

Pharmaxis Ltd

ACN 082 811 630

Employee Option Plan Prospectus

For the Offer to Eligible Employees of Options pursuant to
the Pharmaxis Ltd
Employee Option Plan

This Prospectus is dated 17 March 2004

Corporate Directory

Directors' Information

Denis Hanley (Chairman)
Alan Robertson (CEO)
Brett Charlton (Medical Director)
Carrie Hillyard
Charles Kiefel
Malcolm McComas
Brigitte Smith

Company Secretary and Chief Financial Officer

David McGarvey

Registered Office

Unit 2, 10 Rodborough Road
Frenchs Forest NSW 2086
Australia
Telephone: +61 2 9451 5961
Fax: +61 2 9451 3622
Info@pharmaxis.com.au

Web Site

www.pharmaxis.com.au

Legal Adviser

Piper Alderman
Level 23, Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000
Australia

Contents

1.	Employee Option Plan Offer	4
2.	Additional Information	7
3.	Definitions and Glossary	11
4.	Authorisation	12

Important Information

This Prospectus is dated 17 March 2004. A copy of this Prospectus was lodged with ASIC on 17 March 2004. Neither ASIC nor ASX, nor any of their officers, takes any responsibility for the contents of this Prospectus.

No applications for securities will be accepted nor will securities be issued on the basis of this Prospectus:

- (a) earlier than 7 days after lodgement of this Prospectus with ASIC or any longer period required by ASIC under section 727(3) of the Corporations Act 2001; or
- (b) later than 13 months after the date of this Prospectus (i.e. 16 April 2005).

The Prospectus has not been, nor will it be, lodged, filed or registered with any regulatory authority under the securities laws of any other country. The securities the subject of this Prospectus have not been, nor will they be, approved by or registered with any regulatory authority of any other country. This Prospectus does not constitute an offer or issue in any place in which, or to any person to whom, it would not be lawful to make such an offer or issue. If this is an electronic Prospectus, the offer of securities under the electronic Prospectus is only made to persons receiving the electronic Prospectus within Australia who reside in Australia.

The Company will place this Prospectus on the Company's website at www.pharmaxis.com.au. Persons who receive a copy of this Prospectus in electronic form are entitled to obtain a paper copy of the Prospectus free of charge by contacting the Company.

Applicants can only apply for securities on the Application Form accompanying a complete paper copy of this Prospectus or a completed downloaded copy of the electronic Prospectus and on the terms and conditions set out in this Prospectus.

This document is important and it should be read in its entirety. The research, development, manufacturing, marketing and sales of pharmaceutical products involves a number of risks. The securities offered under this Prospectus should be viewed as a speculative investment. You should consult your professional adviser about the contents of this Prospectus.

Indicative Key Dates

Prospectus lodged with ASIC	17 March 2004
Opening Date	25 March 2004
Closing Date	30 June 2004

The Directors expressly reserve the right to vary the Offer dates. The Directors also reserve the right not to proceed with the Offer. The Company may issue the Employee Options progressively throughout the Offer period.

1. Employee Option Plan Offer

1.1 Background

On 26 September 2003, the Company issued an IPO Prospectus with ASIC in relation to the initial public offer of 42 million Shares in the Company at an issue price of \$0.50 to raise \$21 million with an ability to accept oversubscriptions of up to 8 million Shares to raise up to a further \$4 million.

The offer under the IPO Prospectus was oversubscribed and the Company agreed to accept applications for a total of 50 million Shares. The issue and allotment of the 50 million Shares occurred on 7 November 2003 and the Shares of the Company were quoted on ASX on 10 November 2003.

Prior to the initial public offering of the Company, the directors and shareholders of the Company had approved and adopted the Employee Option Plan under which certain Eligible Employees are entitled to receive Options.

This Prospectus has been issued to satisfy the requirements of the Corporations Act in order to permit the Company to issue Options to certain Eligible Employees of the Company under the Employee Option Plan.

1.2 Offer

The Offer is being made in accordance with the terms of the Employee Option Plan to certain Eligible Employees of the Company who receive a Notice of Grant. The Employee Option Plan is attached to this Prospectus as annexure A and is taken to form part of this Prospectus.

Maximum number of Options being offered under this Prospectus	110,000
Eligible Employees being offered Options under this Prospectus	Eligible Employees who receive a Notice of Grant from the Company are entitled to accept Options under this Offer
Number of Options being offered to each Eligible Employees	The number of Options being offered to each Eligible Employee will be set out in their Notice of Grant
Issue price per Option	The issue price of the Options will be set out in the Notice of Grant. Generally, the Options will be issued for nil consideration
Exercise price	The exercise price of the Options will be set out in the Notice of Grant (subject to adjustment in certain circumstances in accordance with the Employee Option Plan and the Listing Rules). The exercise price of the Options will be calculated based on the average closing price of the Company's Shares on ASX on the five business days prior to the grant of Options.
Date of grant	The Options will be taken to have been granted from the date of the Notice of Grant, unless the relevant Eligible Employees does not accept their Offer

Expiry date	The expiry date of the Options will be set out in the Notice of Grant and will be 10 years from the date of grant
Vesting conditions	The Options may be subject to vesting conditions set out in the Notice of Grant

The terms of the Options are set out in the Employee Option Plan and the Notice of Grant. Subject to the terms of the Options, Options may be exercised by the holder delivering the Company Secretary a duly completed Notice of Exercise with the applicable exercise money at any time prior to the expiry date of the relevant Options.

Each Option is exercisable into one Share (subject to adjustment in certain circumstances in accordance with the Employee Option Plan and the Listing Rules). Shares issued on exercise of the Options rank equally with all other existing issued Shares. The rights attaching to the Shares are set out in the IPO Prospectus and the constitution of the Company.

1.3 Use of the Funds

It is expected that no funds will be raised by the issue of the Options under this Prospectus as they are generally issued for no consideration. Any funds raised under the Offer (if any) will be used for general corporate purposes. Funds raised on exercise of Options are also expected to be used for general corporate purposes.

1.4 Summary Capital Structure

The pro-forma diluted issued capital of the Company as at the date of this Prospectus is set out below to show the effect of the Offer.

Existing Shares	108,016,000
Number of Options currently on issue	10,676,000
Maximum number of Options that may be granted under this Prospectus	110,000
Fully diluted capital (assuming the grant of maximum number of Options that may be granted under this Prospectus)	118,802,000

1.5 Risks

There are risks associated with any investment. A summary of some of the risks associated with an investment in the Company is set out in section 11 of the IPO Prospectus. While there are limited risks in accepting Options (as there will generally be no need to pay anything for them), to the extent that the Options have any value, that value may be taxable. There are also risks associated with exercising the Options to subscribe for Shares. We urge you to seek your own professional advice as to whether to accept the Offer and ultimately whether to exercise the Options. Eligible Employees should carefully consider these risk factors, together with the other information in or taken to be included in this Prospectus and seek their own professional advice in relation to the risks associated with an investment in the Company.

1.6 Documents Incorporated by Reference

This Prospectus refers to the Employee Option Plan, the IPO Prospectus and the constitution of the Company which will be of primary interest to Eligible Employees and their professional advisers. These documents are taken to be incorporated by reference in this Prospectus.

Eligible Employees of the Company offered Options under this Prospectus may receive copies of these documents free of charge by contacting the Company Secretary on +61 2 9451 5961. Electronic copies of these documents are also available on the Company's website www.pharmaxis.com.au. A copy of the Company's Employee Option Plan accompanies this Prospectus.

The Directors consider that except as otherwise set out in this Prospectus, all information that Eligible Employees and their professional advisers would reasonably require to make an informed assessment of:

- (a) the effect of the Offer on the Company;
- (b) the rights and liabilities attaching to the Options offered under this Prospectus and the Shares to be issued on the exercise of the Options;
- (c) the capacity of the Company to issue the Options and deliver the underlying Shares on exercise of the Options;
- (d) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company;

is set out in this Prospectus, the Employee Option Plan, the IPO Prospectus and the constitution of the Company.

The Directors consider that the following information would be relevant and of particular interest to Eligible Employees and their professional advisers:

- (a) the overview of the Company's business in section 3 and the details of the Company's business in section 6 of the IPO Prospectus;
- (b) the risks associated with an investment in the Company set out in section 7 of the IPO Prospectus;
- (c) the historical financial position of the Company in section 8 of the IPO Prospectus, the investigating accountant's report in section 9 of the Prospectus and the details of the application of funds raised under the IPO Prospectus in section 4.9 of the IPO Prospectus;
- (d) the terms of the Options set out throughout the Employee Option Plan;
- (e) the terms of the Shares in section 12.1 of the IPO Prospectus.

1.7 Questions

If you have any questions in relation to the Offer, please contact the Company Secretary or your professional adviser.

2. Additional Information

2.1 Continuous Reporting and Disclosure Obligations

This Prospectus is issued by the Company in accordance with the provisions of the Corporations Act which are applicable to a prospectus for continuously quoted securities and for options to acquire such securities.

The Company is a “disclosing entity” for the purposes of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations. Specifically, as a listed company, the Company is subject to the Listing Rules of ASX which require continuous disclosure to the market of any information the Company has and which a reasonable person would expect to have a material effect on the price or value of its Shares.

Copies of documents released to ASX and thereby lodged with ASIC in relation to the Company may be obtained from, or inspected at, an office of ASIC.

The Company will provide a copy of each of the following documents, free of charge, to any person who requests it during the application period for this Prospectus:

- The annual financial report and half yearly financial report most recently lodged with ASIC
- Becoming a substantial holder notice dated 01/03/2004
- Updated Investor Presentation dated 24/02/2004
- Company completes interim analysis on bronchitol study dated 23/02/2004
- Top 20 shareholders dated 09/02/2004
- Comparative Financial Statements 30 June 2003 dated 06/02/2004²⁰
- Investor Presentation dated 06/02/2004
- Quarterly Report to Shareholders dated 06/02/2004
- Half Yearly Report dated 06/02/2004
- Commitments Test Entity - Second Quarter Report dated 30/01/2004
- Appendix 3B - Employee Option Plan dated 09/12/2003
- Becoming a substantial holder notices dated 02/12/2003
- Investor presentation dated 17/11/2003
- Company expands Senior Management Team dated 13/11/2003
- Initial Director's Interest Notices dated 12/11/2003
- Commencement of Official Quotation dated 07/11/2003

- ASX Listing Application & Agreement dated 07/11/2003
- Constitution of the Company dated 07/11/2003
- Pre-Quotation Disclosure dated 07/11/2003
- Admission to Official List dated 07/11/2003
- IPO Prospectus dated 15/10/2003

2.2 Market Prices of Shares

The highest prices and lowest closing prices of the Shares of the Company on ASX since the Company has been quoted on ASX to the date of this Prospectus and the respective dates for those sales were \$0.57 on 10 November 2003 and \$0.34 on 27 & 28 November 2003.

The current market price of the Shares is available by contacting the Company Secretary, in major daily newspapers or from www.asx.com.au.

2.3 Litigation

The Company is not involved in any significant legal proceedings. The Directors are not aware of any pending legal proceedings.

2.4 Directors' Interests

Other than as set out or taken to be set out in this Prospectus, no Director or proposed Director has, or has had in the two years before the date of this Prospectus, any interests in the formation or promotion of the Company or in any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer.

Other than as set out or taken to be set out in this Prospectus, no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any Director or proposed Director to induce him or her to become, or to qualify as, a Director of the Company or for services which he or she has provided in connection with the formation or promotion of the Company or the Offer.

2.5 Director Share and Option Holdings

The Directors and their associated entities have the following interests in the Company's Shares and Options as at the date of this Prospectus:

Director	Shares	Options
Denis Hanley ⁽ⁱ⁾	560,000	1,040,000
Alan Robertson ⁽ⁱⁱ⁾		2,080,000
Brett Charlton ⁽ⁱⁱⁱ⁾	20,000	1,600,000
Carrie Hillyard ^(iv)	14,825,000	
Charles Kiefel ^(v)	200,000	200,000
Malcolm McComas ^(vi)	100,000	200,000
Brigitte Smith ^(vii)	30,825,000	

Notes

- (i) Denis Hanley holds 640,000 unlisted options with an expiry date of 30 August 2011 and an exercise price of \$0.3125 and 400,000 unlisted options with an expiry date of 30 June 2012 and an exercise price of \$0.3125;
- (ii) Alan Robertson holds 1,120,000 unlisted options with an expiry date of 30 November 2009 and an exercise price of \$0.125 and 960,000 unlisted options with an expiry date of 30 June 2012 and an exercise price of \$0.3125;
- (iii) Brett Charlton holds 640,000 unlisted options with an expiry date of 30 November 2009 and an exercise price of \$0.125 and 960,000 unlisted options with an expiry date of 30 June 2012 and an exercise price of \$0.3125.
- (iv) Carrie Hillyard is associated with CM Capital Investments Pty Ltd, CM Capital Venture Trust No 3, CIBC Australia VC Fund LLC and the Australia Venture Capital Fund L.P. CM Capital Investments Pty Ltd as trustee of the CM Capital Venture Trust No 3 holds 11,189,044 Shares. CIBC Australia VC Fund LLC as general partner of the Australia Venture Capital Fund L.P holds 3,635,956 Shares
- (v) Charles Kiefel holds unlisted options with a lapse date of 30 April 2013 with an exercise price of \$0.3125.
- (vi) Malcolm McComas holds unlisted options with an expiry date of 3 July 2013 with an exercise price of \$0.3125.
- (vii) Brigitte Smith is associated with GBS Venture Partners Ltd, The Australian Bioscience Trust and Bioscience Ventures II. Perpetual Trustees Nominees Limited as trustee of The Australian Bioscience Trust holds 20,245,000 Shares. GBS Venture Partners Ltd as trustee and manager of Bioscience Ventures II holds 10,580,000 Shares.

2.6 Disclosure of interests of non Directors

Other than as set out or taken to be set out in this Prospectus, no promoter of the Company or person named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus has, or has in the two years before the date of this Prospectus had, any interest in the formation or promotion of the Company or in property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer.

Other than as set out or taken to be set out in this Prospectus, no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any promoter of the Company, stockbroker or underwriter to the Offer or other person named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus or provided in connection with the formation or promotion of the Company or the Offer.

2.7 Expenses of the Offer

The expenses of the Offer are estimated to be \$5,000, covering fees payable to the Company's legal advisers, ASIC lodgement fees, the printing costs of the Offer and other related expenses. These expenses have been paid or will be payable by the Company. The interests and the amounts payable to experts and advisers are as follow:

Piper Alderman acts as legal adviser to the Company in respect of this Prospectus and the Offer and will be paid approximately \$2,500 (exclusive of GST) for its services to the date on this Prospectus and will be reimbursed for disbursements, with further amounts payable for any additional services

relating to this Prospectus and the Offer, if any, to be paid in accordance with its usual hourly charge out rates.

2.8 Consents

Piper Alderman has given, and have not before the lodgement of this Prospectus with ASIC withdrawn, its consent to being named as legal adviser to the Company in this Prospectus in the form and context in which it is named. Piper Alderman has made no statement included in this Prospectus or on which a statement in this Prospectus is based.

3. Definitions and Glossary

In this Prospectus, unless the context otherwise requires:

Definitions and Key Terms

“**Application Form**” means the application form accompanying this Prospectus.

“**ASIC**” means the Australian Securities and Investments Commission.

“**ASX**” means Australian Stock Exchange Limited ACN 008 624 691.

“**Closing Date**” means 30 June 2004 or such other date as may be determined by the Directors.

“**Company**” means Pharmaxis Ltd ACN 082 811 630/ABN 75 082 811 630.

“**Corporations Act**” means the Corporations Act 2001 (Cth).

“**Directors**” means the directors of the Company.

“**Eligible Employees**” means persons eligible to receive Options under the Employee Option Plan.

“**Employee Option Plan**” means the employee option plan of the Company which accompanies this Prospectus, as amended from time to time.

“**IPO Prospectus**” means the prospectus issued by the Company dated 26 September 2003.

“**Listing Rules**” means the Listing Rules of the ASX.

“**Notice of Exercise**” means a notice of exercise of Options in a form approved by the Directors;

“**Notice of Grant**” means a notice of grant from the Company to Eligible Employees setting out the number and terms of the Options to be granted to the Eligible Employees.

“**Offer**” means the offer of Options under this Prospectus.

“**Opening Date**” means 25 March 2004 or such other date as may be determined by the Directors.

“**Option**” means an option over an ordinary shares in the Company issued under the Employee Option Plan.

“**Prospectus**” means this prospectus.

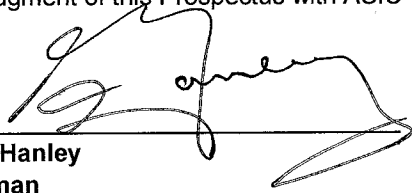
“**Share**” means a fully paid ordinary share in the Company.

4. Authorisation

This Prospectus is dated 17 March 2004 and is issued by Pharmaxis Ltd.

The lodgment of this Prospectus with ASIC was consented to by every Director of the Company.

Denis Hanley
Chairman

A handwritten signature in black ink, appearing to read 'Denis Hanley', written over a horizontal line. The signature is stylized and cursive.

5. Employee Option Plan

PHARMAXIS PTY LTD
ABN 75 082 811 630

EMPLOYEE OPTION PLAN

Pharmaxis Pty Ltd
ABN 75 082 811 630

EMPLOYEE OPTION PLAN

1 **DEFINITIONS AND INTERPRETATIONS**

1.1 **Definitions**

In this Plan unless there is something in the subject or context inconsistent, the following terms have the following meaning:

“Board” means the Board of Directors from time to time of the Company, or any sub-committee of the Board of the Company to which responsibility for this Plan is delegated from time to time;

“Business Day” means any day on which banks (as that expression is defined in the Banking Act 1959) are open for normal banking business in Sydney, New South Wales other than a Saturday, Sunday or public holiday;

“Company” means Pharmaxis Pty Ltd ABN 75 082 811 630;

“Corporations Act” means the Corporations Act 2001 (“Cth”);

“Directors” means the Directors from time to time of the Company;

“Exercise Price” in respect of an Option, means the price determined in accordance with Clause 6.10;

“Eligible Person” means any person considered by the Board to be employed by the Company or any other entity in the Group whether full time, part time or on a long term casual basis and includes all executive and non-executive directors;

“Expert” means the person appointed at any time and from time to time by the Board (being a person reasonably believed by the Board to be a competent valuer) to determine the Market Value of a Share;

“Group” means the Company and all of its Subsidiaries or other related bodies corporate;

“Listed” means that a class of securities of the Company are admitted to the official list of, or otherwise listed on, a securities exchange;

“Listing Rules” means the listing rules of a securities exchange on which the Company is Listed;

“Liquidity Event” means:

- (a) while the Company is not listed, a disposal of the whole or substantially the whole of the property, business and undertaking of the Company;

- (b) while the Company is not Listed, a disposal by the holders of 100% of the Shares in the Company of their Shares, or the acquisition by one of the shareholders in the Company of all of the remaining Shares, other than in the context of a solvent reconstruction where underlying beneficial ownership remains substantially unchanged; or
- (c) if the Company is Listed, a target statement is issued by the Company in respect of a takeover offer for all the Shares of the Company ;

“Market Value” in relation to a Share, means the amount determined by the Board as being the market value of the Share, calculated having regard to such matters and factors as the Board may consider to be relevant to the Company including without limitation:

- (a) the profitability of the Company;
- (b) future prospects and opportunities;
- (c) recent transactions and developments of other companies of a similar type or engaged in a similar business to that of the Company; and/or
- (d) the value as determined by the Expert (applying generally accepted valuation methods) provided that the decision as to whether or not to engage an Expert shall rest entirely in the discretion of the Board;

“Option” means an option to acquire Shares pursuant to the Plan;

“Optionholder” means a person who holds an Option(s) granted under and in accordance with this Plan;

“Plan” means this Employee Option Plan as amended from time to time;

“Share” means a fully paid ordinary share in the capital of the Company;

“Shareholders’ Agreement” means a shareholders’ agreement entered into between the Company and the shareholders of the Company;

“Subsidiary” has the meaning given to that expression in the Corporations Act.

1.2 **Interpretation**

In this Plan unless there is something in the subject or context inconsistent:

- 1.2.1 a reference to any legislation or to any provision of any legislation shall include any modification or re-enactment of, or any legislative provision substituted for, and all legislation and statutory instruments issued under, such legislation or such provision and shall include the corresponding legislation in such other State or Territory of the Commonwealth of Australia as may be relevant from time to time;
- 1.2.2 words (including words defined in this Plan) denoting the singular number shall include the plural and vice versa;

- 1.2.3 words importing natural persons shall (where appropriate) include corporations, firms, unincorporated associations, partnerships, trusts and any other entities recognised by law and vice versa;
- 1.2.4 words denoting any gender shall include all genders;
- 1.2.5 words "written" and "in writing" include any means of visible reproduction of words in a tangible and permanently viable form;
- 1.2.6 references to Clauses are references to the Clauses of this Plan;
- 1.2.7 a reference to any document or agreement shall be deemed to include references to such document or agreement as novated, supplemented, varied or replaced from time to time; and
- 1.2.8 the headings in this Plan are for the purpose of more convenient reference only and shall not form part of this Plan or affect its construction or interpretation.

1.3 **Business Days**

Except where otherwise expressly provided, where under or pursuant to this Plan the day on or by which any act, matter or thing is to be done is a day other than a Business Day, such act, matter or thing shall be done on the immediately succeeding Business Day.

1.4 **Successors and Assigns**

The obligations and liabilities imposed and the rights and benefits conferred on persons under this Plan shall be binding upon and enure in favour of the respective persons and each of their respective successors in title, legal personal representatives and permitted assigns.

1.5 **Commencement of the Plan**

Subject to any necessary shareholder approval, this Plan takes effect from the date determined by the Board. This Plan is an amendment of the preceding plan under which the Company has issued certain Options. The Options granted under the previous plan are hereby amended to conform to the terms of this Plan.

2 GRANT OF OPTIONS

- 2.1 Subject to Clause 2.3, the Board may, in its discretion and from time to time, grant to Eligible Persons any number of Options on such terms as they may determine in accordance with these rules.
- 2.2 The Board may from time to time delegate to the Chief Executive Officer of the Company or the Remuneration Committee, the authority to grant Options and determine the terms on which those Options are granted to Eligible Persons or specified categories of Eligible Persons.
- 2.3 If and to the extent applicable at any time, the grant of Options under this Plan generally or to particular Eligible Persons is subject to receipt of any necessary shareholder or other approvals under:

- 2.3.1 the Corporations Act 2001 or any other law applicable to the Company; and
- 2.3.2 if the Company is Listed, the applicable Listing Rules.
- 2.4 Subject to any limitations under the Corporations Act 2001 or any other law applicable to the Company, when granting Options to an Eligible Person the Board:
 - 2.4.1 must determine the date on which the Options are to lapse (if not exercised or lapsed in accordance with this Plan before that date);
 - 2.4.2 may determine the dates on which the Options vest in the Optionholder and thereby become exercisable by the Optionholder; and
 - 2.4.3 may determine any other conditions which must be satisfied before the Options vest in the Optionholder or are otherwise exercisable by the Optionholder.
- 2.5 Options must be granted on the terms of this Plan and each Optionholder will be taken to have agreed to be bound by the terms of this Plan and on the terms those Options are granted, on the grant of Options to that Optionholder.
- 2.6 Neither this Plan nor any Option shall confer upon any Optionholder any right with respect to continuing the Optionholder's relationship as an Eligible Person with the Company, nor shall it interfere with his or her right or the Company's right to terminate such relationship.

3 **MAXIMUM NUMBER OF OPTIONS**

- 3.1 The maximum number of Options that may be granted under this Plan from time to time is limited to:
 - 3.1.1 15% of the total number of shares on issue in the capital of the Company (calculated as if all securities convertible into Shares had been converted into Shares);
 - 3.1.2 if the Company is Listed, such number as is consistent with any applicable Listing Rules; and
 - 3.1.3 to such number having regard to regulatory constraints under the Corporations Act or any other law applicable to the Company.

4 **NOTICE OF GRANT OF OPTIONS**

- 4.1 When Options are granted to an Eligible Person, the Eligible Person (now an Optionholder) is to be notified by the Company of the grant. The notice is to specify:
 - 4.1.1 the number of Options granted;
 - 4.1.2 the Exercise Price of the Options granted;

- 4.1.3 the date on which the Options lapse as determined by the Board under Clause 2.4;
 - 4.1.4 if applicable, the dates on which the Options vest as determined by the Board under Clause 2.4; and
 - 4.1.5 if applicable, any conditions attaching to vesting of the Options as determined by the Board under Clause 2.4.
- 4.2 An Eligible Person may, within ten (10) business days after receipt of a notice of grant under Clause 4.1, by notice to the Company, decline to accept some or all of the Options referred to in the notice of grant. If notice is received from an Eligible Person under this rule, the Options will not be granted to that person. If no notice is received under this rule, the Options are deemed granted to that person.
- 4.3 The Board may determine whether or not an Eligible Person may or may not have to pay consideration for the grant of an Option to that person.

5 EXERCISE OF OPTIONS

- 5.1 If an Option is subject to vesting pursuant to Clause 2.4, it may only be exercised if it has vested.
- 5.2 Subject to Clause 5.1, an Option may be exercised by an Optionholder at such time(s) as the Board determines at the time of grant.
- 5.3 When exercised, each Option held by an Optionholder entitles the Optionholder to subscribe for and to be issued one Share (credited as fully paid). The subscription price for the Share is equal to and satisfied by payment of the Exercise Price of the Option.
- 5.4 An Optionholder may exercise Options by lodging with the Company a notice of exercise in a form approved or accepted by the Board. The notice of exercise must be accompanied by payment of the aggregate Exercise Price for the Options the subject of the notice.
- 5.5 If an Optionholder does not exercise all Options held by the Optionholder, the Optionholder must exercise Options in multiples of 100 or other multiple permitted by the Board. On exercise of any Options by an Optionholder, the Company must issue Shares in accordance with this Plan. The Company must comply with the requirements of the Corporations Act and, if the Company is Listed, the Listing Rules in connection with the manner and timing of issue of the Shares. The Company is not obliged to issue Shares unless it has received cleared funds on account of the Exercise Price of the relevant Options.
- 5.6 Shares issued on exercise of Options rank equally with all existing Shares from the date of the issue of such Shares.
- 5.7 Shares may only be issued in the name of the Optionholder exercising the Option unless the Board otherwise agrees.

5.8 **Shareholders Agreement**

If, at the time that an Optionholder purports to exercise any Option, a Shareholders Agreement is in existence, the Optionholder must also execute the Shareholders Agreement or, if the Board so determines, a Deed of Accession to the Shareholders Agreement (pursuant to which the Optionholder will be deemed to be a party to the Shareholders Agreement and will agree to be bound by the Shareholders Agreement) in a form and substance satisfactory to the Company. This sub-Clause does not apply if the Company is Listed.

5.9 **Attorney**

Each Optionholder, by accepting the grant of Options irrevocably appoints any two Directors of the Company jointly as their attorneys to do all such acts, matters and things and to execute transfers and other documents on their behalf to effect compliance by that Optionholder with their obligations under this Plan, and each Optionholder, by accepting the Invitation, ratifies and confirms all such actions carried out on its behalf by the attorneys. This sub-Clause does not apply if the Company is Listed.

5.10 **Exercise Price**

5.11 Subject to Clause 10, the Exercise Price in respect of each Option shall be determined by the Board in its absolute discretion and set out in the notice of grant.

5.12 **Compliance with Laws**

Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issue and delivery of such Shares complies with all applicable laws.

6 LAPSE OF OPTIONS

6.1 If an Optionholder ceases to be an Eligible Person (other than through the death of the Optionholder):

6.1.1 all Options which have not yet vested automatically lapse; and

6.1.2 the Options which have already vested in the Optionholder lapse on the expiry of 30 days (or such longer period as determined by the Board) after the date on which the Optionholder ceases to be an employee (or director as the case may be), unless the employee ceases to be an employee (or director) as a result of termination for cause (as defined in the relevant Optionholder's employment agreement) dishonesty or fraud in which case the Options lapse immediately on ceasing to be an employee.

6.2 On the death of an Optionholder:

6.2.1 all Options which have not yet vested automatically lapse; and

6.2.2 notwithstanding anything to the contrary in this Plan, the Options that had already vested in the Optionholder prior to death, lapse on

the expiry of 12 months after the death of the Optionholder (except to the extent that the executor or beneficiaries of that Optionholder's estate exercise any or all of those Options).

- 6.3 Notwithstanding anything to the contrary contained in this Plan, the Board may in its absolute discretion allow an Optionholder that is no longer an Eligible Person to exercise some or all of the vested Options held by that Optionholder.

7 BUY BACK

- 7.1 The Board may, in its absolute discretion, at any time determine (in accordance with the requirements of the Company's constitution and the Corporations Act) to revoke, cancel or make arrangements to buy back Shares issued as a result of the exercise by an Optionholder of an Option at a price that is not less than the Market Value of the Shares and in accordance with the requirements of the Constitution and the Corporations Act. It is a condition of issue of each Share issued on exercise of an Option that this provision of the Plan continues to apply to the holder of the Shares and its transferees despite exercise of the Options giving rise to the issue of the Shares. The holder must procure that transferees agree with the Company to be bound by this condition.
- 7.2 Clause 7.1 only applies until the Company is Listed with the intent that:
- 7.2.1 Clause 7.1 ceases to apply once the Company is Listed; and
- 7.2.2 as long as the Company is not listed, if there is a trade sale or takeover of the Company or the Company wishes for any other reason to buy back or cancel Shares issued on exercise of Options, the Company can do so in accordance with Clause 7.1.
- 7.3 The provisions of this Clause may be applied on more than one occasion to some or all Shares subject to which this Clause applies.

8 NO TRANSFERS

- 8.1 Options may not be transferred, encumbered, assigned or otherwise disposed of except by transmission on death of the Optionholder or with the prior written consent of the Board (which may be given or withheld at its discretion), and may be exercised (during the lifetime of an Optionholder) only by the relevant Optionholder, or, a person or persons to whom the Options have been transferred pursuant to, and in accordance with, this Clause.
- 8.2 The Shares issued on conversion of Options may not be transferred, encumbered, assigned or otherwise disposed of except by transmission on death or with the prior written consent of the Board. This sub-Clause does not apply if the Company is Listed.

9 QUOTATION OF OPTIONS AND SHARES

- 9.1 Options will not be listed on any securities exchange on which the Company is Listed.

- 9.2 If the Company is Listed at the time of exercise of any Options, the Company will make application to the relevant securities exchange for listing or quotation of the Shares issued on exercise of the Options. Any such application is to be made in accordance with the requirements of the applicable Listing Rules.
- 9.3 The grant of each Option is subject to a condition that if the Company becomes Listed, the Optionholder or holder of Shares issued on exercise of Options must sign any restriction (escrow) agreement required by the relevant securities exchange or the Company, in respect of the Option or any shares issued on exercise of the Option.

10 **VARIATIONS OF CAPITAL AND PARTICIPATION RIGHTS**

10.1 **Reorganisation**

In the event of a consolidation, subdivision or similar reconstruction of the issued capital of the Company:

- 10.1.1 the number of Shares to which a Participant is entitled on exercise of an Option will be reduced or increased in the same proportion as the issued capital of the Company is consolidated, subdivided or reconstructed (subject to the same provisions with respect to rounding of entitlements as sanctioned by the meeting of shareholders approving the consolidation, subdivision or reconstruction); and
- 10.1.2 an appropriate adjustment will be made to the Exercise Price (if required), to the effect that the total amount payable on an exercise of all Options by each Participant will not alter.

10.2 **Pro rata Rights Issues**

If, prior to an exercise of an Option by an Optionholder, any offer or invitation is made by the Company to at least all holders of Shares, the Exercise Price of the Option will be reduced according to the following formula:

$$O' = O - \frac{E[P - (S + D)]}{N + 1}$$

Where:

- O' = the new Exercise Price of the Option;
- O = the old Exercise Price of the Option;
- E = the number of Shares into which the Option is exercisable;
- P = the subscription price for a Share under the pro rata issue or, if the Company is Listed, the average market price per Share (weighted by reference to volume) of the Shares during the 5 trading days on the exchange on which the shares are Listed ending on the day before the ex-rights date or ex-entitlements date or if there is no such date then the date chosen by the Board. If the Company is Listed on more than one exchange, then this provision is to be interpreted by reference to trading

on the primary exchange on which Shares are Listed (unless the Board otherwise determines);

S = the subscription price for a Share under the pro rata issue;

D = the dividend due but not yet paid on the existing Shares (except those to be issued under the pro rata issue); and

N = the number of Shares with rights or entitlements that must be held to receive a right to one new Share.

10.3 **Bonus Issues**

In the event that the Company makes a bonus issue of Shares to ordinary shareholders the number of Shares over which the Options are exercisable may be increased by the number of Shares which the Optionholder would have received if the relevant Option had been exercised before the record date of the bonus issue.

10.4 **Return of Capital**

If, prior to the exercise of an Option by an Optionholder, the Company makes a return of capital to holders of Shares generally, the Exercise Price will be reduced by the amount of the capital returned in respect of each Share.

10.5 **Cumulative Adjustments**

The terms of this Clause 10 relating to bonus issues, rights issues, reconstructions and returns of capital may be applied on more than one occasion such that their effects may be cumulative. It is intended that the adjustments they progressively effect will be such as to reflect in relation to the Shares subject to Options, the adjustments which on the occasions in question are progressively effected in relation to Shares already on issue.

10.6 **Notice of Adjustments**

Whenever the number of Shares subject to an Option or the Exercise Price is adjusted in accordance with these rules, the Company will give notice of the adjustment to the Optionholder holding the Option.

10.7 **Dividends**

Options shall not confer on the Optionholder a right to participate in any dividends paid by the Company.

10.8 **Participation in New Issues**

An Optionholder may only participate in issues of securities by the Company if the Option has been exercised and a Share allotted in respect of the exercise of that Option before the books closing date for determining entitlements to the security issue.

10.9 **Voting**

Options do not confer:

- 10.9.1 a right to notices of general meetings, except as may be required by law;
- 10.9.2 a right to attend or speak at general meetings of the Company;
- 10.9.3 a right to vote at any such general meetings of the Company.

11 LIQUIDITY EVENTS

Upon the occurrence of a Liquidity Event, all Options (if any) which has not yet vested, vest on the Business Day immediately preceding the Liquidity Event and shall be capable of immediate exercise.

12 PLAN AND OPTION AMENDMENTS

- 12.1 The rights attaching to the Options may be amended by the Board subject to receipt of any necessary shareholder or other approval under:
 - 12.1.1 the Corporations Act 2001 or any other law applicable to the Company; and
 - 12.1.2 if the Company is Listed, the applicable Listing Rules.
- 12.2 If the provisions of this Plan or the terms of grant of the Options are inconsistent with the Corporations Act, then the Corporations Act prevails to the extent of any inconsistency and the terms of the Options will be deemed modified accordingly without further action by the Company, the Board or the holder of the Option being necessary.
- 12.3 If the Company is Listed and the provisions of this Plan or the terms of grant of the Options are inconsistent with the Listing Rules, then the Listing Rules prevail to the extent of any inconsistency and the terms of the Options will be deemed modified accordingly without further action by the Company, the Board or the holder of the Option being necessary.
- 12.4 Without limiting the generality of Clause 12.3, it is a term of each Option that, if the Company is Listed, the rights of the Optionholder who holds the Option are deemed modified from time to time as necessary to ensure the terms of the Options comply with the Listing Rules applying to reorganisations of capital at the time of any re-organisation of the Company's capital and despite any inconsistent provision in the terms of this Plan.
- 12.5 Subject to Clauses 12.1 to 12.3 (inclusive) and, if the Company is Listed, to receipt of any necessary approvals under the Listing Rules, the terms of this Plan may be amended by the Board but without prejudice to the existing or accrued rights of Optionholders before any amendments are made.

13 ADMINISTRATION

- 13.1 This Plan shall be administered by the Board and any determination by the Board in respect of the operation of this Plan shall be final and binding on all Optionholders.

- 13.2 Without limiting the generality of Clause 13.1, the Board has the powers, among other things:
- 13.2.1 to determine appropriate procedures for administration of this Plan;
 - 13.2.2 to resolve conclusively all questions of fact or interpretation in connection with this Plan;
 - 13.2.3 to approve forms of invitations, acceptances and other documents for the purposes of this Plan;
 - 13.2.4 if the Market Value of the Shares has declined since the date the Options are granted, to reduce the Exercise Price of that Option to any then current Market Value; and
 - 13.2.5 to delegate to any one or more persons, for such period and on such conditions as they may determine, the exercise of any of its powers or discretions arising under this Plan.

14 **NOTICES**

- 14.1 Notices may be given by the Company to Optionholders in the manner permitted by the Company's Constitution for the giving of notices to holders of Shares and the relevant provisions of the Constitution apply (with necessary changes) to notices given to Optionholders.
- 14.2 Service of all documents required by this Plan shall be deemed to be affected if the Company sends the document by registered post to the last address of the Optionholder known to the Company.

15 **TERMINATION OF THE PLAN**

This Plan may be determined at any time by resolution of the Board. Termination of this Plan will be without prejudice to the rights of Optionholders in respect of Options outstanding at the date of termination.

16 **GOVERNING LAW**

The terms of this Plan are governed by the laws of the State of New South Wales, Australia.

TABLE OF CONTENTS

1	DEFINITIONS AND INTERPRETATIONS	1
2	GRANT OF OPTIONS	3
3	MAXIMUM NUMBER OF OPTIONS	4
4	NOTICE OF GRANT OF OPTIONS	4
5	EXERCISE OF OPTIONS	5
6	LAPSE OF OPTIONS	6
7	BUY BACK	7
8	NO TRANSFERS	7
9	QUOTATION OF OPTIONS AND SHARES	7
10	VARIATIONS OF CAPITAL AND PARTICIPATION RIGHTS	8
11	LIQUIDITY EVENTS	10
12	PLAN AND OPTION AMENDMENTS	10
13	ADMINISTRATION	10
14	NOTICES	11
15	TERMINATION OF THE PLAN	11
16	GOVERNING LAW	11

6. Pro-forma Notice of Grant

To: [Name of Eligible Employee]
[Address]
[#Date]

The Company is pleased to offer you Options under the Company's Employee Option Plan on the following basis:

Maximum number of Options granted	[#]
Issue price of Options	Options are issued for no consideration
Date of Option grant	Taken to be the date of this letter
Exercise price of Options	[A\$#]
Expiry date of Options	5:00 pm Sydney time on [#insert date] (unless exercised prior to that date)
Vesting conditions	[#Insert vesting conditions]. Options which have not vested are not capable of exercise
Terms and conditions	Issued under the terms and conditions of the Company's Employee Option Plan
Exercise of Options	Complete Option Exercise Form and forward with your payment to the Company Secretary

This Offer may be accepted at any time up to and including [closing date for acceptance of offer] by delivering a duly completed Application Form to the Company Secretary. You may accept this Offer of Options for all or some only of the Options offered to you subject to any minimum number of Options which may be specified in item one above.

You are urged to read the accompanying Prospectus carefully.

Company Secretary

7. Pro-forma Application for Options

To: Pharmaxis Ltd
Unit 2, 10 Rodborough Road
Frenchs Forest NSW 2086
Attention: The Company Secretary

I [#Eligible Employee name] of [#Address] hereby apply for _____ (insert number of Options applied for) Options over ordinary shares in the capital of the Company in accordance with the prospectus dated 17 March 2004 and on the terms and conditions set out in the Company's Employee Option Plan and the Notice of Grant.

I agree to be bound by the terms of the Company's constitution and the Employee Option Plan under which the Options are granted.

.....
Signature of Applicant

Date: / / 2004

Note: You are urged to read the accompanying Prospectus dated 17 March 2004 carefully. An application using this form will not be valid if another name is substituted for the name printed on this form.

8. Pro-forma Option Exercise Notice

To: Pharmaxis Ltd
Unit 2, 10 Rodborough Road
Frenchs Forest NSW 2086
Attention: The Company Secretary

I (*Insert name*) of (*Insert address*) being the registered holder of the number of employee options in Pharmaxis Ltd (**Company**) specified in the attached option certificate(s), wish to exercise the following number of options held by me over the equivalent number of unissued fully paid ordinary shares in the Company (subject to adjustment in accordance with the Company's employee option plan and the Listing Rules of Australian Stock Exchange Ltd).

No. of employee options exercised: _____

I enclose the following:

- a cheque made payable to Pharmaxis Ltd in the sum of \$(*Insert exercise price*) being the exercise price for the options; and
- the option certificate(s).

I agree to be bound by the constitution of the Company.

.....
Signature of Holder

Date: / /