

## **Merrion Pharmaceuticals plc** **Preliminary Results for the year ended 31 December 2008**

**Dublin, Ireland 16 March 2009**

Merrion Pharmaceuticals plc, (“Merrion” or the “Company”) (IEX: MERR) an international specialty pharmaceutical company, announced today its financial results for the year ended 31 December 2008.

### **Operating highlights**

- In November 2008, the Company signed a breakthrough US\$58 million development and license agreement with Novo Nordisk A/S to develop and commercialise oral formulations of Novo Nordisk proprietary insulin analogues, using the Company’s absorption enhancing GIPET® technology.
- In January 2009, Merrion signed a second license agreement for US\$58 million with Novo Nordisk for the development of a separate class of compounds, oral GLP1 agonists.
- These deals are key for Merrion. The use of GIPET® technology to develop oral insulin analogues and GLP agonists validate the technology’s broad based potential.
- Patient enrolment for the ongoing phase IIB study of Orazol™ was substantially completed by year end (and completed by February 2009). During the year the potential future market for Orazol™ was considerably enhanced following publication of broad based research results showing new, anticancer effects in breast cancer treatment with zoledronic acid.
- The Company commenced an oral formulation development programme with the Swiss based international pharmaceutical company Ferring Pharmaceuticals. This programme is also based on the Company’s absorption enhancing GIPET® technology.
- In recognition of successfully applying our GIPET technology, we were awarded the ‘Frost & Sullivan 2008 Osteoporosis Technology Innovation of the Year Award, a prestigious US based award. This award marked another milestone for Merrion and for the GIPET technology, which has led to the development of an innovative new product, Almerol (MER 103).
- Merrion had positive preclinical results following the completion of evaluations of MER 102, our product for deep vein thrombosis and MER 104, our oral GnRH antagonist product.
- Merrion has strengthened the management team with the addition of the highly experienced Dr. John Fox as Chief Development Officer.
- Mr Patrick O’Sullivan (appointed chairman in February 2009) and Mr Harry Stratford were appointed to the Board of Directors.

### **Financial highlights**

- Revenues increased 186% to €1,340,000 (2007: €469,000)
- Net loss decreased 58% to €5,062,000 (2007: €12,076,000)
- Research and development expenses increased 17% to €3,898,000 (2007: €3,331,000)
- Administration expenses decreased 15% to €2,420,000 (2007: €2,844,000).
- Net finance income of €363,000 (2007: net finance expense of €6,217,000)
- Loss per ordinary share of €0.30 (2007: €1.60)
- Cash and cash equivalents of €8,140,000 (2007: €10,870,000).
- The Company has no debt.

Commenting on the results, John Lynch, Chief Executive Officer said:

‘We are pleased to report that our partner programs with Novo Nordisk have progressed to two development and license agreements for products with such significant potential as oral insulin and oral GLP1, following the success of initial studies. We are also pleased to report that recruitment for our Orazol Phase IIB study is now complete (as of February 2009). This progress has allowed us achieve our operational and commercial goals for 2008 and start 2009 very positively.’

## **Merrion Pharmaceuticals plc**

### **Preliminary Results for the year ended 31 December 2008** *(continued)*

#### **Outlook**

Commenting further on the outlook for 2009, John Lynch added:

'In the short term we are very focused on completing our Orazol Phase II clinical trial. We have completed enrolment and expect to release data from the trial in quarter 2 this year. New data was recently published which demonstrated a significant advantage to patients taking Zoledronic Acid, the base drug for Orazol, prior to the establishment of bone metastases in breast cancer. We believe that this increases substantially the already large Orazol opportunity. We are also working very closely with Novo Nordisk to fast track the development of the oral insulin and GLP 1 projects. We also remain committed to advancing all of our remaining internal projects and partner programmes. Furthermore, we are expanding our early-stage pipeline and expect to add a further new internal project in the coming months. We are also working on adding other partner projects to the pipeline over the next number of months. In essence we are looking forward to 2009, which we expect will be another year of substantial progress for Merrion.'

#### **Company background**

Merrion Pharmaceuticals plc ([www.merrionpharma.com](http://www.merrionpharma.com)) is a publicly listed specialty pharmaceutical company engaged in the development of oral forms (tablets/capsules) of drugs that have poor absorption and are generally given by injection. Merrion was established in 2003 to commercialise various technologies acquired from Elan Corporation, plc. Merrion's patented drug delivery technologies increase bioavailability, by improving absorption in the gastrointestinal tract, of drugs that are otherwise poorly absorbed. This can provide substantial benefit in patient convenience and safety, and might also provide enhanced drug efficacy. Merrion utilises its technology to develop new oral drugs in two ways; it develops its own proprietary drugs using GIPET™ and partners with other pharmaceutical companies in developing oral GIPET™ formulations of their products.

Merrion currently has four internal product development programs based on its GIPET® technology, as follows:

- Orazol (MER 101) is an oral bisphosphonate for oncology indications currently in Phase II development. This product aims to allow cancer patients with bone metastases take a weekly tablet, rather than a monthly IV infusion, to get the gold standard treatment in this area.
- Almerol (MER 103) which is also an oral bisphosphonate, for the treatment of osteoporosis, has completed Phase II clinical trials. Based on the market leading drug, this programme aims to provide similar absorption in just 8% of the current dose, with a simplified dosing regimen and an improved side effect profile.
- MER 104 is a second oral oncology product for the treatment of prostate cancer, which is in Phase I clinical testing. This programme aims to be the first oral product in the area of GnRH analogues. Products in this class also have several additional indications in male and female reproductive health..
- MER 102 an oral anticoagulant is in preclinical testing. This programme aims to be the first oral product in LMWH class of drugs, and to offer patients the alternative to daily injections.

Merrion has agreements with several pharmaceutical companies. Merrion has operations in Dublin, Ireland and Wilmington, NC, USA.

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**Preliminary Results for the year ended 31 December 2008** *(continued)*

**Operating review**

Despite the challenging economic environment we continued to make significant progress at Merrion. In particular, this progress is attributable to the development of a range of projects in 2008, and we are particularly pleased with the Novo Nordisk license agreements, which have the potential to generate greater than US\$116.0 million in milestone payments, plus royalties on future product sales. We have every reason to be optimistic for 2009 and beyond as our progressive team of specialists continue to deliver results which will continue to make important medicines better, safer, easier to use, more convenient and with key economic benefits for healthcare providers.

*Partner programs*

In November 2008, we entered into a development and license agreement with Novo Nordisk; world leaders in diabetes medicine, potentially worth US\$58.0 million in milestone payments, as well as very significant development fees and potential future royalties. Under this agreement Merrion will work in partnership with Novo Nordisk to develop and commercialise oral formulations of insulin analogues, which are currently being administered in injectable form. Central to this ongoing partnership, which originally commenced in 2007, is the utilisation of Merrion's GIPET® technology. A second development and license agreement, also potentially worth US\$58.0 million in milestone payments, as well as potential future royalties for oral GLP1 agonists with Novo Nordisk, was entered into in January 2009. The decision by Novo Nordisk to subscribe for 300,000 ordinary shares (1.8% of the issued share capital of the Company) further demonstrates the potential for a long partnership between our two companies and also enhances our capacity to develop our other products and technologies.

During September 2008, we entered into an oral drug delivery research programme with Swiss based international pharmaceutical company Ferring Pharmaceuticals, on an undisclosed Ferring compound. This programme focuses on Merrion's GIPET technology, with a view to significantly increasing the compounds oral absorption (bioavailability).

*Internal projects*

During 2008, we conducted a Phase IIb study for Orazol™ (MER 101), in a hormone refractory prostate cancer population at 11 sites in the United States and Europe. In February 2009, we completed the enrolment of patients for this study. This product will allow cancer patients being treated for bone metastases, secondary to a series of cancers, to take a weekly tablet; instead of the once a month infusion they currently receive. Once the dosing is complete, we will analyse and announce the data (expected in Q2, 2009). Then we will look to license Orazol to a suitable partner who will complete the product development, file for registration and market this product, which we believe has significant potential.

Almerol (MER 103), is an improved oral dose of Fosamax, the market leading drug for osteoporosis treatment and it has completed Phase II clinical trials. Almereol provides similar absorption in just 8% of the current dose, with a simplified dosing regimen and an improved side effect profile. Poor compliance with bisphosphonate therapy is a big issue, and Almerol is designed to offer patients a simplified dosing regimen and improved side effect profile, combined with the current gold standard drug for osteoporosis. In recognition of successfully applying our GIPET technology, we were awarded the 'Frost & Sullivan 2008 Osteoporosis Technology Innovation of the Year Award'; a prestigious US based award. This award marked another milestone for Merrion and for the GIPET technology which has led to the development of the innovative new product, Almerol.

In addition Merrion had positive results following the completion of preclinical evaluations of MER 102, our product for deep vein thrombosis and positive results from recent preclinical studies of MER 104, our oral GnRH antagonist for the treatment of prostate cancer and other indications.

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### **Preliminary Results for the year ended 31 December 2008** *(continued)*

#### **Personnel changes**

Over the past twelve months, Merrion has added vital expertise to our formulation, development and clinical development areas. In July 2008, we announced the appointment of Dr John Fox as Chief Development Officer. Dr Fox is responsible for Merrion's Dublin based development operations. With over 20 years of experience in the pharmaceutical industry, Dr Fox's vast experience in this sector provides a crucial link between research, design, development, regulatory and licensing.

A number of changes were made to our board of directors, which saw the appointment of Mr Patrick O'Sullivan and Mr Harry Stratford. Mr O'Sullivan was appointed to the board in May 2008. Mr O'Sullivan is currently chairman of the Board of Trustees of the Beacon Hospital. Before retiring in 2006, he spent over 30 years as Chief Executive Officer of the LEO Pharma Group of companies in Ireland. He was also a board member of the parent company of the LEO Pharma Group in Denmark. He brings to the board a wealth of industry knowledge and a long track record of success.

Mr O'Sullivan was appointed Chairman of the Company in February 2009 and replaced Dr Michael McKenna who remains on the board as a non-executive director. As former CEO and as Chairman, Dr. McKenna's role was pivotal in the initial establishment of the Company and in guiding it through its successful IPO in 2007. We are very grateful that Dr. McKenna has consented to retain his board membership.

Mr Stratford joined our board in December 2008 and brings with him a wide and varied experience in the pharmaceutical industry. He is the founder and currently executive chairman of Stratford Healthcare – and he was also founder, CEO and Executive Chairman of Prostrakan, the UK listed International specialty pharmaceutical company. He founded Shire Pharmaceuticals in 1986 and was CEO for almost a decade. Having built two successful publicly listed pharmaceutical companies from the ground up, his skills and experience are a vital asset in the further development of Merrion and in achieving the significant goals set for this Company.

Mr Pat Wall resigned as a director of the Company, due to other work commitments in the early part of 2008. Pat served as a director of Merrion, from the Company's founding through its successful Initial Public Offering ("IPO"), in December 2007. We would like to thank Pat Wall for his guidance and his unwavering support of our developing company since its foundation.

2009 looks bright for the Company. Merrion will continue to add high quality scientists, with strong commercial acumen to our team. We aim to progress with our clinical trials and develop our internal MER products and delivering a quality service to our program partners.

#### **Financial review**

##### *Income statement*

*Revenues and Cost of Sales.* Revenues comprise of development fees from partner agreements and the amortisation of up-front milestone payments from licensing agreements. Total revenues were €1.34 million for the year ended 31 December 2008 compared to €0.47 million for the prior year ended 31 December 2007. The 186% increase in revenues was due to the significant increase in collaborative work with Novo Nordisk during 2008.

Our cost of sales consists of direct third-party expenditures, royalty expenses and allocated salaries related to our development fees recognised in the period. We had approximately €0.45 million of direct costs associated with our revenues generated for the year ended 31 December 2008 compared to approximately €0.15 million for the year ended 31 December 2007. The increase was due to royalty expenses arising on license agreement revenue generated during the year.

*Research and Development Expenses.* Research and development ("R&D") expenses are comprised of salaries, overhead and consumables, patent costs, share-based compensation expense and clinical trial costs. R&D expenses during the year ended 31 December 2008 increased by 17% to €3.90 million compared to €3.33 million for the year ended 31 December 2007. The increase was due primarily to clinical trials and salary costs. Clinical trial costs increased principally as a result of the Orazol™ (MER 101) Phase II trial which completed enrolment in February 2009. Salary costs increased as additional scientific staff were recruited for our formulation and analytical department.

## **Merrion Pharmaceuticals plc**

### **Preliminary Results for the year ended 31 December 2008** *(continued)*

*General and Administrative Expenses.* General and administrative (“G&A”) expenses are comprised of salaries, professional fees, office overhead, share-based compensation expense and other support costs. G&A expenses decreased by 15% to €2.42 million for the year ended 31 December 2008 compared to €2.84 million for the year ended 31 December 2007. Professional fees decreased year over year primarily due to the inclusion of costs in the prior year in conjunction with our IPO on the IEX in December 2007.

*Net Finance Income/Expense.* Net finance income was €0.36 million for the year ended 31 December 2008 compared to a net finance expense of €6.22 million for the same period last year. The change year on year was as a result of the elimination of interest expense and finance costs associated with the convertible loan notes issued in April and November 2006 when Merrion was a private company. This prior year non-cash charge was eliminated when the loan notes were converted into ordinary shares on the Company’s IPO in December 2007 and therefore no further such charges were required to be recorded in the 2008 financial year.

*Net Loss.* Our net loss was €5.06 million for the year ended 31 December 2008 compared to a net loss of €12.08 million for the year ended 31 December 2007. The reduction in our net loss was primarily due to the elimination of finance expenses associated with loan notes issued by the Company in 2006 along with decreases in administrative expenses, offset by increased R&D costs from clinical trials and staff headcount.

#### *Balance sheet*

Cash and cash equivalents as at 31 December 2008 totalled €8.14 million, a decrease of 25% as compared to €10.87 million as at 31 December 2007. The decrease of €2.73 million was primarily attributable to operating cash outflows of €2.61 million. The primary components of cash used in operating activities were the net loss (adjusted to exclude non-cash operating items), an increase in interest income and a decrease in working capital balances, attributable to an increase in current liabilities due to the timing of payments to suppliers offset by an increase in trade and other receivables,

Overall, the management team is satisfied with the results from the 2008 financial year. With cash and cash equivalents of €8.14 million, Merrion enters into 2009 in a strong financial position.

### **Principal risks and uncertainties**

As with any drug development company, the Group has a number of business risks. Below is a non-exhaustive list of the principal risks:

#### *Development risks*

The Group currently has four internal product candidates based on the GIPET oral delivery-enabling technology. The business depends primarily on the Group’s ability to develop commercially viable formulations utilising its technologies, successfully complete clinical trials, obtain required regulatory approvals and successfully commercialise the product candidates. If these clinical trials or any further clinical trials fail, if the Group does not obtain required regulatory approvals, or if it fails to commercialise any of the product candidates, Merrion may be unable to generate sufficient revenues to attain profitability or continue business operations and Merrion’s reputation in the industry and in the investment community would likely be significantly damaged, each of which would cause the share price to decline and investors to lose all or part of their investment.

#### *Commercialisation risks*

A key element of the business strategy is to collaborate, particularly with leading pharmaceutical companies, to develop and commercialise product candidates. The Group currently has license agreements with Novo Nordisk but may not be able to negotiate acceptable arrangements with other collaborators. Moreover, such arrangements may involve sharing of profits from sales, requirements to relinquish certain of the rights to the Group’s products or marketing territories and impositions of other limitations on operations. These arrangements may not be scientifically or commercially successful.

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**Preliminary Results for the year ended 31 December 2008** *(continued)*

The termination of any of these arrangements might adversely affect Merrion's ability to develop and commercialise its product candidates.

*Intellectual Property risks*

Some of the Group's product candidates combine the Group's GIPET delivery system with certain drug compounds currently protected by patents held by others that are scheduled to expire in the coming years. The Group will not be able to commercialise the product candidates before such patents expire without obtaining a license, and such license may not be available on acceptable terms, if at all. In addition, the owners of the patents may be able to obtain extensions on the exclusivity period afforded by such patents, which would further delay the commercialisation of the product candidates unless the Company is able to obtain a license. The Company's ability to commercialise its products will depend, in part, on its or its collaborators' ability to obtain patents, to enforce those patents and preserve trade secrets, and to operate without infringing on the proprietary rights of others. Any such inability to achieve meaningful protection could have a material adverse effect on the Company by, for example, making it easier for other pharmaceutical companies to enter target markets and compete with future products. The Group may also be challenged on its own patent filings which may further delay or prevent the commercialisation of our product candidates. This would have a material adverse effect on Merrion's business, financial condition and prospects.

*Financing risks*

The Group is a development stage enterprise. It is loss making and has negative cash flows. This is common for development companies in the life sciences industry. Up until December 2008, the Company has financed its operations and internal growth principally through private placements of debt and equity, and to a significantly lesser extent through revenues under service and license arrangements with pharmaceutical companies. As at 31 December 2008 the Group had cash and cash equivalents in excess of €8 million and continues to manage and maintain expected future operating costs in order to ensure that sufficient medium term funding is available.

## Merrion Pharmaceuticals plc

### Condensed Consolidated Income Statement for the year ended 31 December 2008

	<i>Note</i>	Year ended 31 December 2008	Year ended 31 December 2007
		€	€
<b>Revenue - continuing operations</b>	2	<b>1,339,939</b>	469,233
Cost of sales		<b>(447,652)</b>	(153,426)
<b>Gross profit</b>		<b>892,287</b>	315,807
Administrative expenses		<b>(2,419,870)</b>	(2,844,295)
Research and development expenses		<b>(3,897,684)</b>	(3,330,587)
<b>Results from operating activities – continuing operations</b>		<b>(5,425,267)</b>	(5,859,075)
Finance income	3	<b>363,211</b>	491,414
Finance expense	4	<b>(270)</b>	(6,708,189)
<b>Net finance income/(expense)</b>		<b>362,941</b>	(6,216,775)
<b>Loss before income tax</b>		<b>(5,062,326)</b>	(12,075,850)
Income tax		-	-
<b>Net loss for the year – all attributable to equity holders of the company</b>		<b>(5,062,326)</b>	(12,075,850)
Basic and diluted net loss per ordinary share	5	<b>(0.30)</b>	(1.60)

The accompanying notes are an integral part of the condensed consolidated financial information.

## Merrion Pharmaceuticals plc

### Condensed Consolidated Balance Sheet at 31 December 2008

	<i>Note</i>	31 December 2008 €	31 December 2007 €
<b>Non-current assets</b>			
Property, plant and equipment	6	787,606	786,780
Intangible assets	7	<u>-</u>	<u>180,000</u>
<b>Total non-current assets</b>		<b>787,606</b>	<b>966,780</b>
<b>Current assets</b>			
Trade and other receivables		752,562	429,332
Cash and cash equivalents	8	<u>8,140,085</u>	<u>10,869,699</u>
<b>Total current assets</b>		<b>8,892,647</b>	<b>11,299,031</b>
<b>Total assets</b>		<b>9,680,253</b> =====	<b>12,265,811</b> =====
<b>Non-current liabilities</b>			
Deferred income	9	<u>1,686,241</u>	<u>11,485</u>
<b>Current liabilities</b>			
Trade payables		663,526	1,141,489
Deferred income	10	729,572	133,396
Accrued and other payables		<u>929,512</u>	<u>844,420</u>
<b>Total current liabilities</b>		<b>2,322,610</b>	<b>2,119,305</b>
<b>Total liabilities</b>		<b>4,008,851</b>	<b>2,130,790</b>
<b>Shareholders' equity</b>			
Share capital	11	166,592	165,838
Share premium	11	58,791,974	58,781,971
Reverse acquisition reserve	11	(25,318,907)	(25,318,907)
Share-based compensation reserve	11	764,853	319,336
Retained loss	11	<u>(28,733,110)</u>	<u>(23,813,217)</u>
<b>Total shareholders' equity</b>		<b>5,671,402</b>	<b>10,135,021</b>
<b>Total liabilities and shareholders' equity</b>		<b>9,680,253</b> =====	<b>12,265,811</b> =====

The accompanying notes are an integral part of the condensed consolidated financial information.

## Merrion Pharmaceuticals plc

### Condensed Consolidated Statement of Cash Flows for the year ended 31 December 2008

	Year ended 31 December 2008 €	Year ended 31 December 2007 €
Cash flows from operations activities		
Net loss for the year	(5,062,326)	(12,075,850)
<b>Adjustments to reconcile net income to net cash generated from operating activities</b>		
Depreciation and amortisation	548,109	414,962
Grant amortisation	(14,322)	(14,333)
Share based compensation charge	587,950	211,281
Net finance (income)/expense	<u>(362,941)</u>	<u>6,216,775</u>
	(4,303,530)	(5,247,165)
Change in trade and other receivables	(281,016)	757,764
Change in trade and other payables	<u>1,676,962</u>	<u>587,859</u>
	(2,907,584)	(3,901,542)
Interest received	299,848	175,415
Interest paid	<u>(270)</u>	<u>(1,305)</u>
<b>Net cash used in operating activities</b>	<b>(2,608,006)</b>	<b>(3,727,432)</b>
<b>Investing activities</b>		
Acquisitions of property, plant and equipment	<u>(135,199)</u>	<u>(192,830)</u>
<b>Net cash used in investing activities</b>	<b>(135,199)</b>	<b>(192,830)</b>
<b>Cash flows from financing activities</b>		
Proceeds from exercise of option by shareholder	-	789,474
Proceeds from options exercised by employees	10,757	-
Repayment of interest bearing loans and borrowings	-	(1,105,125)
Proceeds from issue of share capital	-	8,000,001
Share issue costs	<u>-</u>	<u>(1,848,622)</u>
<b>Net cash provided by financing activities</b>	<b>10,757</b>	<b>5,835,728</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(2,732,448)</b>	<b>1,915,466</b>
Effect of exchange rate movements on cash	2,834	(12,557)
Cash and cash equivalents at beginning of the year	<u>10,869,699</u>	<u>8,966,790</u>
<b>Cash and cash equivalents at end of year</b>	<b>8,140,085</b>	<b>10,869,699</b>
	=====	=====

## Merrion Pharmaceuticals plc

### Condensed Consolidated Statement of Recognised Income and Expense for the year ended 31 December 2008

	Year ended 31 December 2008 €	Year ended 31 December 2007 €
<b>Income and expense recognised directly in equity</b>	-	-
Loss for the financial year	<u>(5,062,326)</u>	<u>(12,075,850)</u>
<b>Total recognised income and expense for the year – all attributable to equity holders of the company</b>	<u>(5,062,326)</u> =====	<u>(12,075,850)</u> =====

## **Merrion Pharmaceuticals plc**

### **Notes to the condensed consolidated financial information**

#### **1. Basis of preparation of financial information**

The condensed consolidated financial information included in the preliminary results announcement has been extracted from the Group's consolidated financial statements for the year ended 31 December 2008 and is prepared based on the accounting policies set out therein, which are consistent with those accounting policies applied in the 2007 annual report. The consolidated financial statements of the Group for the prior year are available on the Company's website <http://www.merrionpharma.com>.

The condensed consolidated financial information presented herein does not constitute the Company's statutory financial statements for the years ended 31 December 2008 and 2007, within the meaning of the Companies (Amendment) Act, 1986. The statutory financial statements for the year ended 31 December 2008 will be finalised on the basis of the financial information presented by the directors in this preliminary results announcement and, together with the independent auditor's report thereon, will be filed with the Irish Registrar of Companies following the Company's Annual General Meeting and will also be available on the Company's website. The 2008 annual report and consolidated financial statements will be circulated to shareholders shortly. Statutory financial statements for the year ended 31 December 2007 have been filed with the Irish Registrar of Companies. The independent auditor's report on those financial statements was unqualified.

As permitted by the European Union ("EU") law and in accordance with IEX rules, the Group financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and as effective as at 31 December 2008.

The financial information is presented in Euro.

#### **2. Segmental information**

##### *Business segment information*

All of the Group's operating results arise from the development of oral dosage forms of drugs that are poorly absorbed. Accordingly, the Group only operates in one business segment. The Group has reported all costs and revenues and attributed all assets and liabilities to that segment.

##### *Geographical segment information*

The Group's area of operations outside of Ireland principally comprise of the United States. Geographical segment information is set forth below.

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**Notes (continued)**

**2. Segmental information (continued)**

**Geographical Segment Information**

	Year ended 31 December 2008			Year ended 31 December 2007		
	Ireland €	United States €	Total €	Ireland €	United States €	Total €
<b>External revenue</b>	<u>1,339,939</u>	<u>-</u>	<u>1,339,939</u>	<u>469,233</u>	<u>-</u>	<u>469,233</u>
<b>Segment result</b>						
Operating loss	(4,763,232)	(662,035)	(5,425,267)	(4,478,389)	(1,380,686)	(5,859,075)
Financing income/(expense)	341,792	21,149	362,941	(6,147,885)	(68,890)	(6,216,775)
Income tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Loss for the period</b>	<u>(4,421,440)</u>	<u>(640,886)</u>	<u>(5,062,326)</u>	<u>(10,626,274)</u>	<u>(1,449,576)</u>	<u>(12,075,850)</u>
<b>Other segment information</b>						
Depreciation and amortisation	546,812	1,297	548,109	411,756	3,206	414,962
Capital expenditure	367,675	1,260	368,935	190,065	2,765	192,830
Share-based compensation	587,950	-	587,950	211,281	-	211,281
<b>Segment assets and liabilities</b>						
Total assets	<u>9,540,161</u>	<u>140,092</u>	<u>9,680,253</u>	<u>12,108,425</u>	<u>157,386</u>	<u>12,265,811</u>
Total liabilities	<u>(3,855,052)</u>	<u>(153,799)</u>	<u>(4,008,851)</u>	<u>(2,051,133)</u>	<u>(79,657)</u>	<u>(2,130,790)</u>

**Merrion Pharmaceuticals plc**  
**Notes (continued)**

**3. Finance income**

	Year ended 31 December 2008 €	Year ended 31 December 2007 €
Interest income	342,062	175,415
Net foreign exchange gain	21,149	-
Fair value adjustments on embedded derivatives:		
- convertible loan stock	-	262,859
- convertible preference shares	<u>-</u>	<u>53,140</u>
	<b>363,211</b> =====	491,414 =====

Finance income relates solely to interest earned on cash on deposit. During the year ended 31 December 2007, the Group recognised fair value adjustments on embedded derivatives of €315,999 in aggregate, associated with its convertible loan stock and convertible preference shares. In conjunction with the Company's Initial Public Offering ("IPO") on 18 December 2007, the convertible loan stock and convertible preference shares were converted to ordinary shares.

**4. Finance expense**

	Year ended 31 December 2008 €	Year ended 31 December 2007 €
Interest on loans and borrowings	270	1,305
10% convertible loan stock interest	-	6,175,395
Interest and dividends on preference share capital	-	107,051
Net foreign exchange loss	-	68,890
Fair value adjustments on embedded derivatives		
- convertible preference shares	<u>-</u>	<u>355,548</u>
	<b>270</b> =====	6,708,189 =====

During the year ended 31 December 2007, the Group recognised interest of €6,175,395 on its convertible loan stock, interest of €107,051 on its preference shares and fair value adjustments on embedded derivatives of €355,548 associated with its convertible preference shares. In conjunction with the Group's IPO on 18 December 2007, the convertible loan stock and convertible preference shares were converted to ordinary shares.

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**Notes (continued)**

**5. Net loss per share**

Basic earnings/(loss) per share is computed by dividing the net income/(loss) for the period available to ordinary shareholders by the sum of the weighted-average number of ordinary shares outstanding during the period. Diluted earnings/(loss) per share is computed by dividing the net income/(loss) for the period by the weighted-average number of ordinary shares outstanding and, when dilutive, adjusted for the effect of all dilutive potential ordinary shares, including share options, restricted shares and contingently issuable shares, such as convertible loan stock and convertible preference share, on an as-if-converted basis.

Basic and diluted net loss per share for the Group is calculated as follows:

**Numerator (net loss)**

	<b>2008</b>	2007
	€	€
Basic and diluted net loss for the year attributable to ordinary shareholders	<b>5,062,326</b>	12,075,850
	=====	=====

**Denominator (weighted average number of ordinary shares)**

	<b>2008</b>	2007
	Shares	Shares
Weighted average number of ordinary shares at end of the year	<b>16,618,808</b>	7,542,967
	=====	=====

**Basic and diluted loss per share**

	<b>2008</b>	2007
	€	€
Basic and diluted net loss per ordinary share	<b>(0.30)</b>	(1.60)
	=====	=====

For the years ended 31 December 2008 and 2007, there was no difference in the weighted average number of ordinary shares used for the basic and diluted net loss per ordinary share computation, as the effect of all potentially dilutive shares are anti-dilutive due to the existence of net losses from inception of the Company. At 31 December 2008, there were share options outstanding of 991,631 (2007: share options outstanding of 650,021, convertible loan stock of 4,982,822 and convertible preference shares of 318,251) which could potentially have a dilutive impact in the future, but which were anti-dilutive in 2008 and 2007.

**Merrion Pharmaceuticals plc**  
**Notes (continued)**

**6. Property, plant and equipment**

	<b>Fixtures and fittings €</b>	<b>Laboratory equipment €</b>	<b>Total €</b>
<b>31 December 2007</b>			
<b>Cost</b>			
Opening Balance	75,890	1,529,772	1,605,662
Additions	<u>21,129</u>	<u>171,701</u>	<u>192,830</u>
Closing Balance	97,019	1,701,473	1,798,492
<b>Depreciation</b>			
Opening Balance	47,981	728,769	776,750
Charge for the period	<u>15,057</u>	<u>219,905</u>	<u>234,962</u>
Closing Balance	63,038	948,674	1,011,712
<b>Net book value – 31 December 2007</b>	<b><u>33,981</u></b>	<b><u>752,799</u></b>	<b><u>786,780</u></b>
<b>31 December 2008</b>			
<b>Cost</b>			
Opening Balance	97,019	1,701,473	1,798,492
Additions	<u>53,766</u>	<u>315,169</u>	<u>368,935</u>
Closing Balance	150,785	2,016,642	2,167,427
<b>Depreciation</b>			
Opening Balance	63,038	948,674	1,011,712
Charge for the period	<u>16,247</u>	<u>351,862</u>	<u>368,109</u>
Closing Balance	79,285	1,300,536	1,379,821
<b>Net book value – 31 December 2008</b>	<b><u>71,500</u></b>	<b><u>716,106</u></b>	<b><u>787,606</u></b>

**Merrion Pharmaceuticals plc**  
**Notes (continued)**

**7. Intangible assets**

	<b>31 December 2008</b>	<b>31 December 2007</b>
	€	€
<b>Cost</b>		
At beginning and end of year	<u>900,000</u>	<u>900,000</u>
<b>Accumulated amortisation</b>		
Balance at the beginning of the year	<b>720,000</b>	540,000
Amortisation for the year	<u>180,000</u>	<u>180,000</u>
Balance at the end of the year	<u>900,000</u>	<u>720,000</u>
<b>Net book value</b>		
At the end of the year	- =====	180,000 =====

On 16 February 2004, the Group acquired four platform drug delivery technologies, together with certain equipment used solely in the research and development of those technologies from a shareholder pharmaceutical company, Elan Corporation, plc (“Elan”). Part of one of the drug delivery platforms was licensed from Elan as opposed to being acquired outright. This is an exclusive worldwide license which lasts for the longer of 15 years from the completion of the contract or the term of the patent. This transaction was accounted for as an asset purchase and as a result €900,000 of the purchase consideration was allocated to in-process research and development. As at 31 December 2008, the acquired intangible asset has been amortised in full over its expected useful life of five years. The amortisation charge has been recognised within research and development expenses in the income statement.

Part of the purchase contract provides that the Group has an obligation to pay Elan royalties of 10%, less applicable costs, in connection with revenue attributable to the patents purchased or licensed under the agreement. These payments will be made until the later of (a) the expiration of the relevant patent or (b) 15 years from the completion of the purchase contract. See note 13 of the condensed consolidated financial information for details of amounts attributable to Elan for the year ended 31 December 2008.

In the event the Company disposes of any of the assets acquired in the period to 31 December 2010, the Company is required to pay Elan a relevant percentage of the net disposal proceeds received. The percentage is on a reducing basis, with 50% of the net proceeds payable in 2004 declining to 5% of the net proceeds payable in 2010. The Company had not disposed of any of the acquired equipment or drug delivery technologies at 31 December 2008.

**Merrion Pharmaceuticals plc**  
**Notes (continued)**

**8. Cash and cash equivalents**

	<b>31 December 2008</b>	31 December 2007
	€	€
Bank balances	<b>312,423</b>	373,025
Call deposits	<b><u>7,827,662</u></b>	<u>10,496,674</u>
	<b>8,140,085</b>	10,869,699
	=====	=====

**9. Deferred income – non current**

	<b>31 December 2008</b>	31 December 2007
	€	€
Deferred operating income	<b>1,686,241</b>	-
Government grant	<b><u>-</u></b>	<u>11,485</u>
	<b>1,686,241</b>	11,485
	=====	=====

**10. Deferred income – current**

	<b>31 December 2008</b>	31 December 2007
	€	€
Deferred operating income	<b>718,087</b>	119,074
Government grant	<b><u>11,485</u></b>	<u>14,322</u>
	<b>729,572</b>	133,396
	=====	=====

**Merrion Pharmaceuticals plc**  
**Notes (continued)**

**11. Reconciliation of movement in shareholders' equity**

	Share Capital		Share	Reverse	Share	Retained	Total
	Shares	Amount	premium	acquisition	option	loss	
	Number	€	€	reserve	reserve	€	€
				€	€		
<b>At 31 December 2007</b>	<b>16,583,768</b>	<b>165,838</b>	<b>58,781,971</b>	<b>(25,318,907)</b>	<b>319,336</b>	<b>(23,813,217)</b>	<b>10,135,021</b>
Recognised income and expense:							
Net loss						(5,062,326)	(5,062,326)
Total recognised income and expense							(5,062,326)
Share options exercised	75,389	754	10,003				10,757
Share-based compensation expense					587,950		587,950
Transfer of exercised and expired share-based awards					(142,433)	142,433	
<b>At 31 December 2008</b>	<b>16,659,157</b>	<b>166,592</b>	<b>58,791,974</b>	<b>(25,318,907)</b>	<b>764,853</b>	<b>(28,733,110)</b>	<b>5,671,402</b>

**Merrion Pharmaceuticals plc**  
**Notes (continued)**

**12. Share-based payments**

On 17 February 2005, the Company adopted an equity settled Share Option Plan (“the Plan”) pursuant to which the Compensation Committee of the Board may grant options to employees, senior executives and non-employees of the Company or its subsidiaries for the purchase of ordinary shares. The terms and conditions of the share option programme are disclosed in the consolidated financial statements for the year ended 31 December 2007. The terms of the awards and the basis for measuring fair value is consistent with that disclosed in the prior year annual report.

Total share-based compensation expense was recognised in the following line items in the condensed consolidated income statement:

	<b>Year ended 31 December 2008</b>	Year ended 31 December 2007
	€	€
Administrative expenses	<b>315,557</b>	195,475
Research and development expenses	<b>272,393</b>	15,806
	<hr/>	<hr/>
	<b>587,950</b>	211,281
	<hr/> <hr/>	<hr/> <hr/>

Total share options outstanding at the balance sheet date are summarised as follows:

	<b>Number of share options</b>	<b>Weighted average exercise price</b>	<b>Weighted average fair value</b>	<b>Weighted average remaining contractual life</b>
Outstanding at 1 January 2007	277,091	€0.11	€1.26	8.3 years
Granted	375,000	€4.05	€1.98	7.2 years
Cancelled	(2,070)	€0.27	€0.41	6.1 years
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2007</b>	<b>650,021</b>	<b>€2.38</b>	<b>€1.57</b>	<b>7.3 years</b>
Granted	467,000	€2.58	€1.31	6.6 years
Exercised	(75,390)	€0.14	€1.89	-
Cancelled	(50,000)	€4.05	€1.97	6.0 years
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2008</b>	<b>991,631</b>	<b>€2.56</b>	<b>€1.49</b>	<b>6.46 years</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The number of share options exercisable at 31 December 2008 was 298,900 (2007: 218,587).

At 31 December 2008, total unrecognised share-based compensation cost relating to unvested share options outstanding of 692,731 (2007: 431,434) amounted to €13,300 (2007: €280,356), which the Company expects to recognise over a weighted average vesting period of 3.25 years (2007: 1.8 years).

**Merrion Pharmaceuticals plc**  
**Notes (continued)**

**13. Related parties**

Patrick Wall, a former director is a partner in the accounting firm, PriceWaterhouseCoopers, or PWC. The Group retains PWC to provide tax and accounting advice. In the fiscal years ended 31 December 2008 and 31 December 2007, the Group paid PWC fees of €25,410 and €40,648 respectively. Patrick Wall does not provide services to the Company in his capacity as a partner in PWC. At 31 December 2008, there were no amounts payable to PWC (31 December 2007: €24,510).

As set forth in note 7 to the condensed consolidated financial information, the Group has an obligation to pay Elan royalties of 10% less applicable costs, in connection with revenue attributable to the patents previously purchased from Elan. As at 31 December 2008, €15,564 (2007: €Nil) was payable to Elan in this respect.

On 23 December 2003, the Group entered into an equipment lease agreement with Elan pursuant to which it leases certain laboratory equipment from Elan for a rental fee of €2,083 a month for a period of four years and nine months from the date of the agreement. This agreement was extended for an additional five years on 29 January 2007, and now expires on 31 December 2013. At 31 December 2008, €5,051 was payable to Elan in relation to leasing costs (31 December 2007: €7,561).

The total compensation of our key management personnel, defined as our current and former directors and executive officers, for the periods presented was as follows:

	<b>Year ended 31 December 2008</b>	Year ended 31 December 2007
	€	€
Salaries	<b>813,358</b>	664,164
Bonus	<b>146,355</b>	119,345
Other benefits	<b>12,190</b>	10,634
Pension benefits	<b>43,649</b>	47,119
Share-based payments	<b>302,796</b>	13,700
	<hr/>	<hr/>
	<b>1,318,348</b>	854,962
	<hr/> <hr/>	<hr/> <hr/>

**14. Post balance sheet events**

On 12 February 2009, Mr. Paddy O'Sullivan assumed the role of Chairman of the Merrion board of directors. Dr. Michael McKenna, Chairman since February 2008, remains as a non-executive director of the Group.

In January 2009, the Group completed a second development and license agreement for oral GLP1 agonists with Novo Nordisk. In addition, Novo Nordisk subscribed for 300,000 ordinary shares in Merrion, representing 1.8% of the issued share capital of the Company.

## **Merrion Pharmaceuticals plc**

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