

30 September 2008

Phorm, Inc. (“Phorm” or the “Company”)

Interim Results

Chairman’s statement

Results and Financial Position

Operating losses for the six month period ended 30 June 2008 were \$25.6 million (2007: \$16.4 million) reflecting continued investment in our business infrastructure, technology, people and systems. The operating loss includes a non-cash share-based payment charge of \$5.9 million (2007: \$4.6 million). Losses after taxation were \$24.7 million (2007: \$16.3 million). The loss per share was \$1.88 (2007: \$1.43).

As announced on 19 March 2008, we completed an institutional equity fundraising which raised £32 million (\$65 million) for the Company before expenses. The reported cash balance as at 30 June 2008 was \$59.7 million. We hold our cash balance predominately in sterling; this was £29.9 million (\$59.7 million) at 30 June 2008. At 26 September 2008, the cash balance was £24.9 million.

Strategy and Business Update

On 18 August 2008, the Board announced its decision to split the role of Chairman and Chief Executive in order to strengthen Phorm’s corporate governance and create a strong leadership platform as the Company moves to the next stage of its development. This will enable our CEO, Kent Ertugrul, to focus his efforts on driving the implementation of Phorm’s business strategy, technology and our international expansion. Kent will outline the opportunity and the vision that has brought us all to this stage and give details of where we are on the delivery of that vision. Meanwhile it gives me great pleasure to join him in addressing shareholders in this statement.

Following the announcement of exclusive agreements with three UK ISPs, BT Group, TalkTalk and Virgin Media on 14 February 2008, the remainder of the period under review has been principally focused on progressing towards the trial stage and anticipated subsequent deployment.

Yesterday BT announced that it would commence its trial today of our technology, branded ‘BT Webwise’. A number of BT customers are being invited to take part in the trial, which will take place over a number of weeks. Following successful completion of this trial and an appropriate period of analysis and planning, it is currently expected that Phorm’s platform will be rolled out across BT’s network. This is an important development for the Company, representing a significant step towards the UK deployment of our consumer offering, Webwise, and our advertising platform, the Open Internet Exchange (OIX). It also reaffirms the commitment to Phorm by a major ISP partner that we have been working closely with on a daily basis.

Currently, we expect that Virgin Media and TalkTalk will commence their own consumer trials in due course. I look forward to providing a further update on developments when appropriate.

We have also seen a significant level of commercial interest in the Open Internet Exchange (OIX) from other major ISPs, both in the UK and internationally, as well as major agencies, publishers and ad networks.

In addition to meeting with political and regulatory audiences, Phorm has continually engaged with wider stakeholders, privacy advocates and others. This recently culminated with a statement in the UK from the Department for Business, Enterprise and Regulatory Reform (BERR) which clarified the UK government's position on Phorm's technology.

Phorm's engagement in Brussels with European Union audiences, Commission officials and key European Parliamentarians has also been high-level and comprehensive. This process has helped develop a better understanding of Phorm's technology and the role it can play in the future by helping to raise online privacy standards.

Outlook

I remain optimistic about our future prospects and would like to take this opportunity to thank our shareholders for their loyalty in what has been an incredibly important period for the Company.

We are well positioned to take advantage of the significant market opportunity that exists for our Company. We have built an innovative proprietary technology platform and sound ISP and commercial relationships that provide us with a strong foundation going forward.

Steven J. Heyer
Non Executive Chairman
30 September 2008

CEO Statement

The Opportunity

While spend on other forms of media is slowing, the Internet continues to take a larger proportion of global ad budgets. For instance, in the UK last year, ad spend rose 38% to £2.8 billion according to Ofcom and overtook advertising on mainstream television for the first time last year. The behavioural targeting sector is a growing part of the online advertising market and is increasingly used by advertisers seeking to create a better return on their investment. Within this sector we believe Phorm's technology will provide a new and compelling solution for advertisers.

Although it may appear to be a model of success, the reality is that key aspects of today's Internet could be vastly improved. The consumer experience of the Internet is moving beyond the initial excitement stage to one which is far less rich than it might be. Most content and advertisements are largely undifferentiated from user to user. A handful of professional, well-funded businesses dominate the Internet and relatively few websites thrive. Typically, content is produced by people who have limited awareness of the profile of their audience and are, therefore, limited in the extent to which they can engage with them at either the content or the advertising level.

The fundamental issue is the difficulty of finding audience scale, relevance and the necessary infrastructure in the same place. Phorm's Open Internet Exchange (OIX) aims to remove the constraints that prevent advertisers from achieving higher levels of efficiency by showing more relevant advertisements on more sites. It seeks to do this by creating an exchange where data, advertisers and websites can meet without structural barriers and in a way that has the potential to redefine privacy standards. Building such a solution requires years of work, an unusually strong team and a single-minded commitment to execute a simple idea based on highly complex technology.

Phorm's approach is to bring into the market a critical element of the Internet landscape which has so far been largely absent: the Internet Service Providers (ISPs). The ISP's involvement provides the opportunity to increase the level of efficiency for the ad-serving technology significantly beyond current levels. In many ways, they literally are the Internet itself. Consumers and the public have often thought of the Internet as being the websites which they visit, giving little consideration to how they actually connected to those websites.

A partnership between websites and access providers, powered by Phorm's technology, has the potential to unlock a much more exciting Internet than has been seen so far. Websites have the space within which to show both content and advertising, but generally do not see past the point where visitors are present at their site. Internet service providers, in their Internet access capacity, do not have space or content, but they can contribute an anonymised view of activity across

websites, otherwise known as behaviour. Bring together content and behaviour and you create a step change in the efficiency of showing the right thing to the right person. That, in turn, makes the content more valuable whether it is advertising or, indeed, the web pages themselves.

Critically, our approach has to be executed within an environment in which privacy is a driving force and therefore enables the consumer to maintain full trust in their ISP. The cost to an ISP of breaking that bond of trust is very significant primarily because of the revenue stream per customer.

For that reason, the Phorm system was built from the ground-up with one thing in mind: achieving groundbreaking levels of privacy.

Phorm's policy of relentless engagement and transparency is in itself standard setting. We believe Phorm's system is built to satisfy privacy standards significantly higher than those in use today. Online privacy will go from the domain of a few activists outside of the mainstream to being an essential feature of any online business proposition. Our work in this area has gained increasing recognition by privacy advocates and regulatory bodies.

During our engagement with various stakeholders, we are often asked "what's in it for the consumer?" We firmly believe that a transparent approach demands that any online practice survives the test of desirability on the part of those involved. Our products, providing for a reduction in irrelevant advertising and protection from online fraud, are designed to resonate strongly with consumers. Further, over time Phorm aims to progressively introduce an innovative range of user features which complement the current browsing experience. The anticipated appeal of such services, brought together under the Webwise brand is intended to allow our Company to thrive under any anticipated level of consumer notice and choice.

The Delivery

On 14 February 2008, we announced exclusive agreements with the three largest ISPs in the UK, BT, Virgin Media and TalkTalk.

Although considerable time has passed between the announcement of the launch of Webwise/OIX in February and the commencement of the BT consumer trial, we have been working hard to create the right conditions for a successful trial. The OIX is not a small project. Indeed, we believe that it has the potential to create a new model by correcting a number of structural inefficiencies that lie at the heart of online advertising.

Yesterday's announcement that BT would commence its trial today was a key moment for Phorm, representing the start of the transition from the Company's development stage to its operational stage. It is also an essential step towards our commercial launch. Following a successful trial and an associated period of analysis and planning, it is currently expected that Phorm's platform will be rolled out across BT's network.

In addition to the launch of the BT trial, TalkTalk and Virgin Media continue with their preparations for a trial and we expect they will proceed as soon as their preparations are complete. They have invited Phorm to play an active role in scoping out potential deployment in their respective networks.

During this period, we have recruited a strong team with specific skills to ensure that we deliver on the potential of our technology. Particularly, we have enlarged our engineering team to accelerate the speed of product development, product testing and to help streamline the integration of Phorm's systems with ISPs networks. As with all businesses, we are dependent on the performance of key personnel, and their continued involvement in the Company, to deliver on our business proposition.

As we move forward, we are reviewing our resources on an ongoing basis so that we have everything in place to maximise our opportunities for success. This will entail prudent budgeting and allocation of capital and manpower to key areas of delivery and the geographies where we can advance most rapidly and create the most value.

International Development

We believe that Phorm's technology is global and is relevant to any market around the world that has a meaningful broadband user base. Whilst the United States is clearly a market of great interest to us, we do not have any consumer trials proceeding in that market. However, we note recent developments in the US and the increased focus on online privacy generally. We believe that our experience in the UK prepares us well to address concerns that have been raised in the U.S. and to engage accordingly.

We continue to engage with a number major ISPs in selected markets internationally. However, there are a number of conditions that need to be fulfilled in order for these arrangements to progress to full commercial deployment, including technical, legal, commercial, regulatory and privacy validations. The non-UK ISP's with which we are engaged are addressing these issues in various ways, not always in the same sequence. For example, we are currently undertaking a small, but exclusive consumer trial with a major ISP, but there is no guarantee that this will lead to commercial deployment at this stage as many of the other necessary steps required to proceed remain outstanding.

Privacy and Regulatory Issues

Since launch in February, Phorm has actively and vigorously engaged with numerous parliamentarians, officials, regulators, political advisers and privacy advocates at all levels in the UK and Brussels. This is helping to create a stable and positive landscape in which Phorm can operate. These efforts culminated in the UK Government's Department for Business, Enterprise and Regulatory Reform (BERR) issuing a statement on Phorm on 16 September 2008, reflecting the views it has given to the European Commission. The statement concluded that Phorm's products are capable of being operated in "a lawful, appropriate and transparent fashion." (http://www.phorm.com/reports/BERR_D4_RNS_Sept-22-08.pdf)

Also of significance are Ofcom's published proposals on 23 September for their consultation on delivering next generation broadband, "Delivering Super Fast Broadband – setting the right policy framework". This emphasised the importance of behavioural targeted advertising as a revenue source to help ISPs fund these new networks.

The principle that has governed Phorm's engagement process is openness and transparency to all, even our critics. We held an open Town Hall Meeting and underwent the scrutiny of a Privacy Impact Assessment conducted by 80/20 Thinking. We have also been assessed by an IBM security audit of our data capture software. In line with best practice, Phorm has also appointed a Chief Privacy Officer, created a Privacy and Security Committee (PSC) and deployed an Information Risk, Security and Privacy Policy (IRSPP).

Phorm's guiding principle of open dialogue will continue as we move forward with the anticipated deployment and as we look to develop and enhance our product feature set.

Advertisers and Publishers

We are very encouraged by the interest the advertising community, web publishers and ad networks have shown in the OIX. Although deployment of the OIX has taken longer than anticipated, we thank them for their patience and enthusiasm for the implementation of our technology. With their help we have built and refined the feature set necessary to meet their operational expectations. This will be an ongoing task, but we are comfortable with what has been achieved to-date. The feedback we have received continues to confirm our belief regarding the market's appetite and need for the OIX.

In the UK, we have engaged with the majority of the key media agencies and their response has been very positive. We believe the OIX is regarded as the next exciting step to a more measurable, efficient and effective advertising model by reducing wastage and improving targeting. This reaction has been echoed in meetings with other international agencies. Our dialogue with agencies has resulted in ongoing development of features and reporting tools to best optimise and secure significant advertising campaigns and budgets.

The advertising trade press has also commented favourably on the potential effect that the OIX can have on the market. Recent participation at AdTech, the pre-eminent industry event, and regular ongoing engagement with industry bodies including the IAB, AOP, ISBA, IPA and others, are further cementing the OIX/Phorm's potential position within the market.

On the Publisher side, we have had expressions of interest from many of the UK's leading web and print publishers who understand the potential transformation of their inventory into premium value and the ability via the OIX to control and increase their CPM revenues. They are very positive about the potential ease of implementation of the OIX, the future opportunity to extend their sales beyond their own sites and that it works seamlessly with their existing ad-serving technologies.

Webwise

Over the past four months, we have worked closely with our ISP partners to develop our consumer brand, Webwise, and its range of features. Initial benefits to users of Webwise will be more relevant advertising and increased protection from fraudulent websites. Further features that can utilise Phorm's network-based technology are in the research and development stage and are based around generating an improved, more intuitive Internet experience. To understand how best to brand and message these features, we have commissioned a range of qualitative and quantitative research. We also undertook user journey and sign-up optimisation research to help optimise the users' introduction to Webwise. In addition one of the UK's leading digital marketing agencies, TBG London, is assisting us to develop the Webwise brand and its feature set. This work takes place in close collaboration with our ISP partners to help them incorporate Webwise as a popular offering for their users.

Technology

In order to meet the global interest and demand for our technology, we have developed and refined a portfolio of products intended to integrate with most ISP networks regardless of network topology, hardware vendor preferences, regulatory environment and desired feature set. To satisfy the high standards expected from Tier 1 ISPs, we thoroughly review all aspects of technology in our systems from a security standpoint: penetration testing, browser exploits and data security, thus safeguarding the operational integrity of our products. We also work closely with our ISP partners to ensure they are able to carry out the highest standards of testing and verification on our products.

We engaged with ISP technical teams, journalists, publisher and advertiser technology teams to give them a full understanding of Phorm technology and get feedback on feature changes and our product roadmap. We developed and tested functional and market research screens for the user journey and developed and tested our next generation product range.

Meanwhile we have greatly expanded the Technology team to deliver our product roadmap. We established Product and Project Management, QA and Support teams, Change Management and Hand-Over processes to ensure efficient and effective development. We have secured outsourced development partners and prepared the product for overseas markets including a template for global deployment.

Challenges

We appreciate that there are significant challenges to meet in order for the Company to realise the opportunity to tap into the growing internet advertising market. The Company is still early in its stage of development and as is to be expected of any project of this size, there will be many issues to deal with to deploy our system. Our technology is complex and we need to obtain the involvement of many participants, such as major ISPs, publishers, advertisers, consumers, and regulators, as well as a commonality of interest. As demonstrated by the progress

made in the UK, including yesterday's announcement of the BT trial and the recent regulatory announcement by BERR as outlined above, we are working hard to meet such challenges.

Future Developments

The upcoming period is critical for Phorm as the Company seeks to transition from the development phase into the deployment and operational phase. Our absolute priority is to work with our UK ISPs to ensure that their trials and rollout are successful.

Our other key strategic priorities are to take our technology to markets around the world and to build partnerships with ISPs outside the UK to develop and enhance the functionality of Webwise and to demonstrate to consumers, advertisers, regulators and ISPs that privacy is protected by the application of our technology.

In parallel with the current developments of OIX and Webwise, we are also looking at the strategic development of Phorm's technology that we believe has applications beyond advertising.

In summary this has been a period of rapid development for Phorm, which we believe is set to accelerate now that the BT trial has begun. We have built an innovative technology platform and we believe we are uniquely well placed to lead the introduction of privacy-assured behavioural advertising across the whole of the Internet. We look forward to the next period of our growth with a clear focus on our key targets and with both enthusiasm and optimism.

Kent Ertugrul
Chief Executive

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**Unaudited consolidated income statement
For the six months ended 30 June 2008**

	6 months ended 30 June 2008	6 months ended 30 June 2007	Year ended 31 December 2007
Note	Unaudited \$	Unaudited \$	Audited \$
Continuing operations			
Revenue	-	-	-
Cost of sales	(159,792)	(108,658)	(294,098)
Gross (loss)/profit	<u>(159,792)</u>	<u>(108,658)</u>	<u>(294,098)</u>
Research and development *	(3,884,396)	(1,851,858)	(3,799,037)
Sales and administrative expenses **	(21,533,766)	(14,402,142)	(28,736,174)
Operating loss	<u>(25,577,954)</u>	<u>(16,362,658)</u>	<u>(32,829,309)</u>
Investment income	913,628	71,111	688,843
Financing expense	(939)	(5,289)	(8,816)
Loss before taxation	<u>(24,665,265)</u>	<u>(16,296,836)</u>	<u>(32,149,282)</u>
Tax on loss on ordinary activities	-	-	(3,941)
Loss for the year attributable to equity shareholders	<u>(24,665,265)</u>	<u>(16,296,836)</u>	<u>(32,153,223)</u>
Basic and diluted loss per share	<u>(1.88)</u>	<u>(1.43)</u>	<u>(2.74)</u>
	2		

* Research and development includes a charge for share-based payment expense of \$0.8m (6 months ended 30 June 2007: \$0.3m, year ended 31 December 2007: \$0.7m)

** Sales and administrative expenses includes a charge for share-based payment expense of \$5.1m (6 months ended 30 June 2007: \$4.3m, year ended 31 December 2007: \$8.2m)

Unaudited consolidated statement of changes in equity

Six months ended 30 June 2008 (Unaudited)

	Share capital \$	Additional paid in capital \$	Warrants \$	Translation reserve \$	Accumulated deficit \$	Total \$
1 January 2008	12,136	54,220,477	-	(329,206)	(38,797,641)	15,105,766
Loss for the period	-	-	-	-	(24,665,265)	(24,665,265)
Share-based payments charge	-	-	-	-	5,919,165	5,919,165
Issue of new stock	1,679	60,147,586	-	-	-	60,149,265
Exchange differences on translation of overseas operations	-	-	-	668,244	-	668,244
Transfer on exercise of warrants	-	-	-	-	-	-
30 June 2008	<u>13,815</u>	<u>114,368,063</u>	<u>-</u>	<u>339,038</u>	<u>(57,543,741)</u>	<u>57,177,175</u>

Six months ended 30 June 2007 (Unaudited)

	Share capital \$	Additional paid in capital \$	Warrants \$	Translation reserve \$	Accumulated deficit \$	Total \$
1 January 2007	11,217	18,706,233	300,300	(280,896)	(15,512,365)	3,224,489
Loss for the period	-	-	-	-	(16,296,836)	(16,296,836)
Share-based payments charge	-	-	-	-	4,604,307	4,604,307
Issue of new stock	637	34,205,092	-	-	-	34,205,729
Exchange differences on translation of overseas operations	-	-	-	(21,871)	-	(21,871)
Transfer on exercise of warrants	-	300,300	(300,300)	-	-	-
30 June 2007	<u>11,854</u>	<u>53,211,625</u>	<u>-</u>	<u>(302,767)</u>	<u>(27,204,894)</u>	<u>25,715,818</u>

Unaudited consolidated statement of changes in equity (continued)

Year ended 31 December 2007 (Audited)

	Share capital \$	Additional paid in capital \$	Warrants \$	Translation reserve \$	Accumulated deficit \$	Total \$
1 January 2007	11,217	18,706,233	300,300	(280,896)	(15,512,365)	3,224,489
Loss for the period	-	-	-	-	(32,153,223)	(32,153,223)
Share-based payments charge	-	-	-	-	8,867,947	8,867,947
Issue of new stock	919	35,213,944	-	-	-	35,214,863
Exchange differences on translation of overseas operations	-	-	-	(48,310)	-	(48,310)
Transfer on exercise of warrants	-	300,300	(300,300)	-	-	-
31 December 2007	<u>12,136</u>	<u>54,220,477</u>	<u>-</u>	<u>(329,206)</u>	<u>(38,797,641)</u>	<u>15,105,766</u>

Unaudited consolidated balance sheet as at 30 June 2008

	30 June 2008 Unaudited \$	30 June 2007 Unaudited \$	31 December 2007 Audited \$
Non-current assets			
Property, plant and equipment	912,181	184,476	661,172
Total non-current assets	<u>912,181</u>	<u>184,476</u>	<u>661,172</u>
Current assets			
Other receivables	1,497,662	694,588	1,350,235
Outstanding proceeds due on issue of shares	-	24,028,467	-
Cash and cash equivalents	59,687,015	5,143,740	16,557,681
Total current assets	<u>61,184,677</u>	<u>29,866,795</u>	<u>17,907,916</u>
Total assets	<u><u>62,096,858</u></u>	<u><u>30,051,271</u></u>	<u><u>18,569,088</u></u>
Current liabilities			
Trade payables	(1,037,757)	(639,313)	(529,370)
Other payables	(3,419,668)	(3,652,844)	(1,896,270)
Obligations under finance leases	(4,019)	(31,993)	(15,104)
Provisions	(325,770)	-	(621,114)
Total current liabilities	<u>(4,787,214)</u>	<u>(4,324,150)</u>	<u>(3,061,858)</u>
Non-current liabilities			
Obligations under finance leases	(3,421)	(11,303)	(5,486)
Provisions	(129,048)	-	(395,978)
Total non-current liabilities	<u>(132,469)</u>	<u>(11,303)</u>	<u>(401,464)</u>
Total liabilities	<u><u>(4,919,683)</u></u>	<u><u>(4,335,453)</u></u>	<u><u>(3,463,322)</u></u>
Net assets	<u><u>57,177,175</u></u>	<u><u>25,715,818</u></u>	<u><u>15,105,766</u></u>
Equity			
Common shares	13,815	11,854	12,136
Additional paid in capital	114,368,063	53,211,625	54,220,477
Translation reserve	339,038	(302,767)	(329,206)
Accumulated deficit	(57,543,741)	(27,204,894)	(38,797,641)
Stockholders' equity	<u><u>57,177,175</u></u>	<u><u>25,715,818</u></u>	<u><u>15,105,766</u></u>

**Unaudited consolidated cash flow statement
for the six months ended 30 June 2008**

	6 months ended 30 June 2008	6 months ended 30 June 2007	Year ended 31 December 2007
Note	Unaudited \$	Unaudited \$	Audited \$
Net cash used in operating activities			
Net cash used in operating activities	(18,047,709)	(8,789,871)	(22,374,122)
Income tax paid	-	-	(3,941)
	<u>(18,047,709)</u>	<u>(8,789,871)</u>	<u>(22,378,063)</u>
Net cash used in operating activities			
Cash flows from / (used in) investing activities			
Interest received	913,628	71,111	688,843
Purchase of property, plant and equipment	(540,005)	(107,160)	(722,308)
	<u>373,623</u>	<u>(36,049)</u>	<u>(33,465)</u>
Net cash from / (used in) investing activities			
Cash flows from financing activities			
Finance lease interest paid	(939)	(5,289)	(8,816)
Proceeds from issue of shares, net of expenses	60,149,265	10,177,262	35,214,863
Repayment of obligations under finance leases	(13,150)	(7,084)	(41,609)
	<u>60,135,176</u>	<u>10,164,889</u>	<u>35,164,438</u>
Net cash from financing activities			
Net increase in cash and cash equivalents	<u>42,461,090</u>	<u>1,338,969</u>	<u>12,752,910</u>
Cash and cash equivalents brought forward	16,557,681	3,804,771	3,804,771
Effect of foreign exchange rates	668,244	-	-
Cash and cash equivalents carried forward	<u>59,687,015</u>	<u>5,143,740</u>	<u>16,557,681</u>
Represented by:			
Positive cash balances	<u>59,687,015</u>	<u>5,143,740</u>	<u>16,557,681</u>

Notes to the interim financial statements (unaudited) for the six months ended 30 June 2008

1. Basis of preparation

The annual consolidated financial statements of Phorm, Inc. (the “Company”) and its subsidiaries (together, “the Group”) are prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (“IFRS”) as adopted by the European Union.

These interim financial statements include the results of operations, the financial position, the cash flow statement and the statement of changes in equity as at and for the six months ended 30 June 2008. The same accounting policies, presentation and methods of computation are followed in the interim financial statements as applied in the Group’s latest annual audited financial statements.

The AIM rules do not require the interim financial statements to be prepared in compliance with IAS 34 “Interim Financial Reporting” and these interim financial statements have not been prepared under that standard.

These interim financial statements have not been audited or reviewed.

The information for the year ended 31 December 2007 does not constitute a complete set of financial statements. A copy of the financial statements for that year is available on the Phorm web-site, www.Phorm.com. The auditor’s report on those statements was not qualified.

The financial statements have been prepared in US dollars as the majority of the Group’s trade occurs in this currency.

The Company was incorporated on 18 April 2007 and on 3 May 2007, acquired the entire share capital of 121Media, Inc. (now known as Phorm UK, Inc.) Each outstanding share of capital stock of 121Media, Inc. was automatically converted into a share of the Company and the common stock of the Company was admitted to trading on the AIM market of the London Stock Exchange on 4 May 2007.

The reorganisation was accomplished by a merger of a wholly-owned subsidiary of the Company with and into 121Media, Inc. pursuant to Section 251(g) of the Delaware General Corporation Law.

2. Loss per share

The calculation of the basic loss per share and diluted loss per share is based on the loss attributable to equity shareholders of \$24,665,265 (31 December 2007: \$32,153,223; 30 June 2007: \$16,296,836) divided by the weighted average number of shares in issue during the period.

The weighted average number of shares used in the calculations is set out below:

6 months ended 30 June 2008	6 months ended 30 June 2007	Year ended 31 December 2007
Number of shares	Number of shares	Number of shares
13,124,627	11,357,452	11,715,754

Notes to the interim financial statements (unaudited)
for the six months ended 30 June 2008

3. Reconciliation of operating loss to net cash used in operating activities

	6 months ended 30 June 2008 \$	6 months ended 30 June 2007 \$	Year ended 31 December 2007 \$
Operating loss	(25,577,954)	(16,362,658)	(32,829,309)
Depreciation and amortization	287,111	51,298	201,569
Share-based payment expense	5,919,165	4,604,307	8,867,947
(Increase)/decrease in other receivables	(147,427)	(100,586)	(756,172)
Increase in trade payables, other payables and provisions	1,471,396	3,017,768	2,141,843
Net cash used in operating activities	<u>(18,047,709)</u>	<u>(8,789,871)</u>	<u>(22,374,122)</u>

4. Share-based payments

The Group issues equity-settled share-based payments to certain employees and consultants.

The cost of share-based compensation awards is recognised as an expense in accordance with IFRS 2 “Share based Payment”. Equity-settled share-based payments are measured at fair value, excluding the impact of non-market vesting conditions at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

For equity-settled share-based payments with market-based vesting conditions, the fair value is determined at the date of grant, having regard to the expected achievement of such performance conditions. Once determined, the expected achievement is not adjusted, even where the market-based vesting conditions are not subsequently met.

The charges arising under IFRS 2 included in the income statement are:

	6 months ended 30 June 2008 \$	6 months ended 30 June 2007 \$	Year ended 31 December 2007 \$
Share-based payment expense	<u>(5,919,165)</u>	<u>(4,604,307)</u>	<u>(8,867,947)</u>

Employer’s taxes on share options, principally comprising employers’ National Insurance contributions in the UK, are calculated using the market value of the Company’s shares at the reporting date, and pro-rated over the vesting period of the options.

The credit / (charge) arising in respect of UK Employers National Insurance and US social security included in the income statement are:

	6 months ended 30 June 2008 \$	6 months ended 30 June 2007 \$	Year ended 31 December 2007 \$
Employers National Insurance contributions and US social security tax credit / (charge)	<u>562,274</u>	<u>(1,857,911)</u>	<u>(1,036,918)</u>

Notes to the interim financial statements (unaudited)
for the six months ended 30 June 2008

5. Dividend

The Directors do not propose to pay an interim dividend.

- 6.** Copies of this statement will be sent to shareholders and will be available from the Company's UK principal office at Liberty House, 222 Regent Street, London, W1B 5TR.