



AGI Therapeutics, plc
Interim financial results for the six months ended 30 June, 2006

Dublin, Ireland, 7th September 2006 - AGI Therapeutics plc ("AGI" or the "Company"), a speciality pharmaceutical company focused on gastrointestinal drug products, today reports interim financial results for the six months ended 30 June, 2006.

Financial highlights:

- Cash and short term deposits at 30 June 2006 of €40 million
- R & D spend of €1.6 million
- Net loss of €2.3 million
- Loss per ordinary share of €0.04 cent

Corporate highlights:

- Completed a successful listing on the AIM Market of the London Stock Exchange and the IEX Market of the Irish Stock Exchange on 27 February 2006, raising gross proceeds of €42.5 million (£29.2 million)
- Strengthened the management team and Board through the addition of Dr. David Young, President of U.S. Operations and David Kelly as Chief Financial Officer

After the period end:

- Added Dr Chris Blackwell, Chief Executive of Vectura Group plc, to the Board as a non-executive director

Operating highlights:

- Reported positive, preliminary results of a Phase II trial of arverapamil (AGI-003) in non-constipation predominant irritable bowel syndrome (IBS), showing statistically significant superiority versus placebo
- Completed enrolment and treatment in a Phase II trial in 82 patients for mecamlamine (AGI-004) in functional diarrhoea; preliminary results expected in H2 2006
- Reported positive results in a human pharmacokinetics trial of 4-aminosalicylate sodium (4-ASA-Na), (AGI-022), achieving target controlled release and delivery profile for ulcerative colitis
- Reported results from a human pharmacokinetics and pharmacodynamics trial of delayed/controlled release omeprazole (AGI-010) for the treatment of nocturnal acid breakthrough (NAB) in gastro esophageal reflux disease (GERD) demonstrating a controlled and extended release profile

After the period end:

- Completed enrolment of a Phase II trial in 68 patients in functional dyspepsia for arbaclofen (AGI-006)

Commenting on the interim results, Dr John Devane, Chief Executive of AGI, said:

"The first six months of 2006 was a pivotal period for AGI. Having completed a successful flotation, providing the Company with substantial resources to fund our future growth, we subsequently completed and announced results for a series of our most advanced clinical programmes which will be the basis for that growth. We have also continued to strengthen our management team and operating capabilities. We expect the pace to continue in the second half as we build further on the positive clinical results already reported and as we seek to maximise the value of our R&D portfolio."

Outlook

Commenting further, on the outlook for the remainder of 2006, Dr. Devane added:

"Once we have completed the current phase of clinical development activity we shall determine the best commercial options for our broad portfolio to establish both strategic licensing partnerships and a robust internal pipeline of clinical development programmes. While our initial strategy of advancing all our product candidates through key clinical proof of concept trials internally is now nearing completion, we look forward in the longer term to securing strong marketing positions for our resulting products, both in collaboration with pharmaceutical partners and through retaining marketing rights for certain of our products in important niche market segments."

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About AGI Therapeutics, plc

AGI is a speciality pharmaceutical company which is focused on the development and commercialisation of differentiated drug products for gastrointestinal ("GI") diseases and disorders.

The Company has a portfolio of product candidates derived from the Known Molecular Entity ("KME") approach to drug re-profiling and development. KME is a re-profiling methodology used by the Company to identify existing therapeutic drugs which typically have been marketed for a number of years, have established safety profiles and can be developed for new clinical indications or with improved profiles in

their existing clinical indications. In this way, the Company seeks to reduce the risk, time and cost of new product development as compared to the development of new chemical entities.

AGI has developed a range of product candidates to treat a variety of prevalent GI diseases and disorders, including irritable bowel syndrome (IBS), functional dyspepsia, ulcerative colitis and gastro-esophageal reflux disease (GERD). The Company is targeting areas of the GI therapeutic drug products market for its product candidates where there are currently unmet medical needs or where the effectiveness of existing drug therapies can be further improved.

The Company has six clinical stage product candidates which are either isomers or new drug delivery formulations of existing approved drugs, and which have established safety and tolerability profiles in their currently approved clinical indications. These product candidates are all in clinical development, including five Phase II trials.

AGI intends to complete its ongoing clinical trials and, dependent on the results of these trials, the Company will initiate late stage clinical development of lead product candidates and will also seek to enter into licensing and development agreements with pharmaceutical companies so as to enhance the global market reach for its products and achieve optimal revenue and value opportunities for the Company.

Statements contained within this press release may contain forward-looking comments which involve risks and uncertainties that may cause actual results to vary from those contained in the forward-looking statements. In some cases, you can identify such forward-looking statements by terminology such as 'may', 'will', 'could', 'forecasts', 'expects', 'plans', 'anticipates', 'believes', 'estimates', 'predicts', 'potential', or 'continue'. Predictions and forward-looking references in this press release are subject to the satisfactory progress of research which is, by nature, unpredictable. Forward projections reflect management's best estimates based on information available at the time of issue.

Chief executive's statement

Overview

In the year to date, we have progressed, on schedule, the development of our clinical-stage portfolio of product candidates. We have reported preliminary data on the outcome of two Phase II clinical trials, for arverapamil in IBS (AGI-003) and espidolol in functional dyspepsia (AGI-001), and have also reported on human pharmacokinetics studies for two other product candidates, being delayed/controlled release omeprazole designed to treat nocturnal acid breakthrough ("NAB") in GERD (AGI-010), and controlled release 4-aminosalicylate sodium for the treatment of ulcerative colitis (AGI-022). Additionally, we completed patient enrolment and the treatment phase of a Phase II trial of our mecamlamine candidate in patients with functional diarrhoea (AGI-004). We are on target to report preliminary data on this trial, along with preliminary data on a Phase II trial of espidolol in IBS, during the second half of this year. Finally, we recently completed patient enrolment of a Phase II trial of arbaclofen in functional dyspepsia (AGI-006) and we expect that preliminary results will be available in Q4 2006/Q1 2007.

Arverapamil (AGI-003)

IBS is a functional disorder that comprises a cluster of gastrointestinal symptoms which are likely to be life long. Altered intestinal motility is a major component of IBS and patients are diagnosed and sub-typed according to their predominant symptom of bowel disturbance. Arverapamil is being developed in an oral dosage form for the treatment of diarrhoea-predominant irritable bowel syndrome ("d-IBS") in both men and women. The d-IBS segment of the IBS market is estimated to account for at least one-third of all IBS patients. The annual market for prescription therapeutic drug products for IBS in the US was estimated at more than US\$400 million in 2004 and is predicted to grow rapidly to more than US\$1 billion by 2010.

In June 2006 we announced the positive outcome of a Phase II clinical trial evaluating arverapamil in 129 patients (male and female) meeting ROME II criteria (modified) for non-constipation predominant IBS. The clinical trial was a randomised, double-blind, placebo-controlled, parallel group, forced dose-escalation study (dose escalated every 4 weeks), which evaluated the efficacy of arverapamil versus placebo over a 12-week period. Using an intent-to-treat analysis and the entire 12 weeks of therapy, the arverapamil treated patients showed a significantly higher response rate than placebo based on patient global impression (56.9% vs. 37.5%) and based on relief of abdominal pain/discomfort (56.9% vs. 43.8%). No differences between treatments were seen in use of rescue medications. Compared with placebo, the arverapamil treated patients also showed significant favourable differences in change from baseline in a) the Bristol Stool Scale at week 8 and week 12, b) bloating and stool frequency at week 4 and c) urgency and composite gastrointestinal symptoms at week 4 and week 12. Patients also completed the IBS Quality-of-Life (QOL) survey, a validated 34-item condition-specific QOL survey consisting of 8 subscales at the 4, 8 and 12 week visits. Scores can range from 0 to 100 with a higher score indicating better QOL. Significant improvements were recorded in the arverapamil treated patients compared with placebo at week 12 for both the total score (24.9 points vs. 3.55 points) and for all 8 sub-scales and at week 8 for total score and each of the sub-scales with the exception of sexual and relationship sub-scales. Arverapamil was generally well tolerated and there were no serious adverse events.

We are extremely pleased by the outcome of this clinical trial, which supports the efficacy of arverapamil in IBS patients with non-constipation predominant symptoms. We also believe arverapamil may also have utility in the treatment of other diarrhoea-related conditions.

We are currently developing an overall plan for the Phase III clinical development of arverapamil for which we will also seek regulatory input and guidance.

Omeprazole for NAB in GERD (AGI-010)

We are developing a delayed/controlled release formulation of the proton pump inhibitor drug ("PPI"), omeprazole based on our CHRONAB technology which we believe will be effective in treating nocturnal acid breakthrough ("NAB"), a prevalent aspect of current PPI therapy of gastro-esophageal reflux disease ("GERD"). GERD is the most prevalent of the major gastrointestinal disorders and is most commonly treated with PPI drugs which achieve global annual sales in excess of US\$20 billion. NAB is estimated to occur in at least 50 per cent of GERD patients on PPI therapy.

In March 2006 we announced the preliminary outcome of a combined human pharmacokinetics and pharmacodynamics study in 16 healthy subjects designed to characterize the in-vivo drug release profile and pharmacokinetics and the intra-gastric pH profiles of three delayed release/ controlled release formulations of omeprazole given as 40mg once-daily at bedtime for five consecutive days compared to marketed omeprazole (Losec®) given as 20mg twice-daily morning and evening before meals. Preliminary data from the study demonstrated that while delayed/controlled release characteristics were clearly achieved, the time-course of in-vivo release was markedly delayed resulting in peak exposure at 5-6am.

We have subsequently conducted a programme of formulation optimization to further enhance the drug release profile of our product. A further combined human pharmacokinetics and pharmacodynamics study of the optimized formulations is scheduled to commence in Q4 2006.

4-ASA-Na (AGI-022)

We are developing a delayed/controlled release oral formulation of 4-aminosalicylate sodium ("4-ASA-Na") for the induction and maintenance of remission of mild to moderate ulcerative colitis ("UC"). UC is a chronic, recurrent, relapsing and remitting inflammatory disease of the colon and/or rectum. We believe that our 4-ASA-Na product may offer certain advantages compared with current 5-ASA based therapies which are commonly used to treat UC, including a superior tolerability profile, a more reliable delivery to the target sites of action in UC leading to a higher efficiency of therapy with potential dosing advantages.

In March 2006 we reported on the outcome of a human pharmacokinetics trial in 16 human subjects designed to characterize the in-vivo drug release profile and pharmacokinetics of three delayed release/ controlled release formulations compared with a reference solution of 4-ASA-Na. The study demonstrated delayed and controlled in-vivo release profiles consistent with targeted colonic delivery and a lead formulation has been selected as optimal and will be the basis of future clinical development. We are now in the process of planning the next stage of development of this product.

Espindolol (AGI-001)

Espindolol is being evaluated for the treatment of functional dyspepsia and additionally for the treatment of irritable bowel syndrome in both men and women.

Functional dyspepsia, also referred to as non-ulcer dyspepsia or NUD, is a cluster of chronic or recurrent upper GI symptoms, including early satiety, abdominal distension and fullness and discomfort and pain, not associated with any known structural abnormality. Estimates as to the prevalence of functional dyspepsia vary with some studies suggesting that it affects up to 25 per cent of the US population annually. There are as yet no therapeutic drug products approved for its treatment in the US.

In June 2006 we announced preliminary data from a Phase II clinical trial evaluating espindolol in 132 patients (male and female) meeting ROME II criteria (modified) for functional dyspepsia. The clinical trial was a randomised, double-blind, placebo-controlled, parallel group, forced dose-escalation study (dose escalated every 4 weeks) which evaluated the efficacy of espindolol versus placebo over a 12-week period. Using an intent-to-treat analysis and the entire 12 weeks of dose-escalation therapy, the espindolol treated patients failed to show a significantly higher response rate than placebo based on patient global impression (50.8% vs. 41.8%). A sub-analysis showed a significantly higher response rate based on global patient impression for the espindolol treated patients with a baseline severity ≥ 3 (i.e.

moderate to severe), (42.4% vs. 28.1%). No differences between treatments were seen in use of rescue medications. Compared with placebo, the espidolol treated patients did not show significantly favourable differences in change from baseline in composite or individual symptoms. Espidolol was generally well tolerated and there were no serious adverse events.

In addition, during the period under review, we completed the treatment phase of a second Phase II clinical study evaluating the efficacy of espidolol in 67 patients (male and female) meeting ROME II criteria (modified) for IBS. This is a randomised, double-blind, placebo-controlled, parallel group, dose escalation trial. We expect preliminary data from this study to be available in Q3, 2006.

We will evaluate the data from both of these studies before determining how best to advance the development of espidolol.

Mecamylamine (AGI-004)

During the period we completed the treatment phase of a Phase II clinical trial designed to evaluate a controlled release form of mecamylamine in functional diarrhoea. This trial is a randomised, double-blind, placebo-controlled, parallel group, dose escalation trial in a total of 82 functional diarrhoea patients. We are on schedule to announce preliminary data from this study during Q4 2006.

Arbaclofen (AGI-006)

We have completed enrolment of 68 patients for a Phase II clinical trial evaluating the efficacy of arbaclofen in the treatment of functional dyspepsia in both men and women. This is a randomised, double-blind, placebo-controlled, parallel group, dose escalation trial. It is expected that preliminary results will be available in Q4 2006/Q1 2007.

Financial review

Basis of preparation and International Financial Reporting Standards (IFRS).

The interim results set out below are the first set of results of AGI as a public company. However, as a result of a reverse acquisition of AGI Therapeutics Research Limited by AGI Therapeutics, plc, on January 20, the results presented are a continuation of the precursor entity.

Operating performance

In the six months to June 30, 2006, AGI was exclusively engaged in advancing the R&D projects referred to in the chief executive's statement above. The Company had no revenues.

Research and development expenditure during the period was €1.6 million compared to €2.0 million in 2005. This decline was as a result of certain Phase II studies completing during the first half of 2006 and therefore entering their data analysis phase which is less expensive than the data collection phase of a study.

Included in research and development costs are the costs of internal salaries and costs of developing the Company's intellectual property portfolio, both costs which increased in 2006 over 2005 as the Company built out its internal expertise and patent portfolio.

Administrative expenses during the period were €0.7 million, an increase over the €0.3 million incurred in the same period in 2005. This increase reflects costs associated with the expansion of the group into the US, the recruitment of a CFO and the Company's transformation into a public company.

In accordance with IFRS 2 the Company has accounted for the expense of share based compensation arising from the issuance of options over the Company's equity to key employees. The expense in the period was €0.2 million. There is no comparable expense in 2005. This is a non-cash expense.

Net cash outflow from operating activities for the period was €2.3 million, comparable to the €2.3 million in 2005. Net cash generated from financing activities, as a result of the Company's public offering, was €39.5 million. At the end of June 2006 the Company had cash, cash equivalents and investments in the form of term deposits, of €40.0 million.

UNAUDITED CONSOLIDATED INTERIM INCOME STATEMENTS

For the Six Months Ended 30 June

Notes	6 months ended 30 June 2006 €'000	6 months ended 30 June 2005 €'000
Revenue	-	-
Research and development expenses	1,617	2,005
Administrative expenses	653	303
Share based payment charge	6 233	-
Total operating expenses	2,503	2,308
Operating loss	(2,503)	(2,308)
Interest income	318	50
Interest expense	(98)	(352)
Loss before tax	(2,283)	(2,610)
Income tax	3 -	-
Loss for the period	(2,283)	(2,610)
Basic loss per ordinary share:		
Basic loss per share	4 (0.04)	(0.08)

UNAUDITED CONSOLIDATED INTERIM BALANCE SHEETS

	Notes	30 June 2006 €'000	31 December 2005 €'000
Non-Current Assets			
Intangible assets		1,504	1,521
Property, plant and equipment		43	2
Total Non-Current Assets		1,547	1,523
Current Assets			
Other current assets		199	110
Other investments	5	15,000	-
Cash and cash equivalents		25,072	2,915
Total Current Assets		40,271	3,025
Total Assets		41,818	4,548
Non-Current Liabilities			
Convertible preference shares	7	-	7,943
Total Non-Current Liabilities		-	7,943
Current Liabilities			
Accounts payable		160	724
Accrued and other liabilities		334	11
Total Current Liabilities		494	735
Total Liabilities		494	8,678
Shareholders' Equity			
Share capital	7	658	1
Share premium		51,007	4,167
Other reserves		264	24
Retained loss		(10,605)	(8,322)
Total Shareholders' Equity		41,324	(4,130)
Total Shareholders' Equity and Liabilities		41,818	4,548

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

	30 June 2006 €'000	30 June 2005 €'000
Loss for the period	(2,283)	(2,610)
Adjustments to reconcile loss to net cash used in operating activities:		
Depreciation of property, plant and equipment	1	1
Amortisation of intangibles	17	17
Interest income	(318)	(50)
Interest expense	98	352
Share-based compensation	233	-
Operating cash outflow before changes in working capital	(2,252)	(2,290)
(Increase)/decrease in other current assets	(89)	20
(Decrease)/ increase in accounts payable	(564)	246
Increase in accrued and other liabilities	323	39
Fair value of shares issued to director over service period	7	7
Cash used by operations	(2,575)	(1,978)
Interest received	324	50
Interest paid	-	(352)
Net cash outflow from operating activities	(2,251)	(2,280)
Investing activities		
Acquisition of other investments	(15,000)	-
Acquisition of property, plant and equipment	(42)	-
Net cash used by investing activities	(15,042)	-
Financing activities		
Proceeds from issue of share capital	39,450	353
Net cash provided by financing activities	39,450	353
Net increase/ (decrease) in cash and cash equivalents	22,157	(1,927)
Cash and cash equivalents at the beginning of period	2,915	6,782
Cash and cash equivalents at the end of the period	25,072	4,855

**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN
SHAREHOLDERS' EQUITY**

	Number of Shares	Ordinary share Capital €'000	Preference Share Capital €'000	Share Premium €'000	Other Reserves €'000	Retained Loss €'000	Total Amount €'000
Balance at 1 January 2005	-	1	-	4,167	10	(3,121)	1,057
Loss for the period	-	-	-	-	-	(2,610)	(2,610)
Fair value of ordinary shares issued to a director	-	-	-	-	7	-	7
Balance at 30 June 2005	-	1	-	4,167	17	(5,731)	(1,546)
Loss for the period	-	-	-	-	-	(2,591)	(2,591)
Fair value of ordinary shares issued to a director	-	-	-	-	7	-	7
Balance at 31 December 2005	-	1	-	4,167	24	(8,322)	(4,130)
Loss for the period	-	-	-	-	-	(2,283)	(2,283)
Issue of share capital	1,663,599	-	-	-	-	-	-
Issued share capital to acquire AGI Therapeutics Research Limited	32,019,025	137	183	(303)	-	-	17
Conversion of preference shares	-	183	(183)	-	-	-	-
Issue of ordinary shares on listing on AIM	33,730,159	337	-	42,163	-	-	42,500
Costs of share issue	-	-	-	(3,067)	-	-	(3,067)
Redemption of convertible debt	-	-	-	8,047	-	-	8,047
Fair value of ordinary shares issued to a director	-	-	-	-	7	-	7
Share-based compensation	-	-	-	-	233	-	233
Balance at 30 June 2006	67,412,783	658	-	51,007	264	(10,605)	41,324

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements (the interim financial statements) have been prepared in accordance with IFRS that are adopted by the European Union (EU) and effective (or available for early adoption) at 30 June 2006. The interim financial statements do not include all of the information required for full annual financial statements.

These interim financial statements are presented in euro rounded to the nearest thousand, being the functional currency of the parent company and the group companies. They are prepared on the historical cost basis, except for financial instruments, share based payments and derivative financial instruments, which are stated at fair value.

The accounting policies applied by AGI in these interim financial statements are the same as those applied by AGI in its consolidated financial statements as at and for the year ended 31 December 2005.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results could differ materially from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying our accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2005.

These interim financial statements do not constitute Statutory Financial Statements of the Group within the meaning of Regulation 40 of the European Communities (Companies: Group Accounts) Regulations, 1992. Statutory Financial Statements for the year ended 31 December 2005 have been filed with the Companies Office. The auditor's report on those financial statements was unqualified.

2 SIGNIFICANT ACCOUNTING POLICIES

a Statement of compliance

These interim financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting." They do not include all of the information required for full annual financial statements.

b Basis of consolidation

The interim financial statements include the accounts of the Company and all of its subsidiary undertakings. All significant intercompany account balances, transactions, and any unrealised gains and losses or income and expenses arising from intercompany transactions have been eliminated in preparing the interim financial statements.

On 20 January 2006 the Company entered into a reverse acquisition of AGI Therapeutics Research Limited. In accordance with International Financial Reporting Standard 3, 'Business Combinations', following the reverse acquisition the consolidated financial statements have been issued in the name of the Company, however they are a continuation of the financial statements of AGI Therapeutics Research Limited. The retained earnings and other equity balances recognised in the consolidated financial statements are those of AGI Therapeutics Research Limited immediately before the reverse acquisition, however the number and type of share capital are those of the Company.

c Revenue recognition

To date the Company has not earned any revenues. When the Company enters into revenue generating contracts, revenue will be recognised when earned and non-refundable and when there is no obligation with respect to the revenue, in accordance with the terms prescribed in the applicable contract.

d Leasing

Operating lease rentals are charged to the income statement on a straight line basis over the period of the lease.

e Research & development expenses

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Company has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. To date the Company has not incurred development costs that have met the criteria for recognition of an internally generated intangible asset and as such all development costs have been recognised as an expense in the income statement as incurred. The Company considers that regulatory and other uncertainty inherent in the development of its products preclude it from capitalising development costs.

f Income Tax

Income tax comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the balance sheet date and any adjustments to tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases on assets and liabilities and their carrying amounts in the financial statements, except to the extent that temporary differences arising on goodwill not deductible for tax purposes or the initial recognition of assets or liabilities that affect neither accounting or taxable profits. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

g Property, plant and equipment

Equipment is stated at cost less accumulated depreciation. Depreciation is charged to the income statement on a straight line basis over an estimated useful life of 3 years for office and computer equipment.

h Intangible assets

Acquired in process research and development (IPR&D) and acquired patent and licence agreements are stated at cost or valuation, less impairment losses (see accounting policy (i)).

The acquired patent and licence agreements are being amortised over their useful lives on a straight line basis. Estimated useful life is the lower of legal duration and economic useful life and has been estimated as 17 years. The acquired IPR&D will be amortised on a straight line basis over its estimated useful life which will commence upon generation of economic benefits relating to the acquired IPR&D.

i Impairment of assets

Assets are reviewed at each balance sheet date to determine whether there is any indication that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

j Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

k Employee benefits

(a) Share based compensation

On 27 January 2006 AGI Therapeutics, plc created an equity settled, share based compensation plan. The Company has accounted for the share based compensation plan in accordance with IFRS 2 "Share-based Payment." The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount expensed over the vesting period is determined using an appropriate valuation model by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Company will revise its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

(b) Pension obligation

The Company does not currently operate a pension scheme. It has made contributions to a personal pension scheme held by one of the shareholders/directors. These contributions are recognised as an expense in the period in which they are paid.

l Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on preference share capital classified as equity are recognised as distributions from equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the income statement as an interest expense.

Convertible preference shares include a debt and equity element. For initial recognition purposes the fair value of the debt is determined by discounting the expected cash flows generated by the financial instrument using a market rate for a debt instrument that could be issued by the company over the same term. The difference between the proceeds raised and the fair value of the debt is deemed to be the equity element. The debt element is thereafter accounted for on an amortised cost basis and interest is accrued up to the redeemable amount of the instrument over its life. The costs of raising the convertible preferred shares are split proportionally between the debt and equity components.

m Interest income

Interest income is recognised in the income statement as it accrues.

n Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into local currency at the rate of exchange ruling at the balance sheet date, and the resulting gains and losses are recognised in the income statement.

3 TAXATION

No tax charge arose as the Company has generated losses in each of the periods since its incorporation. No deferred tax asset has been recognised on the tax losses forward as it is not sufficiently probable at this point in time that future taxable profits will be available against which the temporary differences can be utilised.

4 LOSS PER SHARE

Basic loss per share is computed by dividing the loss for the period available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For the period ended 30 June 2005 the ordinary shares in issue include the Ordinary Shares of 13,749,900 and A Ordinary Preference Shares of 18,269,125 issued to acquire AGI Therapeutics Research Limited. Diluted loss per share is computed by dividing the loss for the period, by the weighted average number of ordinary shares outstanding and, when dilutive, adjusted for the effect of all potentially dilutive shares, including stock options, warrants, and convertible debt securities on an as-if-converted basis.

The following table sets forth the computation for basic and diluted loss per share for the six months ended 30 June 2006 and 2005:

	30 June 2006	30 June 2005
Numerator:		
Loss attributable to ordinary shareholders	(2,283,000)	(2,610,000)
Denominator:		
Denominator for basic—weighted average shares	56,420,412	32,019,124
Basic loss per share:		
Basic loss per share	(0.04)	(0.08)

For the period ended 30 June 2005 and 30 June 2006 there is no difference, in weighted average number of ordinary shares used for basic and diluted net loss per Ordinary share as the effect of all potentially dilutive ordinary shares outstanding for each period was anti-dilutive. The potential effect of all anti-dilutive stock options at 30 June 2006 was 3 million shares (30 June 2005: nil).

5 OTHER INVESTMENTS

The company has cash of €15 million on deposit which has a maturity date of more than 3 months.

6 SHARE-BASED COMPENSATION

The Company grants to certain employees and non-employee directors share options under the Company share option plans. The options are granted at fixed exercise prices equal to the market value of our shares on the date of grant. No share options were granted by the Company in the period to 30 June 2005.

However share options were granted by the Company in the period to 30 June 2006.

The fair value of services received in return for share options granted to employees is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based the Black-Scholes option-pricing model.

This fair value is calculated using the following inputs into the option pricing models:

**Six months ended 30 June
2006**

Weighted average share price (€)	1.50
Weighted average exercise price	1.50
Expected life	5 years
Expected volatility	40%
Expected dividend yield	—
Risk-free rate	3.9

As the Company has only traded on AIM since February 2006 the Company has determined volatility by considering the limited historical volatility of its own shares and the volatility of stock options issued by a group of comparable pharmaceutical companies listed on a US or UK Exchange having options with an expected life of five years. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our employee stock options. The dividend yield assumption is based on the history and expectation of dividend payouts.

The Company recognised total expense of €232,695 related to equity-settled share-based compensation during the six months ended 30 June 2006.

7 SHARE CAPITAL

On incorporation of the Company on 16 December 2005 the authorised share capital of the Company was €100,000 divided into 100,000 Ordinary shares of €1 each, with 1 Ordinary share issued. On 19 January 2006, the Company sub-divided its ordinary share capital into 10 million Ordinary shares of €0.01 each and the Company issued 1,663,499 Ordinary shares for cash at par.

The authorised share capital of the Company was increased on 20 January 2006 by the creation of 70 million Ordinary shares of €0.01 each and 200 million A Ordinary Preference shares of €0.01 each in the Company.

On 20 January 2006 the Company entered into a reverse acquisition of AGI Therapeutics Research Limited and the Company issued 13,749,900 Ordinary shares of €0.01 each and 18,269,125 A Ordinary Preference shares to acquire the entire interest of AGI Therapeutics Research Limited, which became its wholly owned subsidiary. The shares were issued to the shareholders of AGI Therapeutics Research Limited in the ratio of 125 shares in the Company for one share in AGI Therapeutics Research Limited. The fair value of the Company's identifiable assets and liabilities is €16,639 and no goodwill arose on the reverse acquisition.

On 27 February 2006 the entire A Ordinary Preference shares in the Company were converted into Ordinary shares at a ratio of one Ordinary share for every one A Ordinary Preference share.

On 27 February 2006 the Company issued 33,730,159 Ordinary shares of €0.01 each on the AIM market of the London Stock Exchange at a price of €1.26. The total cost of the listing amounted to €3,067,000. This has been accounted for as a reduction to the share premium account.

8 RELATED PARTY TRANSACTIONS

(a) Transactions with founding members and shareholders

In the six month period ended 30 June 2006, the Company paid €20,000 (30 June 2005: €10,000) in consulting fees to Kellpharm, a company of which John Kelly, a shareholder of the Company, is also a shareholder.

The Company also paid Icon Clinical Research Limited fees of €309,884 (30 June 2005: €949,652) for clinical research studies, Ronan Lambe, chairman of AGI's board of directors is also a director of Icon Clinical Research Limited.

Frank Kenny, John O'Sullivan and Peter Sandys are directors of the Company and are board nominees of Delta Partners, ACT Venture Capital and Seroba Bioventures respectively. Fees of €17,000 annually are paid by the Company to each of Delta, ACT and Seroba in respect of their nominees' appointment.

(b) Transactions with other related parties

The Company entered into an agreement with BioClin Research Laboratories Ltd ("BioClin") on 25 April 2005. Under this agreement, BioClin provides bioanalytical sample analysis to the Company at contracted rates. In the period ended 30 June 2006 €53,165 (30 June 2005: €26,613) was paid to BioClin for these services. Mary Martin, a director of the Company is also a director of BioClin.