

InJet Digital Aerosols Limited

ABN 26 104 014 379

HALF-YEAR FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

INJET DIGITAL AEROSOLS LIMITED
31 December 2008 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

Mr Ben Graham

Registered and Principal Office

85 Brandl St
Eight Mile Plains Qld 4113

Contact Information

Tel: (07) 3295 0507
Fax: (07) 3341 4200
Email: info@injet.com.au
Web site: www.injet.com.au

Share Registry & Register

Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Tel: 1300 554 474
Fax: (02) 9287 0303

Auditors

Ernst & Young
Level 5
1 Eagle Street
Brisbane QLD 4000

Directors' Report

Your director's submit their report for the half-year ended 31 December 2008.

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 \$462,432 (2007 loss \$494,701). Net assets during the period decreased by \$96,432 to \$149,686.

No dividend was proposed or paid.

REVIEW OF OPERATIONS

The activities of the company during the period continue to be solely directed at maintaining its portfolio of intellectual property.

The Company has a portfolio of seven patent 'families' pertaining to the delivery of drugs via the use of digital aerosol technology. The majority of InJet's patents (63) have now been granted, with a further 9 patents progressing through the application phases in various countries.

There have been no further developments with respect to the challenge to the Company's European formulation patent received during the prior year. InJet has filed a response to the challenge, which is not considered to be a threat to the Company's portfolio of intellectual property.

Dialogue with Canon Inc in Japan, the licensee of the InJet technology, has been ongoing during the period, culminating in a meeting with Canon in Japan in March of 2009 (refer to Subsequent Events detail on page 2 for further information). Canon has been developing a device for the digital delivery of drugs into the lungs using the InJet technology, with the Company expecting to receive royalty payments from Canon upon commercialisation of their device.

Patent costs (\$41,982) continue to be the main cash drain on the company, with compliance and other overheads (\$58,712) accounting for the balance of the Company's cash outflows. There was a net cash outflow during the period of \$90,217.

The Company issued 340,000 options to directors during the period in lieu of the payment of Directors Fees. The issue was approved by members at the 2008 Annual General Meeting, with the options having an exercise price of \$3 each and an expiry date of 30 June 2014.

Accounting standards dictate that these options be valued using a recognised valuation method and that an expense recognised in the accounts of the Company with respect to these options.

Directors' Report

The options have been valued using the Black-Scholes method, with a non-cash expense of \$366,000 being recognised during the period.

SUBSEQUENT EVENTS

In March 2009, InJet Chairman Dr Michael Monsour met with representatives from Canon Inc at their headquarters in Japan. The meeting was the first held between the companies's since they last met in Japan in 2007.

At the meeting, Canon provided Dr Monsour with an update on the progress of their inhaler device program, although confidentiality agreements prevent those details being released in this report. InJet is unable to speculate as to when Canon may have their device commercially available. InJet expects to commence receiving royalty payments upon Canon commercialising their device.

InJet presented Canon with a proposal at the meeting which would allow InJet to use the inhalation device being developed by Canon to conduct its own clinical studies in a number of disease states. Canon were receptive to this proposal and it will be actively pursued by InJet over the coming months.

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

16 March 2009

Condensed Income Statement

For the half-year ended 31 December 2008

		December 2008 \$	December 2007 \$
Continuing Operations	Notes		
Revenues from Ordinary Activities			
Interest from other persons/corporations		10,477	7,629
Expenses from Ordinary Activities			
Administration expenses		(1,535)	(3,248)
Compliance expenses		(63,170)	(34,743)
Patent costs		(42,204)	(35,085)
Interest Expense		-	(4,254)
Directors remuneration	2	(366,000)	(425,000)
Loss before income tax		(462,432)	(494,701)
Income tax expense		-	-
Loss for the period		(462,432)	(494,701)
Earnings per share (cents)			
Basic/Diluted		(2.02)	(2.17)

The accompanying notes form part of these financial statements

Condensed Balance Sheet

As at 31 December 2008

	Notes	31 December 2008 \$	30 June 2008 \$
ASSETS			
Current assets			
Cash and cash equivalents	3	205,591	295,808
Trade and other receivables		6,176	1,576
Total current assets		<u>211,767</u>	<u>297,384</u>
TOTAL ASSETS		<u><u>211,767</u></u>	<u><u>297,384</u></u>
LIABILITIES			
Current liabilities			
Trade and other payables		62,081	51,266
Total current liabilities		<u>62,081</u>	<u>51,266</u>
TOTAL LIABILITES		<u><u>62,081</u></u>	<u><u>51,266</u></u>
NET ASSETS		<u><u>149,686</u></u>	<u><u>246,118</u></u>
EQUITY			
Issued capital	4	1,859,684	1,859,684
Reserve		791,000	425,000
Accumulated losses		(2,500,998)	(2,038,566)
TOTAL EQUITY		<u><u>149,686</u></u>	<u><u>246,118</u></u>

The accompanying notes form part of these financial statements

Condensed Statement in Changes in Equity

For the half-year ended 31 December 2008

	Notes	December 2008 \$	December 2007 \$
SHARE CAPITAL			
Balance at 1 July		1,859,684	1,329,274
Issue of share capital		-	599,394
Cost of capital raising		-	(68,984)
Balance at 31 December		<u>1,859,684</u>	<u>1,859,684</u>
ACCUMULATED LOSSES			
Balance at 1 July		(2,038,566)	(1,466,047)
Loss for the period		(462,432)	(494,701)
Balance at 31 December		<u>(2,500,998)</u>	<u>(1,960,748)</u>
RESERVES			
Balance at 1 July		425,000	-
Equity-based compensation		366,000	425,000
Balance at 31 December		<u>791,000</u>	<u>425,000</u>

The accompanying notes form part of these financial statements

Condensed Cash Flow Statement

For the half-year ended 31 December 2008

	December 2008 \$	December 2007 \$
	Notes	
Cash flows from/(used in) operating activities		
Payments to suppliers and employees	(58,712)	(14,646)
Patent Costs	(41,982)	(131,526)
Interest received	10,477	4,358
Interest Expense	-	(4,254)
Net cash used in operating activities	<u>(90,217)</u>	<u>(146,068)</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	-	568,432
Share issue costs	-	(68,984)
Proceeds from borrowings	-	30,000
Repayment of borrowings	-	(130,000)
Net cash provided by/(used in) financing activities	<u>-</u>	<u>399,448</u>
Net increase/(decrease) in cash held	(90,217)	253,380
Cash at beginning of the financial period	<u>295,808</u>	<u>135,633</u>
Cash at the end of the financial period	3 <u>205,591</u>	<u>389,013</u>

The accompanying notes form part of these financial statements

Notes to the financial statements

For the half-year ended 31 December 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation of the Half-Year Financial Report

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 2008.

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 2008 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

a) Basis of Accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements.

The half-year financial report has been prepared in accordance with the historical cost basis.

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 2008 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 February 2007 and expected discussions in early 2009. The company incurred an operating loss after income tax of \$462,432 (2007: \$494,701).

Notes to the financial statements

For the half-year ended 31 December 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

c) Going Concern continued

During the prior period, the Company completed a successful capital raising which raised a total of \$568,394 before costs of the offer. The majority of these funds were raised from new investors. Management forecasts indicate these funds are expected to be sufficient to meet the Company's working capital requirements through to mid 2009.

The Directors met with the licensee of the InJet technology, Canon Inc, at their Japan headquarters in 2007. A follow-up meeting was unable to take place as expected during 2008, although a meeting will be held with Canon Inc during 2009 (refer to note 9 for further details). At the 2007 meeting, Canon updated the directors on the progress of their inhalation device program and Directors are confident that InJet will receive royalties from Canon in the medium term.

The Company will require additional working capital to carry it through to the expected receipt of royalties from Canon. Based on the success of the most recent capital raised, Directors are confident that the required funds can be secured as and when required. 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.

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 consolidated 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.

Notes to the financial statements

For the half-year ended 31 December 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

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').

Notes to the financial statements

For the half-year ended 31 December 2008

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

i) Share-based Payment Transactions continued

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.

	December 2008 \$	June 2008 \$
2. DIRECTORS REMUNERATION		
Equity-based compensation (i)	366,000	425,000
	366,000	425,000

(i) At the 2008 Annual General Meeting, Shareholders approved the issue of 340,000 fully vested Options to Directors expiring on 30 June 2014 in lieu of the payment of Directors Fees. In accordance with *AASB 2 Share-based Payment*, these Options must be treated as an expense in the accounts of the Company. The Options are valued using the Black Scholes options pricing model. The amount expensed during the period is a one-off non-cash expense based on the value of the Options issued to the Directors.

The critical inputs to the valuation model used were an exercise and current share price of \$3.00, an expected life of 2.8 years, a volatility of 50% and a risk free rate of 3.64%.

Notes to the financial statements

For the half-year ended 31 December 2008

	December 2008	June 2008
	\$	\$
3. CASH		
Cash at bank	205,591	295,808
	<u>205,591</u>	<u>295,808</u>
4. ISSUED CAPITAL		
	December 2008 Number	December 2008 \$
Ordinary Shares - Issued and fully paid (a)	22,873,326	1,859,684
Share Options (b)	882,353	-
(a) Movements in ordinary shares on issue		
At 1 July 2008	22,873,326	1,859,684
Issued during the period	-	-
At 31 December 2008	<u>22,873,326</u>	<u>1,859,684</u>
(b) Movements in Share Options on issue		
At 1 July	542,353	-
Issued during the period- Rights Issue (i)	-	3,996,024
Share Consolidation (ii)	-	(3,793,671)
Issued During the Period- Directors (iii)	-	340,000
Issued During the Period- Directors refer note 2	340,000	-
At 31 December	<u>882,353</u>	<u>542,353</u>

- i) Options issued to shareholders as a result of capital raisings during the period.
- ii) Shareholders approved a Share Consolidation on a 1 for 20 basis at the 2006 Annual General Meeting. The share consolidation was completed during the period. Options were consolidated on the same 1 for 20 basis. Option exercise price was adjusted on the same basis, with all options on issue now having an exercise price of \$3.00.
- iii) All options on issue to Directors were issued subsequent to the share consolidation and had an exercise price of \$3.00 and an expiry date of 30 June 2014.

Notes to the financial statements

For the half-year ended 31 December 2008

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.

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.

Whilst the Company expects to receive a royalty stream from Canon in the future, the exact timing and amount of the royalty cannot yet be reliably determined.

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. The Company's European formulation patent received a challenge from Teva Pharmaceuticals during the the year ending 30 June 2008. The company has responded in defence of their intellectual property. The action by Teva is not expected to succeed and is not considered a threat to the InJet's IP 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.

Notes to the financial statements

For the half-year ended 31 December 2008

9. SUBSEQUENT EVENTS

In March 2009, InJet Chairman Dr Michael Monsour met with representatives from Canon Inc at their headquarters in Japan. The meeting was the first held between the companies's since they last met in Japan in 2007.

At the meeting, Canon provided Dr Monsour with an update on the progress of their inhaler device program, although confidentiality agreements prevent those details being released in this report. InJet is unable to speculate as to when Canon may have their device commercially available. InJet expects to commence receiving royalty payments upon Canon commercialising their device.

InJet presented Canon with a proposal at the meeting which would allow InJet to use the inhalation device being developed by Canon to conduct its own clinical studies in a number of disease states. Canon were receptive to this proposal and it will be actively pursued by InJet over the coming months.

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 2008 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

16 March 2009

To the members of Injet Digital Aerosols Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Injet Digital Aerosols Limited, which comprises the condensed balance sheet as at 31 December 2008, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement 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 2008 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

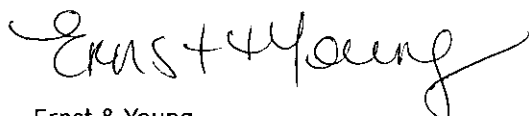
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Injet Digital Aerosols Limited is not in accordance with the *Corporations Act 2001*, including:

- i giving a true and fair view of the company's financial position as at 31 December 2008 and of its performance for the half-year 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) 'Going Concern' in the financial report which indicates that the company incurred a loss of \$462,432 during the half-year ended 31 December 2008 (2007: loss of \$494,701). As described in Note 1(c) 'Going Concern', the company will require additional working capital from capital raising or royalties to continue its operations and pay its debts as and when 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 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 or the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.



Ernst & Young




Winna Brown
Partner
Brisbane

16 March 2009

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 2008, 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



Winna Brown
Partner

16 March 2009