

**AGI THERAPEUTICS RESEARCH LIMITED**  
**(formerly AGI Therapeutics Limited)**

**ANNUAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2005**

REGISTRATION NUMBER 376554

**AGI THERAPEUTICS RESEARCH LIMITED**  
**(formerly AGI Therapeutics Limited)**

**INDEX TO THE ANNUAL REPORT**  
**For the year ended 31 December 2005**

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**AGI THERAPEUTICS RESEARCH LIMITED**  
(formerly AGI Therapeutics Limited)

**COMPANY INFORMATION**  
For the year ended 31 December 2005

DIRECTORS

JOHN DEVANE  
PATRICK ASHE  
MARY MARTIN  
JOHN O'SULLIVAN  
PETER SANDYS  
FRANK KENNY

SECRETARY

JOHN DEVANE (resigned 19 January 2006)

COMPANY NUMBER

376554

REGISTERED OFFICE

ADELAIDE CHAMBERS  
PETER STREET  
DUBLIN 8

BANKERS

ANGLO IRISH BANK  
STEPHEN COURT  
18/21 STEPHENS GREEN  
DUBLIN 2

BANK OF IRELAND  
31 CHURCH STREET  
ATHLONE  
CO. WESTMEATH

AUDITORS

RSM ROBSON RHODES  
CHARTERED ACCOUNTANTS &  
REGISTERED AUDITORS  
RSM HOUSE  
HERBERT STREET  
DUBLIN 2

SOLICTIORS

BEAUCHAMPS SOLICITORS  
DOLLARD HOUSE  
WELLINGTON QUAY  
DUBLIN 2

**AGI THERAPEUTICS RESEARCH LIMITED**  
**(formerly AGI Therapeutics Limited)**

**DIRECTORS' REPORT**  
**For the year ended 31 December 2005**

The directors submit herewith their report and audited financial statements for the year ended 31 December 2005.

**REVIEW OF THE DEVELOPMENT OF THE BUSINESS**

The company's principal activities consist of the research and development of pharmaceutical products. The company was renamed AGI Therapeutics Research Limited on 12 December 2005.

**RESULTS FOR THE YEAR AND STATE OF AFFAIRS AT 31 DECEMBER 2005**

The income statement and balance sheet for the year ended 31 December 2005 are set out on pages 7 and 8. The loss for the year before taxation amounted to €5,200,227 compared with a loss of €3,121,433 in the previous year. After deducting taxation of €Nil a deficit of €5,200,227 was charged to reserves.

**DIVIDENDS**

The directors do not recommend the payment of a dividend.

**IMPORTANT EVENTS SINCE THE YEAR END**

The board of directors approved a share exchange agreement between the shareholders' and AGI Therapeutics Limited ('AGITL') on 20 January 2006, whereby the entire issued share capital of the company was acquired by AGITL in consideration of the issue of shares in AGITL. Following the share exchange the company became a wholly owned subsidiary of AGITL. AGITL subsequently converted to a public limited company on 2 February 2006 and listed on the Dublin and London Stock Exchanges on 27 February 2006.

**FUTURE DEVELOPMENTS IN BUSINESS**

It is planned to continue the development of pharmaceutical products for the foreseeable future.

**RESEARCH AND DEVELOPMENT**

The company is involved in both research and development of pharmaceutical products.

**RISK STATEMENT**

There are many factors which may materially adversely affect our ability to achieve our objectives and to successfully develop and commercialize our product candidates, including our ability to:

- Demonstrate the safety and efficacy of product candidates at each stage of development;
- Meet our development schedule for our product candidates, including clinical trial initiation, enrolment and completion;
- Meet applicable regulatory standards and receive required regulatory approvals;
- Establish and maintain collaborations as required with pharmaceutical partners;
- Obtain substantial additional funds;
- Obtain and maintain all necessary patents or licenses;
- Produce drug candidates in commercial quantities at reasonable costs and
- Compete successfully against other products and companies.

The company has adopted appropriate controls and recruited management with skills and experience to manage these risks and enable execution of the company's business model.

**AGI THERAPEUTICS RESEARCH LIMITED**  
**(formerly AGI Therapeutics Limited)**

**DIRECTORS' REPORT (Continued)**  
**For the year ended 31 December 2005**

**DIRECTORS AND THEIR INTERESTS**

The names of persons who acted as directors and secretary during the year are set out on page 1. The directors are not required to retire by rotation according to the Articles of Association. Since the year end the following appointments and resignations occurred :

Ronan Lambe and Rajan Uppal were appointed on 17 January 2006. On 17 February 2006 Rajan Uppal resigned as director. John Devane resigned as company secretary on 19 January 2006 and was replaced by Paul Donnelly on the same date.

The interests of directors in the share capital of the company at the end of the year were as follows:

	<b>Ordinary shares of €0.01 each</b>	<b>Preference shares of €0.01 each</b>
John Devane	68,000	9,510
Mary Martin	10,000	-
Patrick Ashe	10,000	1,398
John O'Sullivan <sup>1</sup>	-	53,846
Peter Sandys <sup>2</sup>	-	26,923
Frank Kenny <sup>3</sup>	-	26,923
Ronan Lambe	-	-*

\* or at date of appointment

**BOOKS OF ACCOUNT**

The measures taken by the directors to ensure compliance with the requirements of Section 202, Companies Act, 1990, regarding proper books of account are the implementation of necessary policies and procedures for recording transactions, the employment of competent accounting personnel with appropriate expertise and the provision of adequate resources to the financial function. The books of account of the company are maintained at Adelaide Chambers, Peter Street, Dublin 8.

**AUDITORS**

RSM Robson Rhodes have expressed their willingness to continue in office in accordance with the provisions of Section 160(2) of the Companies Act, 1963.

On behalf of the Board:

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John Devane  
(Director)

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Mary Martin  
(Director)

Date:

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<sup>1</sup> As Board nominee of ACT. John O'Sullivan is an investment director of ACT Venture Capital Limited and a partner in certain of the funds managed by it, including the funds holding shares in the company in the name of ACT Nominees 2001 Limited.

<sup>2</sup> As Board nominee of Seroba. Peter Sandys is a director and shareholder of Seroba Bio Ventures Limited.

<sup>3</sup> As a Board nominee of Delta. Frank Kenny is the managing director of Delta Management Partners II Limited, the general partner of Delta.

**AGI THERAPEUTICS RESEARCH LIMITED**  
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**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the company and of the profit or loss of the company for that year ended. In preparing these financial statements the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- comply with applicable International Financial Reporting Standards, subject to any material departure disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements are prepared in accordance with applicable International Financial Reporting Standards and comply with the provisions of the Companies Acts 1963 to 2005 and Article 4 of IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the directors' report and other information included in the Annual Report is prepared in accordance with company law in Ireland and all applicable regulations.

On behalf of the Board:

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John Devane  
(Director)

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Mary Martin  
(Director)

Date:

**AGI THERAPEUTICS RESEARCH LIMITED**  
**(formerly AGI Therapeutics Limited)**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AGI THERAPEUTICS RESEARCH LIMITED**

We have audited the financial statements of AGI Therapeutics Research Limited for the year ended 31 December 2005 which comprise the Income Statement, Balance Sheet, Cash Flow Statement, the Statement of Change in Shareholders' Equity and the related notes. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, and are properly prepared in accordance with the Companies Acts, 1963 to 2005. We also report to you our opinion as to: whether proper books of account have been kept by the company; whether at the balance sheet date there exists a financial situation which may require the convening of an extraordinary general meeting of the company; and whether the information given in the directors' report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions with the company is not disclosed and, where practicable, include such information in our report.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

**AGI THERAPEUTICS RESEARCH LIMITED**  
**(formerly AGI Therapeutics Limited)**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AGI THERAPEUTICS RESEARCH LIMITED (Continued)**

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of affairs of the company as at 31 December 2005 and of its loss for the year then ended and have been properly prepared in accordance with the provisions of the Companies Acts, 1963 to 2005 and the European Communities (Companies: Group Accounts) Regulations, 1992.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion the information given in the directors' report is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet, are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

RSM Robson Rhodes  
Chartered Accountants  
Registered Auditors  
Dublin

Date:

**AGI THERAPEUTICS RESEARCH LIMITED**  
**(formerly AGI Therapeutics Limited)**

<b>INCOME STATEMENT</b>		<b>2005</b>	<b>2004</b>
<b>For the year ended 31 December 2005</b>		<b>€</b>	<b>(as restated)</b>
	<b>Notes</b>		<b>€</b>
Revenue		-	-
Cost of sales		-	-
		<u>-</u>	<u>-</u>
<b>GROSS PROFIT</b>		<u>-</u>	<u>-</u>
Research and development costs		(4,369,045)	(2,341,497)
Administration expenses		(230,583)	(361,867)
		<u>(4,599,628)</u>	<u>(2,703,364)</u>
<b>OPERATING LOSS FROM CONTINUING OPERATIONS</b>		<u>(4,599,628)</u>	<u>(2,703,364)</u>
Finance revenue	3	104,723	140,000
Finance costs	4	(705,322)	(558,069)
		<u>(5,200,227)</u>	<u>(3,121,433)</u>
<b>LOSS FROM CONTINUING OPERATIONS BEFORE TAXATION</b>	5	<u>(5,200,227)</u>	<u>(3,121,433)</u>
Tax expense	6	-	-
		<u>(5,200,227)</u>	<u>(3,121,433)</u>
<b>LOSS FOR THE YEAR FROM CONTINUING OPERATIONS</b>		<u>(5,200,227)</u>	<u>(3,121,433)</u>
<b>RETAINED LOSS BROUGHT FORWARD</b>			
As previously stated		(3,439,032)	-
Prior year adjustments	7	317,599	-
		<u>(3,121,433)</u>	<u>-</u>
<b>RESTATED LOSS BROUGHT FORWARD</b>		<u>(3,121,433)</u>	<u>-</u>
<b>RETAINED LOSS CARRIED FORWARD</b>		<u>(8,321,660)</u>	<u>(3,121,433)</u>

All recognised gains and losses have been included in the financial statements.

On behalf of the Board:

\_\_\_\_\_  
 John Devane  
 (Director)

\_\_\_\_\_  
 Mary Martin  
 (Director)

**AGI THERAPEUTICS RESEARCH LIMITED**  
**(formerly AGI Therapeutics Limited)**

<b>BALANCE SHEET</b>		<b>2005</b>	<b>2004</b>
<b>As at 31 December 2005</b>			<b>(as restated)</b>
	<b>Notes</b>	<b>€</b>	<b>€</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	2,383	3,692
Intangible assets	9	<u>1,521,081</u>	<u>1,555,199</u>
<b>TOTAL NON-CURRENT ASSETS</b>		<u>1,523,464</u>	<u>1,558,891</u>
<b>CURRENT ASSETS</b>			
Other receivables	10	110,473	99,526
Cash and short-term deposits		<u>2,914,765</u>	<u>6,782,011</u>
<b>TOTAL CURRENT ASSETS</b>		<u>3,025,238</u>	<u>6,881,537</u>
<b>TOTAL ASSETS</b>		<u>4,548,702</u>	<u>8,440,428</u>
<b>CURRENT LIABILITIES</b>			
Trade payables and accruals		723,983	129,126
Other liabilities		<u>11,017</u>	<u>16,888</u>
<b>TOTAL CURRENT LIABILITIES</b>	11	<u>735,000</u>	<u>146,014</u>
<b>NON-CURRENT LIABILITIES</b>			
Convertible redeemable preference shares	12	<u>7,942,941</u>	<u>7,237,943</u>
<b>SHAREHOLDERS' EQUITY</b>			
Issued capital	13	1,100	1,100
Share premium		4,167,126	4,167,126
Other reserves		24,195	9,678
Retained losses		<u>(8,321,660)</u>	<u>(3,121,433)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	15	<u>(4,129,239)</u>	<u>1,056,471</u>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<u>4,548,702</u>	<u>8,440,428</u>

On behalf of the Board:

\_\_\_\_\_  
 John Devane  
 (Director)

\_\_\_\_\_  
 Mary Martin  
 (Director)

**AGI THERAPEUTICS RESEARCH LIMITED**  
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**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2005**

	Notes	Share capital €	Share premium €	Retained earnings €	Other reserves €	Total €
At 1 January 2004		100	-	-	-	100
Issue of Ordinary shares to acquire intellectual property from Athpharma Limited		900	1,580,100	-	-	1,581,000
Issue of 100 shares to director		100	4,900	-	-	5,000
Equity component of A Ordinary preference shares		-	2,648,477	-	-	2,648,477
Fair value of Ordinary shares issued to director		-	-	-	9,678	9,678
Transaction costs arising on equity component of A Ordinary preference shares		-	(66,351)	-	-	(66,351)
Net loss for the year		-	-	(3,121,433)	-	(3,121,433)
At 31 December 2004		1,100	4,167,126	(3,121,433)	9,678	1,056,471
Fair value of Ordinary shares issued to director		-	-	-	14,517	14,517
Net loss for the year		-	-	(5,200,227)	-	(5,200,227)
At 31 December 2005		<u>1,100</u>	<u>4,167,126</u>	<u>(8,321,660)</u>	<u>24,195</u>	<u>(4,129,239)</u>

**AGI THERAPEUTICS RESEARCH LIMITED**  
**(formerly AGI Therapeutics Limited)**

**CASHFLOW STATEMENT**

**For the year ended 31 December 2005**

	<b>Notes</b>	<b>Year ended 31 December 2005</b>	<b>Year ended 31 December 2004</b>
		<b>€</b>	<b>€</b>
Operating activities :			
Cash generated from operations	16	(4,564,147)	(2,676,508)
Increase in accounts payable		594,857	129,126
(Decrease) / increase in accrued and other liabilities		(5,871)	16,888
Decrease / (increase) in other current assets		10,947	(70,426)
Fair value of shares issued to director over service period		14,517	9,678
		<u>(3,949,697)</u>	<u>(2,591,242)</u>
Net cash outflow from operating activities			
Investing activities :			
Interest received		82,829	111,000
Purchase of equipment		(378)	(4,747)
		<u>82,451</u>	<u>106,253</u>
Net cash inflow from investing activities			
Financing activities :			
Net proceeds from the issue of ordinary shares		-	5,000
Net proceeds from the issue of preference shares		-	9,262,000
		<u>-</u>	<u>9,267,000</u>
Net cash inflow from financing activities			
Net (decrease) / increase in cash and cash equivalents		<u>(3,867,246)</u>	<u>6,782,011</u>
Opening balance in cash and cash equivalents		<u>6,782,011</u>	<u>-</u>
Closing balance in cash and cash equivalents		<u>2,914,765</u>	<u>6,782,011</u>

**AGI THERAPEUTICS RESEARCH LIMITED**  
**(formerly AGI Therapeutics Limited)**

**NOTES TO THE ANNUAL REPORT**  
**For the year ended 31 December 2005**

**1. ACCOUNTING POLICIES**

**1.1. Basis of preparation**

The financial information has been prepared in Euro ("€") in accordance with the accounting policies below which are based on IFRS in issue and adopted by the EU.

The preparation of financial statements requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

**1.2. 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.

**1.3. Leasing**

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

**1.4. Research and Development**

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 uncertainties inherent in the development of its products preclude it from capitalising development costs.

**1.5. Taxation**

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 account 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.

**AGI THERAPEUTICS RESEARCH LIMITED**  
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**NOTES TO THE ANNUAL REPORT**  
**For the year ended 31 December 2005**

**1. ACCOUNTING POLICIES (Continued)**

**1.6. Property, plant, equipment and depreciation**

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.

**1.7. Intangible fixed assets and amortisation**

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 (1.8)).

(A) 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.

(B) 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.

**1.8. 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).

**1.9. 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.

**1.10. 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

**1.11. Foreign currencies**

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.

**AGI THERAPEUTICS RESEARCH LIMITED**  
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**NOTES TO THE ANNUAL REPORT**  
**For the year ended 31 December 2005**

1. ACCOUNTING POLICIES (Continued)

**1.12. Interest income**

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

**1.13. Employee benefits**

(a) Share based compensation

The company will account 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 to be 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.

(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.

**AGI THERAPEUTICS RESEARCH LIMITED**  
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**NOTES TO THE ANNUAL REPORT**  
**For the year ended 31 December 2005**

**2. EMPLOYEES AND REMUNERATION**

The average number of persons employed by the company in the financial year was 5 (2004:5), analysed as follows:

	<b>2005</b>	<b>2004</b>
	<b>Number</b>	<b>Number</b>
Research and development	3	3
Management	2	3
	<u>5</u>	<u>5</u>
 The staff costs comprised:	 €	 €
Wages and salaries	357,776	272,098
Social welfare costs	32,250	25,531
Pension costs	42,225	44,571
	<u>432,251</u>	<u>342,200</u>

**3. FINANCE REVENUE**

	<b>2005</b>	<b>2004</b>
	€	€
Bank interest	<u>104,723</u>	<u>140,000</u>

**4. FINANCE COSTS**

	<b>2005</b>	<b>2004</b>
	€	€
Bank interest	324	-
Interest expense on convertible redeemable preference shares	704,998	558,069
	<u>705,322</u>	<u>558,069</u>

**5. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION**

	<b>2005</b>	<b>2004</b>
	€	<b>(as restated)</b> €
The loss on ordinary activities before taxation is stated after charging/(crediting):		
Directors' remuneration	374,205	259,137
Auditors' remuneration	8,000	5,000
Fair value of Ordinary shares issued to director	14,517	9,678
Depreciation and amortisation	35,805	26,856
(Profit)/loss on foreign currencies	<u>(5,219)</u>	<u>30,096</u>

**AGI THERAPEUTICS RESEARCH LIMITED**  
(formerly AGI Therapeutics Limited)

**NOTES TO THE ANNUAL REPORT**  
For the year ended 31 December 2005

6. TAXATION

	2005 €	2004 €
<b>Tax on loss on ordinary activities</b>		
Based on the loss on ordinary activities for the year :		
Corporation tax at 12.5% (2004 : 12.5%)	-	-
<b>Taxation reconciliation</b>		
(Loss) on ordinary activities before taxation	<u>(5,200,227)</u>	<u>(3,121,433)</u>
(Loss) on ordinary activities at Corporation tax at 12.5% (2004 : 12.5%)	(650,028)	(390,179)
<i>Effects of:</i>		
Depreciation in excess of capital allowances	4,396	3,283
Adjustment to tax charge in respect of different tax rates	13,090	17,509
Disallowed expenses	89,938	44,980
Losses forward	<u>542,604</u>	<u>324,407</u>
	<u>-</u>	<u>-</u>

**Deferred Taxation**

A deferred tax assets arising from losses available for carry forward of €542,604 (2004 : €324,407) has not been recognised in the Income Statement due to the uncertainty of profits for which they can be offset against.

7. PRIOR YEAR ADJUSTMENT

	2005 €	2004 €
Reversal of transaction costs	238,000	-
Reversal of amortisation on intangible assets	<u>79,599</u>	-
	<u>317,599</u>	-

**7.1** The financial statements have been adjusted to reflect the correction of an error made in the financial statements for the year end 31 December 2004, which has lead to the restatements of the 2004 results. This arose due to an amount of €238,000 being charged to the Income Statement rather than the reduction of the share premium arising on issue of A Ordinary preference shares.

**7.2** The financial statements have been restated in order to reverse amounts amortised in-process research and development, which were incorrectly amortised in the prior year. This results in a reversal of €79,599 against administration expenses in the Income Statement.

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**8. PROPERTY, PLANT AND EQUIPMENT**

	<b>Office Equipment €</b>
<b>COST</b>	
At 1 January 2005	4,747
Additions	<u>378</u>
At 31 December 2005	<u>5,125</u>
<b>DEPRECIATION</b>	
At 1 January 2005	1,055
Charge for the year	<u>1,687</u>
At 31 December 2005	<u>2,742</u>
<b>NET BOOK VALUE</b>	
At 31 December 2005	<u>2,383</u>
At 31 December 2004	<u>3,692</u>

**9. INTANGIBLE FIXED ASSETS**

	<b>Acquired patents and licences (as restated) €</b>	<b>In-process research and development (as restated) €</b>	<b>Total (as restated) €</b>
<b>COST</b>			
At 1 January 2005 and 31 December 2005	<u>580,000</u>	<u>1,001,000</u>	<u>1,581,000</u>
<b>AMORTISATION</b>			
At 1 January 2005	25,801	-	25,801
Charge for year	<u>34,118</u>	<u>-</u>	<u>34,118</u>
At 31 December 2005	<u>59,919</u>	<u>-</u>	<u>59,919</u>
<b>NET BOOK VALUES</b>			
At 31 December 2005	<u>520,081</u>	<u>1,001,000</u>	<u>1,521,081</u>
At 31 December 2004	<u>554,199</u>	<u>1,001,000</u>	<u>1,555,199</u>

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**10. OTHER RECEIVABLES**

	<b>2005</b>	<b>2004</b>
	€	€
Prepayments	24,803	54,015
VAT	36,359	17,144
DIRT recoverable	49,311	28,367
	<u>110,473</u>	<u>99,526</u>

**11. CURRENT LIABILITIES**

	<b>2005</b>	<b>2004</b>
	€	€
Trade creditors and accruals	723,983	129,126
Payroll taxes	11,017	12,384
Other creditors	-	4,504
	<u>735,000</u>	<u>146,014</u>

**12. NON-CURRENT LIABILITIES**

	<b>2005</b>	<b>2004</b>
	€	€
Debt component of convertible A Ordinary preference shares	7,237,943	6,851,523
Accrued interest	664,610	527,778
Transaction costs	-	(171,649)
Amortisation of transaction costs	40,388	30,291
	<u>7,942,941</u>	<u>7,237,943</u>

On 18 March 2004 the authorised share capital of the company was changed to €1,005,000 divided into 100,000,000 Ordinary shares of €0.01 each and 500,000 A Ordinary preference shares of €0.01 each.

The convertible A Ordinary preference shares are shown net of transaction costs arising on the issue of the shares. The transaction costs allocated to the debt component of the A Ordinary preference shares amounted to €171,649 and are being amortised to the income statement over the term of the debt. Amortisation amounted to €40,338 (2004: €30,291) and is included as part of interest expense in the income statement.

The A Ordinary preference share capital and share premium is a compound financial instrument having both a debt component as the preference shares are redeemable at the option of the holders 4 years and 90 days after issue, and an equity component as the holders also have a right to convert the shares into Ordinary shares. The company's contractual obligation to make future payments to the shareholders of the A Ordinary preference shares remains outstanding until it is extinguished through conversion or redemption.

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**12. NON-CURRENT LIABILITIES (Continued)**

The A Ordinary preference share capital and share premium have been split into their respective debt and equity components on the basis of their fair values on the issue date. The fair value on the debt component was determined using a market interest rate for an equivalent non-convertible debt instrument and has been determined at €6,851,523. The equity component was then determined by deducting the fair value of the debt component from the consideration received on issue of the A Ordinary preference shares which amounted to €9,500,000. The total equity component amounted to €2,648,477.

Interest is accrued on the debt component of the A Ordinary preference share at the market rate of interest at the date of issue for an equivalent non-convertible debt instrument. This amounted to €64,610 (2004 : €527,778) for the year ended 31 December 2005

**13. SHARE CAPITAL**

	<b>2005</b>	<b>2004</b>
	€	€
Authorised:		
100,000,000 A Ordinary Shares of €0.01 each	1,000,000	1,000,000
500,000 A Ordinary Preference Shares of €0.01 each	<u>5,000</u>	<u>5,000</u>
	<u>1,005,000</u>	<u>1,005,000</u>
Issued:		
110,000 Ordinary Shares of €0.01	<u>1,100</u>	<u>1,100</u>

**14. DIRECTORS' AND SECRETARYS' INTEREST**

	<b>Ordinary shares of €0.01 each</b>	<b>Preference shares of €0.01 each</b>
John Devane	68,000	9,510
Mary Martin	10,000	-
Patrick Ashe	10,000	1,398
John O'Sullivan <sup>1</sup>	-	53,846
Peter Sandys <sup>2</sup>	-	26,923
Frank Kenny <sup>3</sup>	-	26,923
Ronan Lambe	-	-*

\* or at date of appointment

<sup>1</sup> As Board nominee of ACT. John O'Sullivan is an investment director of ACT Venture Capital Limited and a partner in certain of the funds managed by it, including the funds holding shares in the company in the name of ACT Nominees 2001 Limited.

<sup>2</sup> As Board nominee of Seroba. Peter Sandys is a director and shareholder of Seroba Bio Ventures Limited.

<sup>3</sup> As a Board nominee of Delta, Frank Kenny is the managing director of Delta Management Partners II Limited, the general partner of Delta.

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**15. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' EQUITY**

	<b>2005</b>	<b>2004</b>
	€	(as restated) €
Total recognised losses for the year	(5,200,227)	(3,121,433)
Shares issued (including share premium)	-	4,168,126
Fair value of shares issued to director	<u>14,517</u>	<u>9,678</u>
Net (decrease) / increase in shareholders' funds	(5,185,710)	1,056,371
Opening shareholders' equity	<u>1,056,471</u>	<u>100</u>
Closing shareholders' equity	<u>(4,129,239)</u>	<u>1,056,471</u>

**16. CASHFLOWS FROM OPERATING ACTIVITIES**

Cashflows from operating activities are those derived from the company's primary activities. This is calculated by the indirect method, adjusting the company's operating profit for any operating income and expenses that are not cashflows in order to derive the cash generated from operations.

**Cash generated from operations**

	<b>Year ended 31 December 2005</b>	<b>Year ended 31 December (as restated) 2004</b>
	€	€
Loss for the year	(5,200,227)	(3,121,433)
Interest received	(104,723)	(140,000)
Interest expense	<u>704,998</u>	<u>558,069</u>
Operating loss	(4,599,952)	(2,703,364)
Depreciation of equipment	1,687	1,055
Amortisation of intangible assets	<u>34,118</u>	<u>25,801</u>
Cash generated from operations	<u>(4,564,147)</u>	<u>(2,676,508)</u>

**17. COMMITMENTS**

	<b>Land and buildings</b>	<b>Total</b>
	€	€
Payable on lease in which the commitments expires:		
Within one year	11,025	11,025
Within two to five years	-	-
After five years	-	-
	<u>11,025</u>	<u>11,025</u>

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**18. RELATED PARTY TRANSACTIONS**

**(a) Transactions with founding members and shareholders**

On 18 March 2004, the company acquired intellectual property rights ("acquired IP rights) consisting of in-process research and development and certain patent and licence agreements from Athpharma Limited, a company owned and controlled by the directors of the company. Shares were issued to the directors as consideration for the acquired IP rights at a valuation determined by an external valuer of €1,580,100 arose on the transaction.

During 2004 and 2005, four employees of the company including 2 of its current directors were employed on a shared basis by the company and Athpharma Limited. Remuneration costs were shared between the company and Athpharma Limited under a cost sharing arrangement based on time spent on each entity. This arrangement ceased to exist with effect from 1 January 2006 and the directors became full time employees of the company.

Since its incorporation, the company has occupied a premises previously owned by Athpharma Limited. The company has entered into negotiations with the current owner to negotiate lease terms and accordingly no amounts have been paid with regard to the rental of this premises in the year ended 31 December 2005.

In the year ended 31 December 2005, the company paid €20,000 in consulting fees to Kellpharm, a company of which John Kelly, a shareholder of the company, is also a shareholder.

**(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 contract rates. In the year ended 31 December 2005 €96,190 was paid to BioClin for these services. Mary Martin, a director of the Company is also a director of BioClin.

**19. POST BALANCE SHEET EVENTS**

**Re-organisation of the company**

On 20 January 2006, the company underwent a re-organisation by virtue of which the company's shareholders in their entirety exchanged their shares in the company for shares in AGI Therapeutics plc at a ratio of one share in the company for 125 shares in AGI Therapeutics plc.

**Conversion of A Ordinary preference shares**

To achieve the re-organisation, all the shareholders of the company entered into a share exchange agreement dated 20 January 2006 under which the shareholders of the company agreed to exchange collectively a total of 146,153 A Ordinary preference shares and 110,000 A Ordinary shares in exchange for the allotment and issue of 18,269,125 A Ordinary Preference shares of €0.01 each and 13,749,900 Ordinary shares of €0.01 each in capital of AGI Therapeutics plc. The A Ordinary preference shares were converted to Ordinary shares in AGI Therapeutics plc by virtue of the successful floatation of the company on the Dublin and London Stock Exchanges on 27 February 2006.

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**20. TRANSITION TO IFRS**

For all periods up to and including the year ended 31 December 2004, the company prepared its financial statements in accordance with Irish generally accepted accounting practice (Irish GAAP). These financial statements, for the year ended 31 December 2005, are the first the company has opted to prepare in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Accordingly, the company has prepared financial statements which comply with IFRSs applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 1. In preparing these financial statements, the company has started from an opening balance sheet as at 1 January 2004, the company's date of transition to IFRSs, and made those changes in accounting policies and other restatements required by IFRS 1 for the first-time adoption of IFRSs. This note explains the principal adjustments made by the company in restating its Irish GAAP balance sheet as at 1 January 2004 and its previously published Irish GAAP financial statements for the year ended 31 December 2004. The adjustments to IFRSs are classified below under two headings: 'reclassifications' and 'remeasurements'.

<b>Reconciliation of equity as at 1 January 2004</b>	<b>Notes</b>	<b>Irish GAAP €</b>	<b>Reclassi- fications €</b>	<b>Remea- sure- ments €</b>	<b>IFRSs €</b>
<b>Current assets</b>					
Trade and other receivables		100	-	-	100
<b>Total assets</b>		<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>
<b>Capital and reserves</b>					
Equity share capital		100	-	-	100
<b>Total equity</b>		<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>

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**20. TRANSITION TO IFRS (Continued)**

<b>Reconciliation of equity as at 31 December 2004</b>	<b>Irish GAAP (as restated)</b>	<b>Reclassi- fications</b>	<b>Remeas- urements</b>	<b>IFRSs</b>
<b>Notes</b>	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<b>Non-current assets</b>				
Property, plant and equipment	3,692	–	–	3,692
Intangible assets	1,555,199	–	–	1,555,199
	<u>1,558,891</u>	<u>–</u>	<u>–</u>	<u>1,558,891</u>
<b>Current assets</b>				
Trade and other receivables	99,526	–	–	99,526
Cash and short-term deposits	6,782,011	–	–	6,782,011
	<u>6,881,537</u>	<u>–</u>	<u>–</u>	<u>6,881,537</u>
<b>Total assets</b>	<u>8,440,428</u>	<u>–</u>	<u>–</u>	<u>8,440,428</u>
<b>Current liabilities</b>				
Trade and other payables	129,126	–	–	129,126
Accruals	16,888	–	–	16,888
<b>Total liabilities</b>	146,014	–	–	146,014
<b>Non-current liabilities</b>				
Convertible redeemable preference shares	–	6,679,874	558,069	7,237,943
	<u>–</u>	<u>6,679,874</u>	<u>558,069</u>	<u>7,237,943</u>
<b>Capital and reserves</b>				
Equity share capital	a 2,562	(1,462)	–	1,100
Share premium	a,c 10,845,538	(6,678,412)	–	4,167,126
Other reserves	9,678	–	–	9,678
Retained losses	b,d (2,563,364)	–	(558,069)	(3,121,433)
	<u>8,294,414</u>	<u>(6,679,874)</u>	<u>(558,069)</u>	<u>1,056,471</u>
<b>Total shareholders' equity</b>	<u>8,294,414</u>	<u>(6,679,874)</u>	<u>(558,069)</u>	<u>1,056,471</u>
<b>Total shareholders' equity and liabilities</b>	<u>8,440,428</u>	<u>–</u>	<u>–</u>	<u>8,440,428</u>

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**20. Transition to IFRSs (Continued)**

Reconciliation of profit and loss for the period ended 31 December 2004	Notes	Irish GAAP (as restated) €	Reclassf -ications €	Remeasu -rements €	IFRSs €
<b>Revenue</b>		-	-	-	-
Cost of sales		-	-	-	-
<b>Gross profit</b>		-	-	-	-
Research and development		(2,341,497)	-	-	(2,341,497)
Administrative expenses		(361,867)	-	-	(361,867)
<b>Operating loss from continuing operations</b>		(2,703,364)	-	-	(2,703,364)
Finance revenue		140,000	-	-	140,000
Finance costs	b,d	-	-	(558,069)	(558,069)
<b>Loss from continuing operations before taxation</b>		(2,563,364)	-	(558,069)	(3,121,433)
Tax expense		-	-	-	-
<b>Loss for the year</b>		(2,563,364)	-	(558,069)	(3,121,433)

Adjustments required to Irish GAAP financial information for the year end 31 December 2004 to comply with IFRS:

- a. Reclassification of debt component of A Ordinary preference shares – €6,850,061  
Reclassification of the fair value of the debt component of the A Ordinary preference shares to non-current liabilities.
- b. Accrual of interest on fair value of debt component of A Ordinary preference shares – €527,778.  
Reclassification of the fair value of the debt component of the A Ordinary preference shares to non-current liabilities.
- c. Allocation of transaction costs on issue of A Ordinary preference shares between debt and equity components – €171,649.  
Transaction costs related to the element of the A Ordinary preference shares are offset against the debt rather the share premium.
- d. Amortisation of transaction costs allocated to debt component of A Ordinary preference shares – €30,291.  
Transaction costs related are amortised to the Income Statement over the term of the debt.