

InJet Digital Aerosols Limited

ABN 26 104 014 379

HALF-YEAR FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

INJET DIGITAL AEROSOLS LIMITED
31 December 2009 Half-Year Financial Report

Corporate Information

Board of Directors

Dr Michael Monsour	Chairman
Mr Ross Mangelsdorf	Non-Executive Director
Mr Stephen Jones	Non-Executive Director

Company Secretary

Ms Michelle Leong

Registered and Principal Office

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Eight Mile Plains Qld 4113

Contact Information

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Web site: www.injet.com.au

Share Registry & Register

Link Market Services Limited
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Tel: 1300 554 474
Fax: (02) 9287 0303

Auditors

Ernst & Young
Level 5
1 Eagle Street
Brisbane QLD 4000

Directors' Report

Your directors submit their report for the half-year ended 31 December 2009.

DIRECTORS

The names of the directors of the company in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Dr Michael Monsour (Chairman)
Mr Ross Mangelsdorf
Mr Stephen Jones

RESULTS AND DIVIDENDS

The loss after tax of the company for the half-year was \$64,873 (2008 loss \$462,432). Net assets during the period increased by \$90,992 to \$86,343.

No dividend was proposed or paid.

REVIEW OF OPERATIONS

The period under review was largely dedicated to capital raising in order to position the company for planned negotiations with Canon and a potential American partner. These negotiations were aimed at securing a licence for both the American entity and InJet to use the Canon device to develop new intellectual property around the delivery of certain pharmaceuticals.

In 2009, InJet's Chairman Dr Michael Monsour twice met with Canon at their Japanese headquarters. Canon have for the first time, given InJet a full and open appraisal of the progress they have made on their inhalation device. In the Board's opinion, Canon have made strong technical progress with their device and have overcome many of the challenges that were present in the early days of this project.

Of critical importance has been Canon's ability to reduce the particle size of the applicable inhaled medicines to allow penetration deep into the lung. The Board views this as a significant development, and indeed one which is critical to the potential commercial success of the device.

Despite the advances Canon have made, they have advised InJet that the project itself is under review and that there is no guarantee that they will commercialise the device directly. It is therefore critical for InJet to reach an agreement with Canon to enable the Company to conduct its own clinical trials and develop more intellectual property utilising the Canon device.

The benefits to InJet of being able to develop its own therapeutics, to be delivered by the Canon device, are potentially substantial. It will allow InJet to develop new intellectual property, which if proved to be a success in clinical trials, could provide a new and significantly more efficient method of delivery for a wide range of existing drugs relative to existing methods. InJet would then seek to license its technology to pharmaceutical companies in return for royalties or sell the technology outright. Importantly, InJet would also receive royalties on therapeutics developed and subsequently commercialised by the proposed American licensee utilising the Canon device. It is possible that many therapeutics can be delivered utilising the Canon device and therefore InJet could receive royalties or other payments for each therapeutic developed.

Directors' Report

REVIEW OF OPERATIONS (continued)

Canon have provided their in-principle support of the proposal put forward by InJet. Due diligence investigations were still being undertaken by the American entity in December and negotiations had not concluded as at the review date.

During the period under review, the Company issued a Rights Issue Prospectus, raising \$183,700 as at 31 December. The Company issued 183,700 shares and 183,700 share options pursuant to the Prospectus during the period.

SUBSEQUENT EVENTS

Subsequent to the review date, the Company was advised by the American entity with whom it was negotiating that it would not be proceeding with the licensing transaction proposed by InJet. The company advised that Canon had not developed their inhalation device to the advanced level required for the licensing transaction with InJet to proceed.

This development, coupled with Canon placing their project on hold, places significant uncertainty as to the future of InJet and the likelihood of its patent technology being commercialised.

As a result of the decision of the American entity to withdraw from negotiations with InJet, and given the uncertainty surrounding the future of the Company, the Board returned \$66,617 to those shareholders who had subscribed for shares subsequent to the review date and following the first allotment of Rights Issue shares.

As at the date of signing these accounts, the Board is assessing the ongoing viability of the Company and whether or not there remains a sufficient commercial basis upon which to raise further capital.

AUDITOR'S INDEPENDENCE DECLARATION

A statement of independence has been provided by our auditors, Ernst & Young, and is included in the attached financial report.

Signed in accordance with a resolution of directors

Michael Monsour

Dr M Monsour
Chairman

4 June 2010

Statement of Comprehensive Income

For the half-year ended 31 December 2009

	Notes	December 2009 \$	December 2008 \$
Revenues from Ordinary Activities			
Interest from other persons/corporations		742	10,477
Expenses from Ordinary Activities			
Administration expenses		(7,040)	(1,535)
Compliance expenses		(11,718)	(63,170)
Patent costs		(39,657)	(42,204)
Interest Expense		-	-
Directors remuneration	2	(7,200)	(366,000)
Loss before income tax from continuing operations		<u>(64,873)</u>	<u>(462,432)</u>
Income tax expense		-	-
Loss for the period from continuing operations		<u>(64,873)</u>	<u>(462,432)</u>
Other comprehensive income		-	-
Total comprehensive income for the period		<u>(64,873)</u>	<u>(462,432)</u>
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders to the parent			
Basic earnings per share (cents)		(0.27)	(2.02)
Diluted earnings per share (cents)		(0.27)	(2.02)

The accompanying notes form part of these financial statements

Statement of Financial Position

As at 31 December 2009

	Notes	31 December 2009 \$	30 June 2009 \$
ASSETS			
Current assets			
Cash and cash equivalents	3	199,222	52,663
Trade and other receivables		3,567	2,491
Total current assets		<u>202,789</u>	<u>55,154</u>
TOTAL ASSETS		<u>202,789</u>	<u>55,154</u>
LIABILITIES			
Current liabilities			
Trade and other payables		116,446	59,803
Total current liabilities		<u>116,446</u>	<u>59,803</u>
TOTAL LIABILITIES		<u>116,446</u>	<u>59,803</u>
NET ASSETS		<u>86,343</u>	<u>(4,649)</u>
EQUITY			
Issued capital	4	2,015,549	1,859,684
Reserve		791,000	791,000
Accumulated losses		(2,720,206)	(2,655,333)
TOTAL EQUITY		<u>86,343</u>	<u>(4,649)</u>

The accompanying notes form part of these financial statements

Statement in Changes in Equity

For the half-year ended 31 December 2009

	Notes	December 2009 \$	December 2008 \$
SHARE CAPITAL			
Balance at 1 July		1,859,684	1,859,684
Issue of share capital		183,700	-
Cost of capital raising		(27,835)	-
Balance at 31 December		2,015,549	1,859,684
ACCUMULATED LOSSES			
Balance at 1 July		(2,655,333)	(2,038,566)
Loss for the period		(64,873)	(462,432)
Balance at 31 December		(2,720,206)	(2,500,998)
RESERVES			
Balance at 1 July		791,000	425,000
Equity-based compensation		-	366,000
Balance at 31 December		791,000	791,000

The accompanying notes form part of these financial statements

Statement of Cash Flows

For the half-year ended 31 December 2009

	December 2009 \$	December 2008 \$
Notes		
Cash flows from/(used in) operating activities		
Payments to suppliers and employees	(1,285)	(58,712)
Patent Costs	(18,763)	(41,982)
Interest received	742	10,477
Interest Expense	-	-
Net cash used in operating activities	<u>(19,306)</u>	<u>(90,217)</u>
Cash flows from/(used in) investing activities		
Purchase of Plant and equipment	-	-
Net cash used in investing activities	<u>-</u>	<u>-</u>
Cash flows from/(used in) financing activities		
Proceeds from issue of shares	183,700	-
Share issue costs	(17,835)	-
Net cash provided by/(used in) financing activities	<u>165,865</u>	<u>-</u>
Net increase/(decrease) in cash held	146,559	(90,217)
Cash at beginning of the financial period	52,663	295,808
Cash at the end of the financial period	<u>3</u> 199,222	<u>205,591</u>

The accompanying notes form part of these financial statements

Notes to the financial statements

For the half-year ended 31 December 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation of the Half-Year Financial Report

This general purpose condensed financial report for the half-year ended 31 December 2009 has been prepared in accordance with AASB134 *Interim Financial Report* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the company as the full financial report.

The half-year financial report should be read in conjunction with the annual financial report of InJet Digital Aerosols Limited as at 30 June 2009.

It is also recommended that the half-year financial report be considered together with any public announcements made by InJet Digital Aerosols Limited during the half-year ended 31 December 2009 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

a) Basis of Accounting

The half-year financial report has been prepared in accordance with the historical cost basis and the accounting policies and methods of computation are the same as those adopted in the more recent annual financial report.

For the purposes of preparing the half-year financial report, the half-year has been treated as a discrete reporting period. The financial report is presented in Australian Dollars.

b) Statement of Compliance

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereon, complies with International Financial Reporting Standards ('IFRS').

There are no AIFRS standards issued but not yet effected that are expected to impact the position and performance of the Company.

c) Going Concern

The financial report for the half-year ended 31 December 2009 has been prepared on a going concern basis. The directors believe that the going concern basis is appropriate due to past capital raising history and discussions with Canon in both 2007 and 2009. The company incurred an operating loss after income tax of \$64,873 (2008: \$462,432).

Notes to the financial statements

For the half-year ended 31 December 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

c) Going Concern continued

During the period, the Company undertook a capital raising which raised a total of \$183,700 before costs of the offer. A further \$66,719 was received subsequent to the review date from capital raising subscriptions, however after the withdrawal of a potential licensing partner from negotiations, these funds were returned to applicants.

The Directors met with the licensee of the InJet technology, Canon Inc, at their Japan headquarters twice in 2009. Canon advised InJet that despite the significant progress they have made on their inhalation device, the project itself is under review and that there is no guarantee that they will commercialise the device directly.

The Company commenced discussions with an American entity, who indicated a desire to obtain a license from Canon to use their inhalation device in order to develop new intellectual property around the delivery of certain drugs. Following the completion of due diligence investigations by this entity subsequent to the review date, InJet was advised that the development of the device by Canon was not at the advanced stage required by the American entity in order to complete a licensing transaction with InJet.

The decision by Canon to place their project on hold, and the withdrawal of the American entity from licensing negotiations, places significant uncertainty around InJet's ability to commercialise its intellectual property.

The directors believe InJet has the ability to raise the required level of funding to meet the ongoing needs of the company, however before pursuing new capital raisings the directors must first be satisfied that this is an appropriate course of action and that there is an appropriate business case for doing so.

Although previous capital raisings have been successful, recent developments may impact on the ability of the Company to raise the funds required in a timely fashion. Should the Company not succeed in raising this capital it may be required to realise its assets and extinguish its liabilities not in the normal course of business and at amounts different to those stated in the financial report.

No adjustments have been made to the carrying value and classification of recorded asset and liability amounts that might be necessary should the company not continue as a going concern.

d) Cash

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

Notes to the financial statements

For the half-year ended 31 December 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

e) Trade and Other Payables

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services, whether or not billed to the entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

f) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest Revenue: Interest is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

g) GST

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense as applicable ; or
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

h) Cash flows

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Notes to the financial statements

For the half-year ended 31 December 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

i) Share-based Payment Transactions

The Company provides benefits to directors of the Company and form of share based payment transactions, whereby participants render services in exchange for shares or rights over shares ('equity-settled transactions').

The costs of the equity settled transactions with participants are measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black Scholes option-pricing model.

In valuing equity settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of InJet Digital Aerosols Limited ('market conditions').

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

2. DIRECTORS REMUNERATION

Equity-based compensation
Consulting Fees

	December 2009	June 2009
	\$	\$
	-	366,000
	7,200	-
	<u>7,200</u>	<u>366,000</u>

Notes to the financial statements

For the half-year ended 31 December 2009

	December 2009 \$	June 2009 \$
3. CASH & CASH EQUIVALENTS		
Cash at bank	199,222	52,663
	<u>199,222</u>	<u>52,663</u>
4. ISSUED CAPITAL		
	December 2009 Number	December 2009 \$
Ordinary Shares - Issued and fully paid (a)	23,057,026	2,015,549
Share Options (b)	1,066,053	-
(a) Movements in ordinary shares on issue		
At 1 July 2009	22,873,326	1,859,684
Issued during the period (i)	183,700	183,700
Share issue costs	-	(27,835)
At 31 December 2009	<u>23,057,026</u>	<u>2,015,549</u>
(b) Movements in Share Options on issue		
At 1 July 2009	882,353	-
Issued during the period (i)	183,700	-
At 31 December 2009	<u>1,066,053</u>	<u>-</u>

- (i) During the period, 183,700 ordinary shares and 183,700 share options were issued pursuant to the Rights Issue dated 7 September 2009. These options have an exercise price of \$1 and an expiry date of 30 June 2014. Refer to Note 9 for details of funds raised subsequent to the review date.

5. SEGMENT INFORMATION

The company operates solely as a biotechnology development company in Australia, holding rights to patents throughout the world.

6. INVESTMENT IN SUBSIDIARY COMPANIES

The Company owns 100% of Ponwell Enterprises Limited, a company incorporated in the British Virgin Islands. Ponwell Enterprises Limited has no assets or liabilities and has not traded.

Ponwell Enterprises Limited is in the process of being wound up, therefore the Company has not prepared consolidated financial statements.

Notes to the financial statements

For the half-year ended 31 December 2009

7. CONTINGENT ASSETS AND LIABILITIES

On 27 August 2003, the Company signed a licence agreement with Canon Inc of Japan. The licence granted is worldwide and relates to the Company's patent portfolio that cover inhaled drug delivery based on the inkjet technology. Under the terms of the licence agreement Canon will further develop and commercialise the inhaled drug technology.

The consideration for the Company was an upfront payment of US\$1 million and royalties on sales of the commercial product.

The Company's patents have continued to progress through patent offices in respective countries throughout the world. The patents continue to be accepted through their examination process. In the year ending 30 June 2008, the Company's European formulation patent received a challenge from Teva Pharmaceuticals.. The company responded in defence of their intellectual property and during the period, the Company was advised that Teva Pharmaceuticals have unconditionally withdrawn their request for Oral Proceedings before the European Patent Office. The Board now consider this matter closed, with no ongoing threat posed to InJet's patent portfolio.

8. CORPORATE INFORMATION

InJet Digital Aerosols Limited is a company incorporated in Australia and limited by shares. The nature of the operations and principal activities of the group are contained in Note 5.

9. SUBSEQUENT EVENTS

Subsequent to the review date, the Company was advised by the American entity with whom it was negotiating that it would not be proceeding with the licensing transaction proposed by InJet. The company advised that Canon had not developed their inhalation device to the advanced level required for the licensing transaction with InJet to proceed.

This development, coupled with Canon placing their project on hold, places significant uncertainty as to the future of InJet and the likelihood of its patent technology being commercialised.

As a result of the decision of the American entity to withdraw from negotiations with InJet, and given the uncertainty surrounding the future of the Company, the Board returned \$66,617 to those shareholders who had subscribed for shares subsequent to the review date and following the first allotment of Rights Issue shares.

As at the date of signing these accounts, the Board is assessing the ongoing viability of the Company and whether or not their remains a sufficient commercial basis upon which to raise further capital.

Directors' Declaration

In accordance with a resolution of the directors of InJet Digital Aerosols Limited, I state that::

In the opinion of the directors:

- (a) the financial statements and notes of the company:
 - (i) give a true and fair view of the company's financial position as at 31 December 2009 and the performance for the half-year ended on that date; and
 - (ii) comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) Subject to the inherent uncertainty regarding the continuation as a going concern as expressed in Note 1 (c) to the financial report, that is, the ability of the company to pay its debts as and when they fall due, there are reasonable grounds to believe the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Dr Michael Monsour
Chairman

4 June 2010

To the members of Injet Digital Aerosols Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Injet Digital Aerosols Limited, which comprises the condensed statement of financial position as at 31 December 2009, and the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Injet Digital Aerosols Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

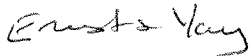
Conclusion

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

- i giving a true and fair view of the company's financial position as at 31 December 2009 and of its performance for the 6 months ended on that date; and
- ii complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw attention to Note 1(c) in the financial report which indicates that the company incurred a net loss of \$64,873 during the half-year ended 31 December 2009 (December 2008: loss of \$462,432) and has a surplus in current assets of \$86,343 (June 2009: deficiency of \$4,649) as at that date. As described in Note 1(c), there is no guarantee that a marketable product will be developed, and the company will require additional working capital from capital raisings for funding arrangements to continue its operations and pay its debts as and when they fall due. As a result of these matters there is significant uncertainty whether the company will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.



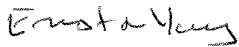
Ernst & Young



Brad Tozer
Partner
Brisbane
4 June 2010

Auditor's Independence Declaration to the Directors of Injet Digital Aerosols Limited

In relation to our review of the financial report of Injet Digital Aerosols Limited for the half-year ended 31 December 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Brad Tozer
Partner
4 June 2010