

Merrion Pharmaceuticals plc
Interim Results for the six months ended 30 June 2010

Dublin, Ireland, 3 September 2010

Merrion Pharmaceuticals plc, ("Merrion" or the "company") (ESM: MERR) an international product development company, announced today its interim results for the six month period ended 30 June 2010.

Operating highlights

- In March 2010, Novo Nordisk, commenced a second Phase I clinical trial using Merrion's GIPET® technology. This trial is for an oral GLP-1 analogue following the announcement of a Phase I clinical trial with an oral insulin analogue in December 2009.
- The issuance of two US GIPET patents covering the GIPET technology and our lead product Orazol.
- We continue the process of selecting a preferred partner to licence Orazol. The process will be facilitated by agreeing the Phase III trial programme with the FDA. This is an important step in achieving the optimal licence agreement for your company.
- The Company has agreed its Phase III trial design for Orazol with the European Committee for Medicinal Products for Human Use (CHMP) and is continuing its discussions with the FDA regarding the design of the Phase III trial. The Company hopes to have made substantial progress in this FDA process before year end.
- In July 2010, our new 30,000 sq.ft. state of the art facility in Citywest was granted a license under the EU Clinical Directive for Investigational Medicinal Products.
- Dr. Hing Kin Chan was appointed as Chief Business Officer in May 2010.

Financial highlights

- Revenue growth of 63% to €2.75m (2009: €1.7m)
- Net loss reduced by 65% to €0.81m (2009: €2.34m)
- Loss per ordinary share of €0.05 (2009: €0.14)
- Cash and equivalents €5.9m (31 December 2009: €7.22m)

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

'We are pleased with the results for the first half of the year, which showed significant progress on a number of fronts. The increase in revenue is a reflection of the high quality service we have delivered to our partners, particularly the two Phase I trials with Novo Nordisk. Over the past six months, huge effort was invested in preparing our new facility for future Merrion operations, and we achieved an Irish Medical Board license to manufacture in July 2010'.

Outlook

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

'In the next six months, Merrion will expand its early stage pipeline and develop our technology base. We are currently investigating additional products which GIPET could bring to the market and we expect to add a new internal project in the coming months. Our focus on building and maintaining new strategic partners is an ongoing process and we are continuing to pursue new exciting potential complementary collaborations with other pharmaceutical companies. To accelerate this process we have considerably strengthened our Business Development function, including the appointment of a very experienced Chief Business Officer.

The Novo Nordisk phase I trial manufacturing is now complete (accounting for 93% of H1 revenues). Development revenue from this source will decrease in the second six months of this financial year."

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Interim Management Report

for the six months ended 30 June 2010

This interim management report includes the following:

- Business overview, including important events that have occurred during the first six months of the current financial year;
- Results of operations for the six months ended 30 June 2010, compared to the six months ended 30 June 2009;
- Principal risks and uncertainties relating to the remaining six months of the year; and
- Related party transactions.

The condensed consolidated interim financial statements for the six months ended 30 June 2010 included in the half-yearly financial report are unaudited; however have been reviewed by the auditor whose report is set out on page 17.

Business overview

Merrion (www.merrionpharma.com) is 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 commercialize 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 utilizes 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 is based in Dublin, in a state of the art purpose built facility which allows speed of development and reduced risk in taking ideas from conception to final phase II formulation in our own current good manufacturing practice (cGMP) facilities. Merrion also has operations in Wilmington, North Carolina. Merrion is listed on the Enterprise Securities Market (ESM) of the Irish Stock Exchange under the symbol MERR.

Review of operating performance

Merrion programmes

Merrion has a portfolio of high value development projects that will provide significant improvements in drug therapy.

Orazol™ 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 for bone metastases. Orazol offers many new potential advantages to patients, physicians and healthcare providers. The once weekly oral dose has shown improved side effect profile and improved bone pain measures. In addition, Zometa has been filed with the FDA for a new indication as an early stage treatment for breast cancer.

Merrion's positive final results on its key multicentre Phase II study on its Orazol drug showed that the weekly therapy with 20mg Orazol (tablet) is as therapeutically effective, from the first week, as a monthly treatment with the intravenous drug Zometa® (4mg), based on movements in observed levels of critical bone biomarkers. The Orazol tablet was well tolerated by the patients in the trial. 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). 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.

Merrion has been holding discussions with the regulatory authorities with a view to gaining an agreed Phase III clinical trial design with the regulatory authorities. Potential partners are also interested in the design, extent and duration of Phase III trials. The Company has agreed its Phase III trial with the European CHMP. The Company is still in discussion with the FDA regarding the design of the Phase III trial and the next meeting with the FDA is set for November 2010. The FDA and European Medicines Agency (EMA) are also considering an application from Novartis to use Zometa as an adjuvant therapy in early-stage breast cancer.

MER 102, an oral anticoagulant, is in preclinical testing. This programme 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 programme 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 programme 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 significantly enhance oral absorption 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.

Subsequently, in May 2010, United States Patent No. 7,704,977, "Solid Oral Dosage Form Containing an Enhancer" covering Orazol was issued. The expiry date on this patent is 2027.

Partner programmes

In March 2010, our partner Novo Nordisk initiated its Phase I clinical trial with an oral GLP-1 analogue, using Merrion's absorption enhancing GIPET® technology. This was part of a development and license agreement entered into during January 2009. The commencement of a clinical trial is another significant step for our GIPET technology showing that oral GLP-1 analogues could become another potentially marketed product using GIPET technology. Results of this trial are expected by Novo Nordisk in 2011.

In December 2009, we announced that Novo Nordisk entered into clinical trials with oral insulin under a separate agreement with Merrion.

As noted above, 97% of our revenue for the six months ended 30 June 2010 was derived from Novo Nordisk (2009: 100%). A substantial portion of that was related to the manufacture of clinical trial batches for Phase I clinical trials. As this is now complete and products are in Phase I trials, it is expected that this development revenue will decrease in the second half of the year.

Facility changes

In July 2010, our new Citywest facility was granted a license by the IMB under the EU Clinical Directive for Investigational Medicinal Products. This state of the art facility was acquired by Merrion in July 2009 and it provides much needed space for our team to continue work on our current in-house projects, investigate expanding the potential of Merrion's technologies and manufacture for clinical trials while providing high quality services to our partners. The cost of commissioning the facility to IMB standards was capitalised during the period and amounted to €180,000.

Personnel changes

We recently announced the appointment of Dr. Hing Kin Chan as Chief Business Officer. Dr. Chan will be responsible for the development of Merrion's commercial strategy. Dr. Chan has over 20 years experience in the healthcare industry, and joins us from DBV Technologies in Paris where he served as Chief Business Officer. Prior to this, Dr. Chan worked as Vice President of Commercial Development at ProBioGen in Berlin and as Business Development Director for Eurand in Milan. Dr. Chan's vast experience will be crucial in future deal making, portfolio reviews and in identifying new opportunities for Merrion.

Financial review

The financial data set forth below is derived from our condensed consolidated interim financial statements (the "interim financial statements") in this half-yearly financial report and our 2009 Annual Report, and should be read in conjunction with, and is qualified by reference to, our interim financial statements and related notes thereto.

Merrion reported a net loss of €0.8 million or €0.05 loss per basic and diluted ordinary shares for the six months ended 30 June 2010, compared to a net loss of €2.3 million or €0.14 loss per basic and diluted ordinary shares for the six months ended 30 June 2009. The operating loss was €0.8 million for the six months ended 30 June 2010 compared to an operating loss of €2.5 million for the same period last year, primarily due to the increase in revenue, R&D tax credits and a reduction in clinical trial costs during the period.

Revenues and cost of sales. Revenues consist of upfront, milestone and development fees from partner agreements. Upfront payments are deferred and amortised over the development period of the project. Total revenues for the six month period ended 30 June 2010 were €2.8 million compared to €1.7 million for the six months to 30 June 2009. The majority of revenue recognised for the period was from the development work associated with the partner agreement with Novo Nordisk.

Our cost of sales consists of direct third-party expenditures, royalty fees and allocated salaries related to our development fees recognised in the period. We had approximately €0.7 million of direct costs associated with our revenues generated for the six months ended 30 June 2010 compared to approximately €0.4 million for the same period last year. For the six month period ended 30 June 2010, we recorded a gross margin of 73% compared to 74% for the same period in the prior year.

Research and development expenses. R&D expenses comprise salaries, overhead and consumables, patent costs, share-based compensation expense and clinical trial costs. R&D expenses decreased by 35% to €1.7 million for the six months ended 30 June 2010 compared to €2.6 million for the same period last year. The decrease was due primarily to reduced clinical trial costs offset by an increase in headcount. The company recorded R&D tax credits of €0.5 million (30 June 2009: €Nil). Clinical trial costs in the prior period related to the Orazol™ Phase II (b) oncology trial which was completed in 2009. At 30 June 2010, we had 32 research and development staff compared to 22 in the period ended 30 June 2009.

Administrative expenses. Administrative expenses comprise salaries, professional fees, office overhead, share-based compensation expense, and other support costs. Administrative expenses are in line with the same period of the prior year and increased by 1% to €1.1 million.

Net finance expense/income. Net finance expense was €3,000 for the six months ended 30 June 2010 compared to a net finance income of €127,000 for the same period last year. The change year on year was a result of the finance expense arising on the mortgage and finance leases entered into during the third quarter of the prior year following the acquisition of the Citywest facility.

Net loss. Our net loss was €0.8 million for the six months ended 30 June 2010 compared to €2.3 million for the same period last year. The reduction in the net loss was primarily due to the increase in revenue, R&D tax credits and reduction in clinical trial costs during the period.

Balance sheet. Cash and cash equivalents as at 30 June 2010 were €5.9 million, a decrease of 18% compared to €7.2 million as of 31 December 2009. The decrease of €1.3 million was primarily attributable to operating cash outflows of €873,000, (primarily comprising the net loss for the period (adjusted to exclude non-cash items)); the acquisition of property, plant and equipment of €246,000 (primarily related to the commissioning costs on the new facility of €180,000); and the repayment of loans and finance leases of €201,000 in connection with the Citywest facility. Other significant balance sheet movements period over period comprise a decrease of 44% in trade and other receivables and a 19% decrease in deferred income (current and non-current), both primarily attributable to Novo Nordisk.

Principal risks and uncertainties

As with any drug development company, the company has a number of business risks as outlined in our 2009 Annual Report. Our operating performance in the second half of 2010 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 and a number of partnered product candidates based on the GIPET® oral delivery-enabling technology. The business depends primarily on the company and its partners' 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 or its partners do not obtain required regulatory approvals, or if they fail 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 company 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 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 June 2010, 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 30 June 2010, the Company had cash and cash equivalents of €5.9 million and continues to manage and contain operating costs in order to ensure that sufficient medium term funding is available. Following the acquisition of the Citywest facility in July 2009, the Company entered into new mortgage and finance lease arrangements. Additional finance costs of €0.2 million arose in the six month period ended 30 June 2010 in connection with the mortgage and finance lease on the new Citywest facility. 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.

Related party transactions

Details of related party transactions that have taken place in the first six months of the current financial year and any changes in the related party transactions described in the 2009 Annual Report are set forth in note 10 to the interim financial statements included in this half-yearly financial report.

Unaudited Condensed Consolidated Interim Income Statement
for the six months ended 30 June 2010

	<i>Note</i>	6 months ended 30 June 2010 €	6 months ended 30 June 2009 €
Revenue – continuing operations	4	2,752,231	1,691,302
Cost of sales		<u>(731,506)</u>	<u>(444,465)</u>
Gross profit		2,020,725	1,246,837
Research and development expenses		(1,679,539)	(2,569,214)
Administrative expenses		<u>(1,149,112)</u>	<u>(1,138,869)</u>
Loss from operating activities – continuing operations		(807,926)	(2,461,246)
Finance income		71,840	131,762
Finance expense		<u>(74,600)</u>	<u>(5,209)</u>
Net finance (expense) / income		<u>(2,760)</u>	<u>126,553</u>
Loss before income tax		(810,686)	(2,334,693)
Income tax		<u>-</u>	<u>-</u>
Net loss for the period - all attributable to equity holders of the company		(810,686)	<u>(2,334,693)</u>
Basic and diluted loss per ordinary share		(0.05)	(0.14)
Weighted average number of ordinary shares		17,131,509	16,930,170
Weighted average number of diluted shares		17,131,509	16,930,170

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

Unaudited Condensed Consolidated Interim Statement of Comprehensive Income
for the six months ended 30 June 2010

	6 months ended 30 June 2010 €	6 months ended 30 June 2009 €
Net loss for the period	<u>(810,686)</u>	<u>(2,334,693)</u>
Total comprehensive loss for the period - all attributable to equity holders of the company	<u>(810,686)</u>	<u>(2,334,693)</u>

The accompanying notes are an integral of these financial statements.

Unaudited Condensed Consolidated Interim Balance Sheet
as at 30 June 2010

	Note	30 June 2010 €	31 Dec 2009 ⁽¹⁾ €
Non-current assets			
Property, plant and equipment	6	4,949,580	5,014,598
Other receivable	7	<u>1,069,349</u>	<u>558,097</u>
Total non-current assets		6,018,929	5,572,695
Current assets			
Trade and other receivables	7	1,381,288	2,471,295
Cash and cash equivalents		<u>5,899,375</u>	<u>7,218,097</u>
Total current assets		7,280,663	9,689,392
Total assets		<u>13,299,592</u>	<u>15,262,087</u>
Non-current liabilities			
Deferred income	8	2,267,666	2,730,444
Loans and borrowings	9	<u>2,573,406</u>	<u>2,785,538</u>
Total non-current liabilities		4,841,072	5,515,982
Current liabilities			
Trade payables		807,423	456,504
Deferred income	8	1,319,861	1,719,140
Accrued and other payables		414,808	1,030,895
Loans and borrowings	9	<u>483,233</u>	<u>472,425</u>
Total current liabilities		3,025,325	3,678,964
Total liabilities		7,866,397	9,194,946
Shareholders' equity			
Share capital		171,315	171,315
Share premium		60,289,523	60,289,523
Reverse acquisition reserve		(25,318,907)	(25,318,907)
Share based compensation reserve		1,459,920	1,283,180
Retained loss		<u>(31,168,656)</u>	<u>(30,357,970)</u>
Total shareholders' equity		5,433,195	6,067,141
Total liabilities and shareholders' equity		<u>13,299,592</u>	<u>15,262,087</u>

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

⁽¹⁾ Amounts at 31 December 2009 are derived from the 31 December 2009 audited financial statements

Unaudited Condensed Consolidated Statement of Cash Flows
for the six months ended 30 June 2010

	6 months ended 30 June 2010 €	6 months ended 30 June 2009 €
Cash flows from operating activities		
Net loss for the period	<u>(810,686)</u>	<u>(2,334,693)</u>
Adjustments to reconcile net income to net cash generated from operating activities:		
Depreciation	255,283	235,550
Qualifying R&D tax credit	(511,252)	-
Share-based compensation expense	176,740	224,122
Finance income	<u>2,760</u>	<u>(126,553)</u>
	(887,155)	(2,001,574)
Change in trade and other receivables	1,109,774	(588,531)
Change in trade and other payables	(211,031)	(295,404)
Change in deferred income	<u>(862,057)</u>	<u>2,221,305</u>
Cash used in operations	(850,469)	(664,204)
Interest received	52,394	131,762
Interest paid	<u>(74,600)</u>	<u>(5,209)</u>
Net cash used in operating activities	(872,675)	(537,651)
Investing activities		
Acquisitions of property, plant and equipment	(245,574)	(438,752)
Gain on disposal of property, plant and equipment	<u>150</u>	<u>-</u>
Net cash used in investing activities	(245,424)	(438,752)
Cash flows from financing activities		
Repayment of secured loan	(59,919)	-
Repayment of finance lease liabilities	(141,406)	-
Proceeds from borrowings under finance lease	-	393,635
Proceeds from exercise of options	-	2,022
Proceeds from issue of share capital	<u>-</u>	<u>900,000</u>
Net cash (used in) / provided by financing activities	(201,325)	1,295,657
Net (decrease) / increase in cash and cash equivalents	(1,319,424)	319,254
Net effect of exchange rate movements on cash	702	(6,114)
Cash and cash equivalents at beginning of the period	<u>7,218,097</u>	<u>8,140,085</u>
Cash and cash equivalents at end of the period	<u>5,899,375</u>	<u>8,453,225</u>

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

Unaudited Condensed Consolidated Interim Statement of Changes in Shareholders' Equity
for the six months ended 30 June 2010

	Share capital €	Share premium €	Reverse acquisition reserve €	Share option reserve €	Retained losses €	Total €
Balance at 1 January 2009	166,592	58,791,974	(25,318,907)	764,853	(28,733,110)	5,671,402
<i>Comprehensive income:</i>						
Net loss for the period	-	-	-	-	(2,334,693)	(2,334,693)
Options exercised during the period	70	1,952	-	-	-	2,022
Issue of share capital	3,000	897,000	-	-	-	900,000
Share-based compensation transactions	-	-	-	224,122	-	224,122
Transfer of exercised and expired share-based awards	-	-	-	(3,970)	3,970	-
Balance at 30 June 2009	169,662	59,690,926	(25,318,907)	985,005	(31,063,833)	4,462,853
<i>Comprehensive income:</i>						
Net profit for the period	-	-	-	-	705,578	705,578
Options exercised during the period	9	243	-	-	-	252
Issue of share capital	1,644	598,354	-	-	-	599,998
Share-based compensation transactions	-	-	-	298,460	-	298,460
Transfer of exercised and expired share-based awards	-	-	-	(285)	285	-
Balance at 31 December 2009	171,315	60,289,523	(25,318,907)	1,283,180	(30,357,970)	6,067,141
<i>Comprehensive income:</i>						
Net loss for the period	-	-	-	-	(810,686)	(810,686)
Share-based compensation transactions	-	-	-	176,740	-	176,740
Balance at 30 June 2010	171,315	60,289,523	(25,318,907)	1,459,920	(31,168,656)	5,433,195

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

1. Basis for preparation

These unaudited condensed consolidated interim financial statements (the “interim financial statements”), which should be read in conjunction with the 2009 Annual Report, have been prepared by Merrion Corporation plc (“Merrion”, the “company”) in accordance with IAS 34 - *Interim Financial Reporting* (“IAS 34”), as adopted by the EU. In addition, these interim financial statements have been prepared in accordance with the ESM Rules for Companies as issued by the Irish Stock Exchange. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the company as at and for the year ended 31 December 2009, which are available upon request from the company’s registered office at 3200 Lake Drive, Citywest Business Campus, Dublin 24 or at www.merrionpharma.com.

These interim financial statements are 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 interim financial statements include 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 interim financial statements.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results could differ materially from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying the company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2009.

The comparative figures included for the year ended 31 December 2009 do not constitute statutory financial statements of Merrion within the meaning of Regulation 40 of the European Communities (Companies; Group accounts) Regulations, 1992. Statutory financial statements for the year ended 31 December 2009 have been filed with the Companies’ Office. The auditor’s report on those financial statements was unqualified.

These interim financial statements were approved by the Board of Directors on 3 September 2010.

2. Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the consolidated financial statements as at and for the year ended 31 December 2009, as set out on pages 34 to 42 of the 2009 Annual Report, except for the impact of the standards described below.

The following new interpretations and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- Improvements to IFRSs (issued April 2009)
- IFRS 3 (Revised), “*Business Combinations*”,
- IAS 27 (Revised), “*Consolidated and Separate Financial Statements*”,
- IFRIC 17, “*Distribution of Non-Cash Assets to Owners*”,
- Amendments to IAS 39, “*Financial Instruments: Recognition and Measurement: Eligible Hedged Items*”, (effective for annual periods beginning on or after 1 July 2009), and
- Amendments to IFRS 2: *Group Cash-settled Share-based Payment Transactions*, effective on 1 January 2010.

The adoption of these amendments to standards and interpretations did not impact on our financial position or results from operations.

We have considered all EU endorsed IFRS standards, amendments to these standards and IFRIC interpretations that have been issued, but which are not yet effective and these have not been early adopted in these financial statements. These future requirements are as follows:

- IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*, effective on 1 July 2010;
- Revised IAS 24: *Related Party Disclosures*, effective on 1 January 2011;

- Amendment to IFRIC 14: *Prepayments of a Minimum Funding Requirement*, effective on 1 January 2011;
- Amendment to IAS 32: *Financial Instruments: Presentation: Classification of Rights Issues*, effective on 1 February 2010.

The above new or revised standards and interpretations will be adopted in future financial statements, if applicable. The group does not anticipate that the adoption of these new or revised standards and interpretations will have a material impact on the group's overall results from operation and financial position.

3. Seasonality

The results of the company's operations are not materially impacted by seasonal factors.

4. Segment 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.

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.

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	
	6 months ended 30 June 2010	6 months ended 30 June 2009	30 June 2010	31 December 2009
	€	€	€	€
Country of domicile -Ireland	-	-	6,014,752	5,567,390
Foreign locations - Europe	2,752,231	1,691,302	-	-
Foreign locations - United States	-	-	4,177	5,305
	<hr/>	<hr/>	<hr/>	<hr/>
Total	2,752,231	1,691,302	6,018,929	5,572,695

Revenues from one customer, Novo Nordisk A/S, represent approximately 93% (June 2009: 100%) of the Company's total revenues. Accordingly, 96% (June 2009: 100%) of the Company's revenues are attributed to Denmark.

Novo Nordisk A/S also accounts for 99% of our current trade receivables at 30 June 2010 (2009: 100%).

5. 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 2009 Annual Report.

There were no grants during the six month period ended 30 June 2010. 415,000 share options were granted, to employees and directors of the company during the interim period ended 30 June 2009.

Total share-based compensation expense of €176,740 relating to equity settled share-based awards was recognised during the six months ended 30 June 2010 (2009: €224,122) in the following line items in the condensed consolidated interim income statement:

	Six months ended 30 June 2010	Six months ended 30 June 2009
	€	€
Administrative expenses	119,000	168,598
Research & development expenses	57,740	55,524
Total	176,740	224,122

6. Property, plant and equipment

Acquisitions and disposals

During the six month period ended 30 June 2010, the Company acquired assets with a cost of €191,437, primarily related to the commissioning costs on the new facility of €180,000; (2009: €438,752). Disposals of property, plant and equipment during the period amounted to €1,170. There were no disposals during the prior period.

7. Research and development tax credits

	30 June 2010	31 December 2009
	€	€
Non-current		
Other receivable	1,069,349	558,097
Current		
Trade and other receivables	279,048	279,048
Total deferred income	1,348,397	837,145

During the six month period ended 30 June 2010, the company recognised a reduction in R&D expenses in the consolidated income statement of €551,252 in respect of qualifying R&D tax credits (6 months ended 30 June 2009: €Nil). 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. These credits were recognised as a receivable at 30 June 2010. The company has made a claim in respect of credit earned during the year ended 31 December 2009 to receive €837,145 in the form of a cash payback, to be paid by the Irish government over a three year period. This At 30 June 2010, the receivable remains unchanged from the 31 December 2009 position. The remainder of the 2009 R&D tax credits of €975,043 cannot be monetised, 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. Deferred income

	30 June 2010	31 December 2009
	€	€
Non-current		
Deferred operating income	2,267,666	2,730,444
Current		
Deferred operating income	1,319,861	1,719,140
Total deferred income	3,587,527	4,449,584

Deferred operating income arises primarily in respect of two development and license arrangements entered into with Novo Nordisk A/S in November 2008 and January 2009. These amounts are being recognised over a period of five years, commensurate with the expected term of the development phase of the agreements.

9. Loans and borrowings

	30 June 2010 €	31 December 2009 €
Non-current		
Secured bank loan	1,808,029	1,867,947
Finance lease liabilities	<u>765,377</u>	<u>917,591</u>
Total	<u>2,573,406</u>	<u>2,785,538</u>
Current		
Secured bank loan	184,308	184,308
Finance lease liabilities	<u>298,925</u>	<u>288,117</u>
Total	<u>483,233</u>	<u>472,425</u>

On 22 July 2009, the group 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; (€2.10 million in the form of a 15 year mortgage and €0.75 million in the form of a four year equipment lease). During 2009, additional laboratory equipment amounting to €0.50 million was also acquired under a separate 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.

Finance lease liabilities are payable as follows:

	30 June 2010		31 December 2009	
	Minimum lease payments €	Present value of minimum payments €	Minimum lease payments €	Present value of minimum payments €
Within one year	367,491	298,925	367,491	288,117
After one year but not more than five years	833,643	765,377	1,017,388	917,591
More than five years	-	-	-	-
Total finance lease payments	<u>1,201,134</u>	<u>1,064,302</u>	<u>1,384,879</u>	<u>1,205,708</u>

10. Related party transactions

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"). Elan holds a 2% shareholding in Merrion as a result of the original acquisition agreement. 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. During the six months ended 30 June 2010, €363,372 (2009: €Nil) was paid to Elan in respect of this agreement.

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 30 June 2010 €2,083 was payable to Elan in relation to leasing costs (June 2009: €2,530).

Key management personnel receive compensation in the form of short term employee benefits, post employment benefits and share based payments. Total compensation for the six month period ended 30 June 2010 was €685,998 (six months ended 30 June 2009: €660,334).

11. Subsequent events

There were no significant events after the balance sheet date.

Statement of the directors in respect of the half-yearly financial report:

Each of the directors, whose names and functions are listed on pages 8 and 9 of our 2009 Annual Report, confirm that, to the best of our knowledge and belief:

- a) the unaudited condensed consolidated interim financial statements, comprising the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim balance sheet, the condensed consolidated interim statement of cash flows, the condensed consolidated interim statement of changes in shareholders' equity and the related notes thereto, have been prepared in accordance with IAS 34 - *Interim Financial Reporting* ("IAS 34"), as adopted by the EU.
- b) the interim management report includes a fair review of the following information:
 - (i) an indication of important events that have occurred during the six months ended 30 June 2010 and their impact on the condensed consolidated interim financial statements; and a description of the principal risks and uncertainties for the six months ending 30 June 2010; and
 - (ii) related party transactions that have taken place in the six months ended 30 June 2010 and that have materially affected the financial position or performance of the company during that period; and any changes in the related party transactions described in the 2009 Annual Report that could do so.

On behalf of the Board

Peter Thornton
Director

John Lynch
Director

3 September 2010

Introduction

We have been engaged by Merrion Pharmaceuticals plc (the "company") to review the condensed consolidated interim financial statements for the six months ended 30 June 2010, which comprise the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim balance sheet, the condensed consolidated interim statement of cash flows, the condensed consolidated interim statement of changes in shareholders' equity and the related notes thereto. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report, including the condensed consolidated interim financial statements contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with the ESM Rules for Companies as issued by the Irish Stock Exchange.

As disclosed in note 1 – basis of preparation, the annual consolidated financial statements of the company are prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). The condensed consolidated interim financial statements included in this half-yearly financial report have been prepared in accordance with IAS 34 - *Interim Financial Reporting*, ("IAS 34"), as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the half-yearly financial report, based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 - *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in Ireland and the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently, does not enable us to obtain assurance that we would not become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements in the half-yearly financial report for the six months ended 30 June 2010 are not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the ESM Rules for Companies as issued by the Irish Stock Exchange.

KPMG
Chartered Accountants
Dublin
3 September 2010