

Merrion Pharmaceuticals plc
Preliminary Results for the year ended 31 December 2009

Dublin, Ireland 8 March 2010

Merrion Pharmaceuticals plc, (“Merrion” or the “Company”) (IEX: MERR) an international pharmaceutical product development company, announced today its preliminary financial results for the year ended 31 December 2009.

Operating highlights

- Positive final results on a key multicentre Phase II(b) cancer patient study on its Orazol™ drug (MER 101). These results show that weekly therapy with 20mg Orazol™ (tablet) is as therapeutically effective from the first treatment, as monthly treatment with the intravenous drug Zometa® (4mg), based on movements in observed levels of critical bone biomarkers. In addition, there were positive trends to improvements in bone pain and side effect profile. Based on the results obtained, Orazol™ has been shown to be effective, safe and has the potential to improve the quality of life for users. We believe that it can be a substantial improvement to the current ‘standard of care’ in cancer patients with bone metastases.
- In March 2010, we were issued a US patent on our “Solid Oral Dosage form Containing an Enhancer”, which covers our GIPET® enhancer system used with the bisphosphonate class of drugs. A patent covering the GIPET technology including its use with bisphosphonates has been previously granted in Europe.
- In December 2009, Novo Nordisk A/S, a world leader in diabetes medicine, commenced a Phase I clinical trial with an oral insulin analogue using Merrion’s absorption enhancing GIPET® technology. In line with the development and license agreement signed in December 2008, Merrion received a milestone payment of US\$2.0 million. This is the first development milestone achieved by Merrion under this agreement.
- The signing of a second development and license agreement to develop oral GLP1 products with Novo Nordisk A/S in January 2009, providing the Company with the potential to earn up to US\$58.0 million in milestones for the first product as well as significant development fees and future royalties.
- The acquisition of a new 29,000 sq.ft. purpose built facility in Citywest, Co. Dublin, with a view to significantly expanding our current Research and Development capabilities, developing more products and offering manufacturing capabilities. This facility was officially opened by the Minister for Health and Children, Mary Harney, T.D., in October 2009.
- In February 2009, Mr. Patrick O’Sullivan was appointed Chairman of the Board of Directors.

Financial highlights

- A 373% increase in revenues to €6,335,000 compared with €1,340,000 in the previous year.
- Net loss of €1,629,000 compared with a net loss of €5,062,000 in the previous year.
- Research and development expenses of €4,410,000 (2008: €3,898,000)
- Administration expenses of €2,477,000 (2008: €2,420,000).
- Net finance income of €178,000 compared to €363,000 in the prior year.
- Loss per ordinary share of €0.10 (2008: €0.30)
- Cash and cash equivalents of €7,218,000 compared to cash and cash equivalents of €8,140,000.
- Trade and other receivables of €2,471,000 (2008: €753,000)
- An 84% increase in deferred revenue to €4,450,000 from (2008: €2,416,000).
- Growth in headcount by 74% to 40 (December 2008: 23).

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

‘We are pleased with the strong operating results for 2009. The significant growth in revenue during the year is an indication of our commitment to meet necessary deadlines set out in our partner programs with Novo Nordisk and the realization of our first development milestone from this collaboration.’

Outlook

Commenting further on the outlook for 2010, John Lynch added:

‘The future for Merrion is positive. Following the acquisition of the new facility in Citywest, Co. Dublin, and additions to the Merrion team, we now have much needed capacity to continue our partner programs and to avail of future market opportunities. We are committed to our internal R&D projects and to expanding our early stage pipeline. Work continues on the Citywest facility as we seek to obtain our Irish Medical Board GMP (Good Manufacturing Practice) license to manufacture. We are very focused on building on the success of our recent Orazol™ Phase II(b) cancer patient study and we now work towards indentifying a partner to complete Phase III development and market the product.’

Company background

Merrion Pharmaceuticals plc (www.merrionpharma.com) is an Irish 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 2004 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 that has completed Phase II development. This product aims to allow cancer patients with bone metastases to take a weekly tablet, rather than an 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 program aims to provide similar absorption, with just 8% of the current dose, with a simplified dosing regimen and an improved side effect profile,
- Acyline™ (MER 104) is a second oral oncology product for the treatment of prostate cancer, which is in Phase I clinical testing. This program aims to be the first oral product in the area of Gonadotropin-Releasing Hormone (GnRH) analogues. Products in this class also have several additional indications for male and female reproductive health, and
- MER 102, an oral anticoagulant, is in preclinical testing. This program aims to be the first oral product in the Low Molecular Weight Heparin (LMWH) class of drugs, and to offer patients an alternative to daily injections.

Merrion has agreements with several pharmaceutical companies. In particular Merrion has partnered with:

- Novo Nordisk A/S, to develop oral insulin analogues and to develop and commercialise oral formulations of a Novo Nordisk proprietary GLP-1 receptor agonist, using Merrion's proprietary (GIPET®) technology. Under these agreements, Merrion may receive up to US\$116.0 million in license and milestone payments, as well as potential future development fees and royalties on sales, and
- Ferring Pharmaceuticals, a Swiss based international pharmaceutical company, in the form of an oral drug delivery research collaborative program with on an undisclosed compound. The aim of this study is to evaluate Merrion's GIPET® technology to boost the compound's oral bioavailability.

Merrion has operations in Dublin, Ireland and Wilmington, NC, USA.

Enquiries

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Operating review

In 2009, we set out to strengthen the Merrion team and to progress with our internal projects while delivering high quality service to our program partners. By the end of the 2009 year, the Merrion team had grown to 40 compared to 23 at the end of the prior year. Significant progress was made during the year in both our internal and external programs.

Clinical trials and internal projects

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

Orazol (MER 101) is an oral bisphosphonate for oncology indications. Orazol is a once weekly tablet form of zoledronic acid, which is only available as an intravenous infusion (Zometa® and other trademarks, Novartis). Zoledronic acid is a very potent and thoroughly investigated bisphosphonate compound, which has been used to treat over 3 million patients worldwide. Orazol, as a weekly tablet formulation offers many new potential advantages to patients, physicians and healthcare providers.

During 2009, Merrion announced positive final results on a key multicentre Phase II study on its Orazol drug (MER 101). These results show that weekly therapy with 20mg Orazol (tablet) is as therapeutically effective from the first week, as monthly treatment with the intravenous drug Zometa® (4mg), based on movements in observed levels of critical bone biomarkers. Based on the results obtained, Orazol has proven to be effective, safe and has the potential to improve the quality of life for users. Changes in important bone biomarkers, like NTX, have been correlated with improvement in the key clinical outcomes such as skeletal related events (e.g. fractures and death). Two oral (Orazol) dosing regimens were evaluated in this study and compared to the current standard Zometa® infusion treatment. The study, conducted in hormone refractory prostate cancer patients with proven bone metastases, enrolled 30 patients at oncology centres in the US and Europe. The purpose of the study was to show therapeutic equivalence between the Orazol weekly tablet and the Zometa® (4mg) monthly infusion. The conclusions were as follows:

- Based on the biomarkers of bone resorption (breakdown) both the Orazol treatment regimens were therapeutically equivalent to the Zometa® regimen.
- The Orazol tablet was well tolerated by the patients in the trial.

MER 102, an oral anticoagulant, is in preclinical testing. This program aims to be the first oral product in Low Molecular Weight Heparin (LMWH) class of drugs, and to offer patients the alternative to daily injections.

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, Fosamax®, this program aims to provide similar absorption, with just 8% of the current dose, and a simplified dosing regimen with an improved side effect profile.

Acyline (MER 104) is a second oral oncology product for the treatment of prostate cancer, which is in Phase I clinical testing. This program aims to be the first oral product in the area of Gonadotropin-Releasing Hormone (GnRH) analogues. Products in this class also have several other male/female health indications.

In March 2010, we announced the issuance of United States Patent No. 7,658,938, "Solid Oral Dosage Form Containing an Enhancer". The enhancers covered by the patent have the ability to enhance oral absorption many fold compared to standard formulations. This technology can therefore be used to enable oral (tablet) administration of compounds that are normally administered only as injectables, usually in hospital or clinic settings. Efficacy, safety and side effect profiles of drugs can be improved substantially using this delivery technology. In addition, the new products developed have potential for very significant quality of life improvements for patients and substantial economic improvements for hard pressed healthcare systems.

Partner programs

In January 2009, Merion announced the signing of a development and license agreement with Novo Nordisk A/S, a world leader in diabetes medicine, to develop and commercialise oral formulations of a Novo Nordisk proprietary GLP-1 receptor agonist, using Merrion's proprietary (GIPET®) oral delivery technology. This is our second development and license agreement with Novo Nordisk; the first was signed in November 2008 and it focuses on the development of oral insulin analogues. Under these agreements, Merrion may receive up to US\$116 million in license and milestone payments, for the

first product which reaches the market based on the achievement of certain development, regulatory and sales milestones, as well as potential future development fees and royalties on sales.

In December 2009, Novo Nordisk initiated its first Phase I clinical trial with an oral insulin analogue, using Merrion's absorption enhancing GIPET® technology. Having met all agreed deadlines, Merrion received a development milestone of US\$2.0 million on initiation of this Phase I clinical trial. This is the first development milestone payment under this agreement. Results of this trial are expected by Novo Nordisk in 2011.

In September 2009, we commenced a second oral drug delivery research collaborative program with Swiss based international pharmaceutical company Ferring Pharmaceuticals, on an undisclosed compound. The aim of this study is to evaluate Merrion's GIPET® technology to boost the compound's oral bioavailability.

Facility acquisition

On 22 July 2009, Merrion acquired a 28,891 sq. ft. pharmaceutical facility in Citywest, Co. Dublin. This facility was previously used for oral formulation development and manufacturing and its custom built design and high level specification makes it an ideal site for Merrion. The facility represents a fivefold increase in capacity compared to our current facility. Merrion paid a total of €3.75 million for the facility and its pharmaceutical equipment, all of which is relevant to Merrion's current activities. This purchase has provided much needed additional research and development space for our team to undertake our existing workload and to exploit further the expanding potential of Merrion's technologies.

Consideration for this Citywest facility amounted to €3.75 million. This was satisfied by €0.9 million in cash and €2.85 million in secured borrowings. €2.1 million of the €2.85 million secured borrowings is in the form of a 15 year mortgage with an additional €0.75 million in the form of a finance lease for the equipment component which is repayable over 4 years.

Personnel changes

In February 2009, Mr. Paddy O'Sullivan was appointed Chairman of the Merrion Board. He replaced Dr. Michael McKenna who remains as a non executive Director of the Company. Mr Harry Stratford was appointed Chairman of Merrion's Nomination and Governance Committee on 11 February 2009.

Financial review

Income statement

Revenues and Cost of Sales. Revenues comprise development fees from partner agreements, milestone payments and the amortisation of up-front license payments. Total revenues were €6.34 million for the year ended 31 December 2009 compared to approximately €1.34 million for the year ended 31 December 2008.

Our cost of sales consists of direct third-party expenditures, royalty expenses and allocated salaries related to our development fees recognised in the year. We had approximately €1.26 million of direct costs associated with our revenues generated for the year ended 31 December 2009 compared to approximately €0.45 million for the year ended 31 December 2008. This represents a significant improvement in gross margin which was 80% in 2009 compared to 67% in the previous year, due to a larger percentage of revenue being made-up of license revenue.

Research and Development Expenses. Research and development ("R&D") expenses comprise salaries, overhead and consumables, patent costs, share-based compensation expense, clinical trial costs reduced by R&D tax credits. R&D expenses during the year ended 31 December 2009 increased by 13% to €4.41 million compared to €3.90 million for the comparative year. The increase was due primarily to clinical trials and salary costs offset by R&D tax credits of €0.84 million that the Company is entitled to claim back on R&D expenses incurred in 2009. Clinical trial costs increased principally as a result of the Orazol (MER 101) Phase II trial for which results were announced in May 2009. Salary costs increased as additional scientific staff were recruited for our formulation, analytical and quality departments.

General and Administrative Expenses. General and administrative (“G&A”) expenses comprise salaries, professional fees, office overhead, share-based compensation expense and other support costs. G&A expenses increased by 2% to €2.48 million for the year ended 31 December 2009 compared to €2.42 million for the year ended 31 December 2008. This increase was primarily due to increased salary costs and professional fees during the year.

Net Finance Income/Expense. Net finance income was €0.18 million for the year ended 31 December 2009 compared to €0.36 million for the same period last year. The change year on year was as a result of the finance expense arising on the mortgage and finance leases entered into during the year following the acquisition of the new Citywest facility.

Net Loss. Our net loss was €1.63 million for the year ended 31 December 2009 compared to a net loss of €5.06 million for the year ended 31 December 2008. The reduction in our net loss was primarily due to the increase in revenue and the R&D tax credit during the year offset by increased directly attributable cost of sales and R&D costs from clinical trials and staff headcount.

Balance sheet

Cash and cash equivalents as at 31 December 2009 totalled €7.22 million, a decrease of 11% as compared to €8.14 million as at 31 December 2008. The decrease in cash and cash equivalents of €0.92 million was primarily attributable to operating cash outflows of €0.90 million and the acquisition of property, plant and equipment of €4.80 million, of which €3.37 million was financed through a secured loan and finance leases. The primary components of cash used in operating activities comprised the net loss for the period (adjusted to exclude non-cash items), an increase in working capital balances and a decrease in net interest income. These cash outflows were offset by proceeds from the issue of share capital which amounted to €1.50 million, comprising an investment of €0.90 million by Novo Nordisk in January 2009 and an investment of €0.60 million by Enterprise Ireland in October 2009.

Significant balance sheet movements year on year include an increase of 228% in current trade and other receivables to €2.47 million (2008: €0.75 million), a 100% increase in non-current other receivables of €0.56 million (2008: €Nil) and an 84% increase in deferred income (current and non-current) to €4.45 million (2008: €2.42 million). The increases are primarily attributable to the increase in activity with Novo Nordisk and to a lesser extent, R&D tax credits receivable. Following the acquisition of the Citywest facility, the loans and borrowings balance (current and non-current) at the year end was €3.26 million, (2008: €Nil)

Overall, the management team is satisfied with the results from the 2009 financial year. With cash and cash equivalents of €7.22 million, Merrion remains in a strong financial position for the year ahead.

Principal risks and uncertainties

As with any drug development company, the Company has a number of business risks. Our operating performance is subject to certain risks and uncertainties including, but not limited to, the following principal items outlined below:

Development risks

The Company currently has four internal product candidates based on the GIPET® oral delivery-enabling technology. The business depends primarily on the Company’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 Company 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 to 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 Company currently has license and development agreements with Novo Nordisk and a collaboration agreement with Ferring Pharmaceuticals, 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 Company’s products or marketing territories and impositions of other

limitations on operations. These arrangements may not be scientifically or commercially successful. 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 Company's product candidates combine the Company'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 Company 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 Company 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 Company is a development stage enterprise. It is loss making and has negative operating cash flows. This is common for development companies in the life sciences industry. Up until December 2009, the Company has financed its operations and internal growth principally through an initial public offering, 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 2009, the Company had cash and cash equivalents of €7.22 million and continues to manage and contain operating costs in order to ensure that sufficient medium term funding is available. In July 2009, the Company entered into new mortgage and finance lease arrangements in connection with its acquisition of the Citywest facility. Additional finance costs of €0.06 million arose in 2009 in connection with the mortgage and finance lease on the new Citywest facility. Annual finance costs in this respect will be higher in future periods when a full year's interest charge will arise. In addition, as floating interest rates apply in respect of the mortgage facility, the Company is exposed to financial risks related to changes in interest rates. During the year proceeds from the issue of share capital amounted to €1.50 million.

Merrion Pharmaceuticals plc

Unaudited Condensed Consolidated Preliminary Income Statement for the year ended 31 December 2009

	<i>Note</i>	Year ended 31 December 2009 €	Year ended 31 December 2008 €
Revenue - continuing operations	2	6,335,422	1,339,939
Cost of sales		(1,256,206)	(447,652)
Gross profit		5,079,216	892,287
Research and development expenses	7	(4,409,583)	(3,897,684)
Administrative expenses		(2,476,594)	(2,419,870)
Loss from operating activities – continuing operations		(1,806,961)	(5,425,267)
Finance income	3	242,700	363,211
Finance expense	4	(64,854)	(270)
Net finance income		177,846	362,941
Loss before income tax		(1,629,115)	(5,062,326)
Income tax		-	-
Net loss for the year – all attributable to equity holders of the Company		(1,629,115)	(5,062,326)
Basic and diluted net loss per ordinary share	5	(0.10)	(0.30)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Merrion Pharmaceuticals plc

**Unaudited Condensed Consolidated Preliminary Statement of Comprehensive Income/(Loss) for
the year ended 31 December 2009**

	Year ended 31 December 2009 €	Year ended 31 December 2008 €
Net loss for the financial year	<u>(1,629,115)</u>	<u>(5,062,326)</u>
Total comprehensive income/(loss) for the year	<u>(1,629,115)</u> =====	<u>(5,062,326)</u> =====

The accompanying notes are an integral part of these condensed consolidated financial statements.

Merrion Pharmaceuticals plc

Unaudited Condensed Consolidated Preliminary Balance Sheet at 31 December 2009

	<i>Note</i>	31 December 2009 €	31 December 2008 €
Non-current assets			
Property, plant and equipment	6	5,014,598	787,606
Other receivable	7	<u>558,097</u>	-
Total non-current assets		<u>5,572,695</u>	<u>787,606</u>
Current assets			
Trade and other receivables	7	2,471,295	752,562
Cash and cash equivalents	8	<u>7,218,097</u>	<u>8,140,085</u>
Total current assets		<u>9,689,392</u>	<u>8,892,647</u>
Total assets		<u>15,262,087</u>	<u>9,680,253</u>
Non-current liabilities			
Deferred income	9	2,730,444	1,686,241
Loans and borrowings	10	<u>2,785,538</u>	-
Total non-current liabilities		<u>5,515,982</u>	<u>1,686,241</u>
Current liabilities			
Trade payables		456,504	663,526
Deferred income	9	1,719,140	729,572
Accrued and other payables		1,030,895	929,512
Loans and borrowings	10	<u>472,425</u>	-
Total current liabilities		<u>3,678,964</u>	<u>2,322,610</u>
Total liabilities		<u>9,194,946</u>	<u>4,008,851</u>
Shareholders' equity			
Share capital		171,315	166,592
Share premium		60,289,523	58,791,974
Reverse acquisition reserve		(25,318,907)	(25,318,907)
Share –based compensation reserve		1,283,180	764,853
Retained loss		<u>(30,357,970)</u>	<u>(28,733,110)</u>
Total shareholders' equity		<u>6,067,141</u>	<u>5,671,402</u>
Total liabilities and shareholders' equity		<u>15,262,087</u>	<u>9,680,253</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

Merrion Pharmaceuticals plc

Unaudited Condensed Consolidated Preliminary Statement of Cash Flows for the year ended 31 December 2009

	Year ended 31 December 2009 €	Year ended 31 December 2008 €
Cash flows from operations activities		
Net loss for the year	(1,629,115)	(5,062,326)
Adjustments to reconcile net income to net cash generated from operating activities		
Depreciation	486,701	368,109
Amortisation	-	180,000
Qualifying R&D tax credit claim	(837,145)	-
Grant amortisation	(11,485)	(14,322)
Equity settled share based payment	522,582	587,950
Net finance income	<u>(177,846)</u>	<u>(362,941)</u>
	(1,646,308)	(4,303,530)
Change in trade and other receivables	(1,478,182)	(281,016)
Change in trade and other payables	6,749	(608,292)
Change in deferred revenue	<u>2,045,256</u>	<u>2,285,254</u>
	(1,072,485)	(2,907,584)
Interest received	277,071	299,848
Interest paid	<u>(64,854)</u>	<u>(270)</u>
Net cash used in operating activities	(860,268)	(2,608,006)
Investing activities		
Acquisitions of property, plant and equipment	<u>(4,816,081)</u>	<u>(135,199)</u>
Net cash used in investing activities	(4,816,081)	(135,199)
Cash flows from financing activities		
Proceeds from options exercised by employees	2,274	10,757
Proceeds from issue of share capital	1,499,998	-
Proceeds from borrowings under finance lease	1,269,322	-
Proceeds from secured loan	2,100,000	-
Repayments of finance lease	(47,744)	-
Repayments of secured loan	<u>(63,613)</u>	<u>-</u>
Net cash provided by financing activities	4,760,237	10,757
Net (decrease)/increase in cash and cash equivalents	(916,112)	(2,732,448)
Effect of exchange rate movements on cash	(5,876)	2,834
Cash and cash equivalents at beginning of the year	<u>8,140,085</u>	<u>10,869,699</u>
Cash and cash equivalents at end of year	<u>7,218,097</u>	<u>8,140,085</u>

Merrion Pharmaceuticals plc

**Unaudited Condensed Consolidated Preliminary Statement of Changes in Shareholders' Equity
for the year ended 31 December 2009**

	Share capital €	Share premium €	Reverse acquisition reserve €	Share option reserve €	Retained losses €	Total €
Balance at 1 January 2008	165,838	58,781,971	(25,318,907)	319,336	(23,813,217)	10,135,021
<i>Comprehensive income/(loss):</i>						
Net loss for the period	-	-	-	-	(5,062,326)	(5,062,326)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income/(loss)						(5,062,326)
Options exercised during the period	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	-
Balance at 31 December 2008	166,592	58,791,974	(25,318,907)	764,853	(28,733,110)	5,671,402
<i>Comprehensive income/(loss):</i>						
Net loss for the period	-	-	-	-	(1,629,115)	(1,629,115)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income/(loss)						(1,629,115)
Options exercised	79	2,195	-	-	-	2,274
Issue of share capital	4,644	1,495,354	-	-	-	1,499,998
Share-based compensation expense	-	-	-	522,582	-	522,582
Transfer of exercised and expired share based awards	-	-	-	(4,255)	4,255	-
Balance at 31 December 2009	171,315	60,289,523	(25,318,907)	1,283,180	(30,357,970)	6,067,141

Details of share capital issued during the year are outlined in Note 12.

Merrion Pharmaceuticals plc
Notes to the unaudited condensed consolidated preliminary financial information

1. Basis of preparation of financial information

The unaudited condensed consolidated preliminary financial information included in the preliminary results announcement, which should be read in conjunction with the 2008 Annual Report, has been prepared in accordance with the measurement principles of International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”), and as effective at 31 December 2009. The consolidated financial statements of the Company for the prior year are available on the Company’s website <http://www.merrionpharma.com>.

The unaudited condensed consolidated preliminary financial information presented herein does not constitute the Company’s statutory financial statements for the years ended 31 December 2009 and 2008, within the meaning of the Companies (Amendment) Act, 1986. As permitted by EU law and in accordance with IEX Rules, the Company’s consolidated financial statements are being prepared in accordance with IFRS as adopted by the EU and as effective as at 31 December 2009. The statutory financial statements for the year ended 31 December 2009 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 2009 Annual Report and consolidated financial statements will be circulated to shareholders shortly. Statutory financial statements for the year ended 31 December 2008 have been filed with the Irish Registrar of Companies. The independent auditor’s report on those financial statements was unqualified.

The financial information is presented in Euro, which is the functional currency of the parent company and its subsidiaries. They are prepared on the historical cost basis, except for share-based payments, which are based on fair value determined at the grant date of the relevant share option.

The unaudited condensed consolidated preliminary financial information includes the results and financial position of the Company and all of its subsidiary undertakings. All significant intercompany account balances, transactions, and any unrealised gains and losses or income and expenses arising from intercompany transactions have been eliminated in preparing the financial information.

The preparation of the unaudited condensed consolidated preliminary financial information requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results could differ materially from these estimates. In preparing this financial information, the significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2008.

The accounting policies applied in the unaudited condensed consolidated preliminary financial information are the same as those applied in the consolidated financial statements as at and for the year ended 31 December 2008, as set out on pages 32 to 38 of the 2008 Annual Report, except for the application of new standards as explained below.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- **IFRS 8 - *Operating Segments*** (“IFRS 8”). We adopted IFRS 8 which replaces IAS 14 - *Segmental Reporting* (“IAS 14”), for the year ended 31 December 2009. IFRS 8 requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes. IAS 14 required identification of two sets of segments — one based on business units and the other on geographical areas. IFRS 8 requires additional disclosures around identifying segments and their products and services. Our operations are organised into one business unit, the development of oral dosage forms of drugs that are poorly absorbed. There has been no change to the operating segment as a result of the adoption of IFRS 8 and the reportable segment is consistent with that previously reported under the primary business segment format of the segment reporting under IAS 14.

Merrion Pharmaceuticals plc

Notes (continued)

1. Basis of preparation of financial information (continued)

- IAS 1 (revised) - *Presentation of Financial Statements*. The revised standard prohibits the presentation of items of income and expenses (that is “non owner changes in equity”) in the statement of changes in equity, thereby requiring “non owner changes in equity” to be presented separately from owner changes in equity. All “non owner changes in equity” are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). We have elected to present two statements: an income statement and a statement of comprehensive income. Also, the revised standard includes the statement of changes in shareholders’ equity as a primary statement, rather than as a note to the financial statements.

The Audit Committee, upon delegation of authority by the Board of Directors, approved the preliminary financial information for the year ended 31 December 2009 on 4 March 2010.

2. Segmental information

The Company is managed as a single business unit engaged in the development of pharmaceutical products. Accordingly, the Company operates in one reportable segment.

As of 1 January 2009 the Company determines and presents operating segments based on the information that internally is provided to the CEO, who is the Company’s Chief Operating Decision Maker (‘CODM’). The CODM assesses the performance of the business, and allocates resources, based on the consolidated loss after tax of the Company for the period.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2008.

All revenue is derived from external customers and as the Company operates in one reportable segment, intersegment revenue is zero. The Company has reported all costs and revenues and attributed all assets and liabilities to this single reportable segment.

The following provides geographical information with respect to the attribution of revenue from external customers and non-current assets between the Company’s country of domicile and all foreign locations. Revenues are attributed to countries on the basis of country of destination. Non-current assets are attributed to countries based on the location of the non-current assets.

	Revenues – all external		Non-current assets	
	Year ended 31 December 2009 €	Year ended 31 December 2008 €	31 December 2009 €	31 December 2008 €
Country of domicile -Ireland	-	-	-	-
Foreign locations - Europe	6,335,422	1,339,939	5,567,390	781,456
Foreign locations - United States	-	-	5,305	6,150
Total	6,335,422	1,339,939	5,572,695	787,606

Revenues from one customer, Novo Nordisk A/S, represent approximately 98% (2008: 97%) of the Company’s total revenues. Accordingly, 98% (2008: 97%) of the Company’s revenues are attributed to Denmark.

Novo Nordisk A/S also accounts for 98% of our current trade receivables at 31 December 2009 (2008: 97%).

Merrion Pharmaceuticals plc
Notes *(continued)*

3. Finance income

	Year ended 31 December 2009	Year ended 31 December 2008
	€	€
Interest income	238,573	342,062
Net foreign exchange gain	<u>4,127</u>	<u>21,149</u>
	<u>242,700</u>	<u>363,211</u>

Interest income relates solely to interest earned on cash on deposit.

4. Finance expense

	Year ended 31 December 2009	Year ended 31 December 2008
	€	€
Interest expense on finance lease	35,053	-
Interest on secured loan	29,801	-
Interest on other loans and borrowings	<u>-</u>	<u>270</u>
	<u>64,854</u>	<u>270</u>

Further details of loans and borrowings are outlined in Note 10.

Merrion Pharmaceuticals plc
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 Company is calculated as follows:

Numerator (net loss)

	2009	2008
	€	€
Basic and diluted net loss for the year attributable to ordinary shareholders	1,629,115	5,062,326
	=====	=====

Denominator (weighted average number of ordinary shares)

	2009	2008
	Shares	Shares
Weighted average number of ordinary shares at end of the year	16,991,734	16,618,808
	=====	=====

Basic and diluted loss per share

	2009	2008
	€	€
Basic and diluted net loss per ordinary share	(0.10)	(0.30)
	=====	=====

For the years ended 31 December 2009 and 2008, 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 2009, there were share options outstanding of 1,345,487 (2008: share options outstanding of 991,631) which could potentially have a dilutive impact in the future, but which were anti-dilutive in 2009 and 2008.

Merrion Pharmaceuticals plc
Notes *(continued)*

6. Property, plant and equipment

	Land & buildings	Fixtures and fittings	Laboratory equipment	Total
	€	€	€	€
<i>Cost</i>				
Balance at 1 January 2008	-	97,019	1,701,473	1,798,492
Additions	-	53,766	315,169	368,935
Balance at 31 December 2008	-	150,785	2,016,642	2,167,427
<i>Accumulated depreciation</i>				
Balance at 1 January 2008	-	63,038	948,674	1,011,712
Charge for the year	-	16,247	351,862	368,109
Balance at 31 December 2008	-	79,285	1,300,536	1,379,821
<i>Net book value</i>				
At 31 December 2008	-	71,500	716,106	787,606
<i>Cost</i>				
Balance at 1 January 2009	-	150,785	2,016,642	2,167,427
Additions	3,375,138	62,375	1,276,180	4,713,693
Balance at 31 December 2009	3,375,138	213,160	3,292,822	6,881,120
<i>Accumulated depreciation</i>				
Balance at 1 January 2009	-	79,285	1,300,536	1,379,821
Charge for the year	19,273	34,643	432,785	486,701
Balance at 31 December 2009	19,273	113,928	1,733,321	1,866,522
<i>Net book value</i>				
At 31 December 2009	3,355,865	99,232	1,559,501	5,014,598

During the year, the Company acquired land and buildings which were part financed by a secured loan. The net book value of land and buildings held under secured loan amounted to €2,087,400 at 31 December 2009, which is net of €12,600 accumulated depreciation.

Included within land and buildings is €1,300,000 in land, which is not depreciated.

The net book value of equipment held under finance lease arrangements at 31 December 2009 amounted to €1,105,279, which is net of €63,965 accumulated depreciation.

Merrion Pharmaceuticals plc
Notes (continued)

7. Research and development tax credit

	31 December	31 December
	2009	2008
	€	€
Non-current: other receivable	558,097	-
Current: (included in trade and other receivables)	<u>279,048</u>	-
	<u>837,145</u>	-
	=====	=====

At 31 December 2009, Merrion has recognised a receivable of €837,145 in respect of qualifying Research and Development ('R&D') tax credits, with a corresponding reduction in R&D expenses in the consolidated income statement. The qualifying R&D tax credits are treated, in substance, as government grants towards R&D expenditure and are deducted from R&D expenses in the income statement to match the expenditure to which they relate. The gross value of R&D tax credits in respect of the current year was €1,812,188; of which the Company has made a claim to receive €837,145 in the form of a cash payback, to be paid by the Revenue Commissioners over a three year period. The remainder of the R&D tax credit of €975,043 cannot be monetized, but can be carried forward indefinitely for offset against future corporation tax liabilities. A deferred tax asset has not been recognised for this element of the R&D tax credits as the directors consider that its ultimate recovery may be uncertain.

8. Cash and cash equivalents

	31 December	31 December
	2009	2008
	€	€
Bank balances	338,520	312,423
Call deposits	<u>6,879,577</u>	<u>7,827,662</u>
	<u>7,218,097</u>	8,140,085
	=====	=====

9. Deferred income – non current

	31 December	31 December
	2009	2008
	€	€
Deferred operating income	<u>2,730,444</u>	<u>1,686,241</u>
	<u>2,730,444</u>	1,686,241
	=====	=====

Deferred income – current

	31 December	31 December
	2009	2008
	€	€
Deferred operating income	1,719,140	718,087
Government grant	<u>-</u>	<u>11,485</u>
	<u>1,719,140</u>	729,572
	=====	=====

Merrion Pharmaceuticals plc
Notes (continued)

10. Loans and borrowings

	31 December 2009 €	31 December 2008 €
Non current		
Secured bank loan	1,867,947	-
Finance lease liabilities	<u>917,591</u>	<u>-</u>
	<u>2,785,538</u>	<u>-</u>
	=====	=====
Current		
Secured bank loan	184,308	-
Finance lease liabilities	<u>288,117</u>	<u>-</u>
	<u>472,425</u>	<u>-</u>
	=====	=====

On 22 July 2009, the Company acquired a 28,891 square foot pharmaceutical freehold facility in Citywest, Co. Dublin for total consideration of €3.75 million. This acquisition was financed by €0.90 million in cash and €2.85 million in secured borrowings; (€1.10 million in the form of a 15 year mortgage and €0.75 million in the form of a four year equipment lease.) During the year, additional laboratory equipment amounting to €0.50 million was acquired under a finance lease. In relation to both acquisitions of equipment acquired under finance leases, the equipment was initially purchased in cash and subsequently funded by finance leases over the equipment acquired.

The terms and conditions of outstanding loans are as follows:

	Nominal interest rate	Year of maturity	31 December 2009	31 December 2008
Secured bank loan	LIBOR + 2.5%	2024	2,052,255	-
Finance lease liabilities	7.14%	2013	509,943	-
Finance lease liabilities	7.56%	2013	<u>695,765</u>	<u>-</u>
Total interest bearing liabilities			<u>3,257,963</u>	<u>-</u>
			=====	=====

Finance lease liabilities are payable as follows:

	31 December 2009		31 December 2008	
	Minimum lease payments	Present value of minimum payments	Minimum lease payments	Present value of minimum payments
	€	€	€	€
Within one year	367,491	288,117	-	-
After one year but not more than five years	1,017,388	917,591	-	-
More than five years	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,384,879</u>	<u>1,205,708</u>	<u>-</u>	<u>-</u>
	=====	=====	=====	=====

Merrion Pharmaceuticals plc
Notes *(continued)*

11. Share-based payments

In 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, non-employees, and senior executives of the Company or its subsidiaries for the purchase of ordinary shares. The terms and conditions of the Plan are disclosed in the 2008 Annual Report.

423,000 share options were granted, on similar terms, to employees and directors of the Company during the year ended 31 December 2009, (2008: 467,000).

The fair value of services received in return for share options granted during the year ended 31 December 2009 was measured based on the fair value of share options granted, using the Black-Scholes Merton (“BSM”) option-pricing model, using the following assumptions:

Expected volatility ⁽¹⁾	60%
Dividend yield	Nil
Risk-free interest rate ⁽²⁾	2.44%
Expected term (years) ⁽³⁾	4.7 years

⁽¹⁾The expected volatility is based on the volatility of similar companies in their early years.

⁽²⁾The risk-free rate is based on a zero coupon Eurozone Treasury gilt yield rate at the date of grant.

⁽³⁾Two thirds of the overall term to expiry.

The fair value per award granted ranged from €1.68 to €2.13 per award and the prevailing market price of shares at the dates of grant ranged from €3.35 to €4.14 per share.

During the year ended 31 December 2009, the Company revised its method of measuring the fair value of its share option grants, from a binomial option-pricing model to the BSM option-pricing model. This change in the measurement basis of estimating the fair value of share option grants does not result in any substantive difference in the expected term assumption as previously provided under the binomial option-pricing model.

This change in estimate has been applied prospectively, effective 1 January 2009. Had the Company applied the BSM option-pricing model in estimating the fair value of share options awarded in prior periods the financial statement impact would have resulted in a higher cumulative share-based compensation reserve (in shareholders’ equity) at 31 December 2008 of €10,846 in aggregate for all awards granted prior to 1 January 2009.

Total share-based compensation expense of €522,582 relating to equity settled share-based awards was recognised during the year ended 31 December 2009 (2008: €587,950) in the following line items in the condensed consolidated preliminary income statement:

	Year ended 31 December 2009	Year ended 31 December 2008
	€	€
Research and development expenses	162,445	272,393
Administrative expenses	360,137	315,557
	522,582	587,950
	=====	=====

Merrion Pharmaceuticals plc
Notes *(continued)*

11. Share-based payments *(continued)*

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

	Number of share options	Weighted average exercise price	Weighted average fair value	Weighted average remaining contractual life
Outstanding at 1 January 2008	650,021	€2.38	€1.57	7.30 years
Granted	467,000	€2.58	€1.31	
Exercised	(75,390)	€0.14	€1.89	
Cancelled	(50,000)	€4.05	€1.97	
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2008	991,631	€2.56	€1.49	6.46 years
Granted	423,000	€3.92	€2.12	
Exercised	(7,969)	€0.25	€0.34	
Cancelled	(61,175)	€2.60	€1.28	
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	1,345,487	€3.02	€1.69	5.75 years
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The number of share options exercisable at 31 December 2009 was 418,451 (2008: 298,900).

At 31 December 2009, total unrecognised share-based compensation cost relating to unvested share options outstanding of 796,791 (2008: 692,731) amounted to €59,639 (2008: €732,250), which the Company expects to recognise over a weighted average vesting period of 2.47 years (2008: 3.25 years).

12. Share capital

On 20 January 2009, 300,000 new ordinary shares in Merrion, at a price of €3.00 per share, were issued and allotted to Novo Nordisk A/S, for total consideration of €900,000. These shares were admitted to trading on the Irish Stock Exchange on the same date. This investment by Novo Nordisk A/S represents a 1.8% shareholding in Merrion.

A further 164,383 new ordinary shares in Merrion were issued and allotted to Enterprise Ireland at a price of €3.65 per share. The total consideration of these shares was €599,998 and they were admitted to trading on the Irish Stock Exchange on 21 October 2009.

Merrion Pharmaceuticals plc
Notes *(continued)*

13. Related parties

On 16 February 2004, the Company 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. As part of this purchase agreement, Merrion 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 agreement. At 31 December 2009, €347,078 (2008: €15,564) was payable to Elan in this respect.

On 23 December 2003, the Company 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 2009, €2,083 was payable to Elan in relation to leasing costs (31 December 2008: €5,051).

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:

	Year ended 31 December 2009	Year ended 31 December 2008
	€	€
Salaries	972,122	813,358
Bonus	110,472	146,355
Other benefits	12,752	12,190
Pension benefits	63,884	43,649
Share-based payments	392,725	302,796
	1,551,955	1,318,348
	=====	=====

14. Subsequent events

There were no subsequent events.

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