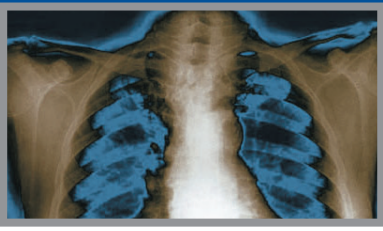
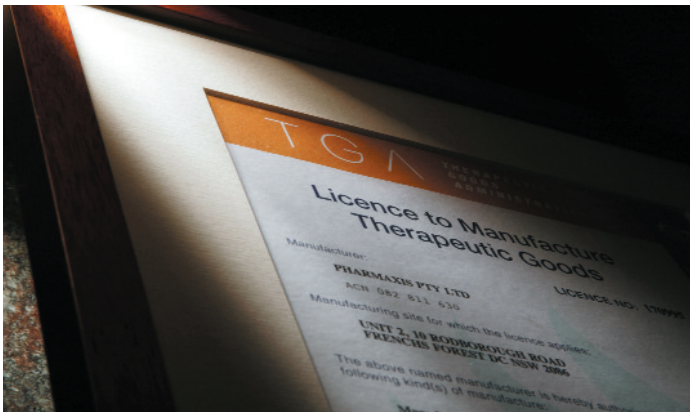
Quarterly Report to Shareholders No 2





pharmaxis

Alan D Robertson
Chief Executive Officer

January – March 2004

Pharmaxis is a specialist pharmaceutical company committed to the research, development and commercialisation of human therapeutic products that improve the clinical management of chronic respiratory and autoimmune diseases.

Company Overview

- Pharmaxis has a diversified portfolio of products at various stages of development which target attractive international markets across a range of diseases.
- Projects include new treatments for multiple sclerosis, cystic fibrosis, rheumatoid arthritis, chronic bronchitis and bronchiectasis, as well as a lung function test for people with airway diseases such as asthma, which is in the last stage of clinical evaluation.
- We are committed to building a fully integrated specialist pharmaceutical company with activities spanning research & development through to manufacture, marketing and distribution.
- We have an experienced board of directors and the company is led by a management team with previous experience in successfully developing and commercialising breakthrough products.
- We have three clinical trials in progress, two in Phase II and one in Phase III.

Quarter Highlights

"Bronchitol of positive benefit in Bronchiectasis study"

- An interim analysis on the Phase II clinical trial for patients suffering from bronchiectasis demonstrates a benefit to treatment with Bronchitol™
- The second stage of the bronchiectasis clinical trial commences recruitment.
- Over 225 people enrolled in the Phase III clinical trial with Aridol™ as a lung function test.
- The Phase II clinical trial with Bronchitol™ for patients suffering from cystic fibrosis commences its dosing phase.

"Swiss study expands market potential for Aridol"

- A clinical study conducted in Switzerland demonstrates an important role for Aridol™ in the management of chronic obstructive pulmonary disease.

Expected Key Milestones/Activities

April

- Quarterly report issued to Shareholders.
- Quarterly ASX report (Appendix 4C) lodged with the ASX.

June/July

- Scheduled completion of Aridol™ Phase III clinical trials.
- Scheduled completion of bronchiectasis Phase II clinical trial.

Quarter 3 2004

- Scheduled completion of cystic fibrosis Phase II clinical trial.
- Reports available for Aridol™ and Bronchitol™ studies.

Facilities update

"Manufacturing capacity to be expanded"

Expenditure of up to $2.5 million dollars has been approved by the Board to expand our manufacturing capability. This will triple our capacity and, with recent yield improvements, ensure we are well positioned for the Aridol™ launch in 2005 and to meet the ongoing demand for Bronchitol™ clinical trial material.

Our TGA license will also be expanded to include the manufacture of therapeutic goods for sale.

Personnel

"Manufacturing group strengthened to support commercial launch of Aridol"

Rebecca Hindle joined us in February to strengthen our clinical research group. Rebecca has experience in clinical research and regulatory affairs gained in Europe and Australia. In addition, we have strengthened our manufacturing capability with the appointment of two new members of staff to assist with manufacture and release testing.

Business Development

"Plans for the introduction of Aridol to the USA accelerated"

The science behind the development of Aridol™ was presented at the American Academy of Allergy and Asthma and Immunology in San Francisco. This generated considerable interest and support for the introduction of Aridol™ in the USA, particularly amongst the American Thoracic Society, the American Asthma Clinical Research Network and the American Academy of Allergy and Asthma Sports and Exercise Committee.

As a result we are accelerating our plans for the introduction of Aridol™ in the USA. A more definitive timeline will be presented to shareholders following a meeting with the FDA.

"Expansion of potential Aridol market as a result of new clinical study"

A study completed by researchers in Swizerland has demonstrated that Aridol™ can predict those patients with chronic obstructive pulmonary disease (COPD) who will benefit from treatment with inhaled steroids. The inability to identify those patients that will respond positively to inhaled steroids has been a long standing problem in the treatment of COPD and has not been possible until now. This indication represents an additional significant market opportunity for Aridol™ .

Three clinical studies are currently in progress in Europe. These studies will expand the utility of Aridol™ and will give opinion leaders in Europe a chance to assess Aridol™ and its place in asthma management. Two of the three studies are scheduled to report during the third quarter of 2004.

A further 15 requests to use Aridol™ in various clinical settings both in Australia and overseas are being considered by our clinical department.

Research

"PXS 2000 shown to inhibit immune cell trafficking"

Our research facility is located within the Australian National University campus in Canberra and our research interests are focused on discovering new treatments for autoimmune disease. Both PXS25 and PXS2000 are products of this research.

PXS2000

- PXS2000 represents a new class of anti-inflammatory agent that inhibits immune cell trafficking and works well in models of multiple sclerosis and rheumatoid arthritis.
- A close structural relative, PXS2030, is being studied as a potential clinical candidate.

Through a collaborative research agreement with the University of Melbourne, compounds such as PXS2000 and PXS2030 are being studied for their impact on neuroinflammation.

Preclinical Development

PXS25

- First GLP batch of PXS25 received from contract supplier.
- PXS25 passes additional safety hurdles.

"Development quantities of PXS25 received from contract supplier"

PXS25 is being developed as an oral product for the treatment of multiple sclerosis. The initial pilot scale manufacture of PXS25 has been contracted to a company with specialist expertise in this area. The technology transfer has been smooth and the first batches of drug substance have been received, passed by our QA department and shipped to the Contract Research Organisation for preclinical safety evaluation. Completion of a series of stringent tests is necessary before PXS25 can be administered to people.

The safety evaluation program is running according to schedule and is expected to complete during Q4 2004. Clinical testing will commence in healthy volunteers shortly thereafter and in volunteers with autoimmune disease during 2005.

Clinical Development

Aridol™

Aridol™ is a bronchial provocation test with specific utility in the diagnosis and management of asthma. Aridol™ allows a physician to measure the appropriate dose of medication for sufferers of asthma - the net result of which will be fewer side effects attributable to preventative medication. Currently, there is no convenient, specific test for asthma or for measuring its severity.

"Aridol clinical trial recruitment on schedule for mid-year completion"

Aridol™ is currently being studied in a 600 patient Phase III clinical trial across 13 centres in Australia.

The trial is running to schedule and there have been no serious adverse events reported by the participating centres. At the end of March 2004, over 225 subjects had been enrolled and the study is scheduled to be completed by mid-2004. The outcome of the study will be a demonstration that Aridol™ is an effective and safe bronchial challenge test with utility in the diagnosis of asthma. The trial results will be sufficient to allow a registration application for Aridol™ in Europe, Australia and possibly the USA. The registration dossier will be submitted to European and Australian regulatory authorities during Q4 2004. Submission plans for the USA will be finalized following a meeting with the FDA.

Bronchitol™ for bronchiectasis

"First leg of bronchiectasis study demonstrates a statistically significant improvement following treatment"

Bronchitol™ is being evaluated as a therapeutic option for people suffering from diseases such as cystic fibrosis, bronchiectasis and chronic bronchitis. It has been designed to enhance lung clearance, improve lung function and improve the quality of life to patients.

A 60 patient clinical trial is being undertaken in Australia and New Zealand in volunteers with bronchiectasis and is expected to complete mid-2004.

An interim analysis was conducted on the first 19 subjects enrolled in the study. The key findings announced to the market on 23 February were:

- No serious adverse events attributable to drug treatment.
- A statistically significant improvement in the key quality of life measurement in favour of treatment versus placebo.
- A statistically significant improvement in the key quality of life measurement when before treatment was compared to after treatment.

- Additional quality of life measures showed a trend to improvement when Bronchitol™ administration was compared to placebo or prior to treatment.
- A statistically significant improvement in lung function following treatment.

"Bronchiectasis study enters second phase"

The second phase of this study is in progress, trial recruitment is proceeding according to schedule and the results should be available during the third quarter of this year.

Bronchitol™ for cystic fibrosis

A 60 patient study is being conducted throughout Australia in volunteers with cystic fibrosis. The study has commenced enrollment, however, there has been some resistance by volunteers wishing to join the study to withdraw from their existing therapy. Therefore, the protocol has been amended to allow patients wishing to stay on their existing medication to be eligible for recruitment.

"Protocol amended for the cystic fibrosis study to aid recruitment"

A small group of patients have completed the study successfully and it is anticipated that the study will now report during the third quarter of the year.

Intellectual Property

Our patent portfolio continues its journey without incident through the approval stages in the various territories.

An examination report has been received for Patent Family 4 from the US and

	USA	Europe	Australia	ROW
Patent Family 1 – The use of Inhaled Mannitol	G	P	G	P/G
Patent Family 2 – Phosphosugar based anti-inflammatory and/or immunosuppressive drugs	G	G	G	G
Patent Family 3 – Novel phosphosugars and phosphosugar-containing compounds having anti-inflammatory activity	G	n/a	G	n/a
Patent Family 4 – Novel compounds and methods	P	P	P	G/P
Patent Family 5 – Novel phosphotetrahydropyrans and methods	prov			
Patent Family 6 – Novel Cannabinoid CB-2 Receptor Agonists and Uses Thereof	prov			

*G = granted; P = pending; prov = provisional; ROW denotes rest of the world including Japan
*Details of the patent portfolio can be found in the prospectus

"Patent approved in New Zealand"

European examiners which indicates the patent is moving closer to grant. This patent was granted in its first territory, New Zealand in February 2004.

Publications/Presentations

Aridol™ and Bronchitol™ have been the subject of more than 25 publications in peer reviewed journals by a variety of research laboratories throughout the world.

There have been no new publications this quarter.

"Aridol presented to scientific meetings in the USA and Switzerland"

Aridol™ was presented by Dr Sandra Anderson of the Royal Prince Alfred Hospital to the American Academy of Allergy Asthma & Immunology in San Francisco on 23 March.

A study on the value of using Aridol™ to determine those patients with chronic obstructive pulmonary disease that respond to steroid treatment was presented at the Swiss Society for Allergy and Immunology in Geneva on 17 April 2004. Further details were announced to the market on 21st April.

Governance

"Corporate governance framework completed"

The Board has completed the implementation of the Pharmaxis Corporate Governance Framework ahead of its scheduled 30 June completion date. Details will be posted to the Pharmaxis web site over the next few weeks.

Financial Highlights

Pharmaxis Ltd
Quarterly Report to Shareholders
Financial Summary

	Quarter ended 31-Mar-04 $	Year to Date to 31-Mar-04 $	Year to Date 31-Dec-03 $
Financial Performance			
Revenue			
Interest received	365,977	720,010	354,033
Research grants	209,769	796,525	586,756
Other	13,572	48,002	34,430
	589,318	1,564,537	975,219
Expenses			
Research & development	(1,319,590)	(3,505,652)	(2,186,062)
Administration	(651,135)	(1,502,878)	(851,743)
Net loss before and after tax	(1,381,407)	(3,443,993)	(2,062,586)
Depreciation & amortisation	123,559	359,513	235,954

	Quarter ended 31-Mar-04 $	Year to Date to 31-Mar-04 $	Year to Date 31-Dec-03 $
Cash Flows			
Cash flows from operating activities	(693,373)	(3,058,057)	(2,364,684)
Cash flows from investing activities	(185,190)	(372,318)	(187,128)
Cash flows from financing activities	(3,444)	22,890,839	22,894,283
Net increase (decrease) in cash held	(882,007)	19,460,464	20,342,471

	31-Mar-04 $	30-Jun-03 $	31-Dec-03 $
Financial Position			
Cash and bank accepted commercial bills	26,844,387	7,383,923	27,726,394
Plant & equipment	1,554,357	1,515,016	1,479,577
Intangible assets	1,178,464	1,205,000	1,191,613
Total assets	30,315,506	10,494,556	31,188,195
Total liabilities	978,590	604,495	466,437
Total shareholders' equity	29,336,916	9,890,061	30,721,758

Cash and bank accepted commercial bills totalled $26.8 million at 31 March 2004 with remaining Cystic Fibrosis Start Grant income of up to $1.8 million available. Pharmaxis therefore remains well positioned to fund its clinical trial and preclinical development programs.

"Pharmaxis well positioned to fund clinical trial programs"

Research & development expenses have increases approximately 21% over the average of the first two quarters. The clinical trial component of this expenditure for the quarter increased by more than 80% over the average of the first two quarters reflecting the commencement of the dosing stage in three trials and increased staffing in the clinical trial group. Expenditure by the preclinical development group decreased by approximately 17% for the quarter compared to the average of the first two quarters. Quarterly fluctuations are to be expected with this outsourced development work as the various projects have dissimilar payment schedules. Expenditure by the ANU based research group and the Frenchs Forest based manufacturing group were both consistent with prior quarter expenditure levels.

Administration expenses for the quarter increased approximately 50% over the average of the first two quarters reflecting costs associated with relocating the clinical and pre-clinical development groups from Canberra, and the costs to recruit additional staff.

Interest revenue for the quarter increased, reflecting the first full quarter of investment of the $25 million raised at the time of the company's ASX listing in mid November 2003. Pharmaxis also receives revenue from a R&D Start Grant for the development of new treatments for cystic fibrosis.

Media

The use of Aridol™ in assisting asthma sufferers better control their medication was highlighted by two stories that appeared in television news bulletins across the country on Wednesday 10 March 2004. These stories appeared in the evening news on Channel 9 and the ABC.

A full page article was also published in the Herald Sun on Sunday 18 April 2004 describing the use of Aridol (mannitol) for the management of asthma.

Late News

"Pharmaxis P3 application successful"

On 22 April, the Hon Ian McFarlane MP, Minister for Industry, Tourism and Resources, announced that Pharmaxis had been successful in its application for $6 million of funding under the AusIndustry Pharmaceuticals Partnership Program (P3). Details were released to the market on 22 April 2004.

Contact Details

Further information on Pharmaxis can be obtained from www.pharmaxis.com.au or by contacting the Company Secretary.

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