2562 |
| 21 Nov 2019 | 927,000 | – | \$0.2288 | | | | |

(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:

| | 2020 | 2019 |
|---|----------------|---------|
| Number of shares issued under the plan to participating employees | 239,400 | 179,800 |

(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:

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Equity instruments issued under employee equity plans | 560 | 1,076 |

31. Parent entity financial information**(a) Summary financial information**

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

| | 2020 | 2019 |
|-------------------------------------|------------------|-----------|
| | \$'000 | \$'000 |
| Balance sheet | | |
| Current assets | 24,492 | 40,575 |
| Total assets | 35,416 | 52,668 |
| Current liabilities | 6,825 | 8,112 |
| Total liabilities | 33,985 | 37,854 |
| <i>Shareholders' equity</i> | | |
| Issued capital | 367,301 | 367,301 |
| Share based payments reserve | 22,317 | 21,757 |
| Accumulated losses | (388,187) | (374,244) |
| | 1,431 | 14,814 |
| Profit / (loss) for the year | (13,943) | (20,058) |
| Total comprehensive income | (13,943) | (20,058) |

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

As at 30 June 2020, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling \$38,000 (30 June 2019 - \$44,000). 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 23 to 56 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 2020 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

12 August 2020



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 2020 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 2020
- 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 a summary of significant accounting policies
- 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 and 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.

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Material uncertainty related to going concern

We draw attention to Note 1(a)(iii) in the financial report, which states that the:

- Group incurred a net loss after tax of \$13.9 million and net operating cash outflows of \$13.2 million during the year ended 30 June 2020
- Group has cash and cash equivalents of \$14.8 million at year end
- 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 and/or secure additional sources of funding including milestones and/or capital.

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.



| <i>Materiality</i> | <i>Audit scope</i> |
|---|---|
| <ul style="list-style-type: none"> • For the purpose of our audit we used overall Group materiality of \$0.7 million, which represents approximately 5% of the Group's loss before tax. • 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 loss before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. 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.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters 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 (Refer to note 14 & 17: \$21.2m financing agreement)</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; and the 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 assessing the assumptions of the quantum and timing of forecast sales in applicable territories within the financial liability calculations, including considering consistency with Group forecasts examining liability repayments within bank statements recalculating the principal financial liability calculations comparing the exchange rates used in the financial liability calculations to market data <p>We assessed the adequacy of appropriateness of the Group's disclosure in the financial report in light of the requirements of the Australian Accounting Standards.</p> |
| <p>Other income (Refer to note 3b: \$5.2m R&D tax incentive income)</p> <p>The Group has recognised \$5.2 million of income relating to the Australian R&D tax incentive program.</p> <p>The R&D tax incentive income was assessed as a key audit matter given:</p> <ul style="list-style-type: none"> the financial significance of the income recognised to the result for the period; and the judgement applied by the Group in determining the income to be recognised. | <p>We focused our efforts on developing an understanding and testing the overall calculation and methodology of the Group's income calculation.</p> <p>In obtaining sufficient audit evidence, our procedures included, amongst others:</p> <ul style="list-style-type: none"> evaluating the analysis conducted by the Group for judgements made in respect of the amount recognised; considering advice received by the Group from their tax experts; assessing the expenditure included in the calculation; and testing the mathematical calculations applied by |



Key audit matter

How our audit addressed the key audit matter

the Group in deriving the income recognised.

We assessed the appropriateness of the Group's disclosure in the financial report in light of the requirements of the Australian Accounting Standards.

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 2020, 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 obtain 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 accordingly we do not express 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 2020.

In our opinion, the remuneration report of Pharmaxis Ltd for the year ended 30 June 2020 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 large, stylized handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Mark Dow'.

Mark Dow
Partner

Sydney
12 August 2020