Company Number 09481161

MEREO BIOPHARMA GROUP PLC

Annual Report and Accounts
Year ended December 31, 2020

MEREO BIOPHARMA GROUP PLC

CONTENTS

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The Directors present their strategic report together with the corporate governance report, directors' remuneration report, directors' report, audited consolidated financial statements, audited company financial statements and auditors' report for the year ended December 31, 2020.

This strategic report is broken down into the following sections:

- Business strategy;
- Chairman and CEO's statement;
- Financial review; and
- Principal risks and uncertainties.

We are a biopharmaceutical company focused on the development and commercialization of innovative therapeutics that aim to improve outcomes for oncology and rare diseases. Our existing portfolio consists of six clinical stage product candidates two of which are in ongoing clinical studies, two are partnered for further development and the remaining two will be further developed by a partner. Our lead oncology product candidate, etigilimab (an "anti-TIGIT"), has completed a Phase 1a dose escalation clinical trial in patients with advanced solid tumors and has been evaluated in a Phase 1b study in combination with nivolumab in select tumor types. We recently initiated a Phase1b/2 basket study for etigilimab in combination with an anti-PD-1 in three rare tumors, including sarcoma, several gynecological carcinomas including cervical and endometrial carcinomas and tumors with high mutation burden. Our other rare disease product candidates are alvelestat which is being investigated in an ongoing Phase 2 proof-of-concept study for the treatment of severe alpha-1 antitrypsin deficiency ("AATD") and in an investigator-initiated study in hospitalized COVID-19, and setrusumab for the treatment of osteogenesis imperfecta ("OI"). Following the announcement of the results for setrusumab in a Phase 2b study in adults with OI which demonstrated a dose dependent increase in bone mineral density and bone strength and alignment with the FDA and the EMA following scientific advice on the pivotal study design for children with OI, we announced a strategic partnership with Ultragenyx in December 2020 for the development of setrusumab in children and adults with OI. Ultragenyx have announced their intention to initiate a Phase 2/3 study in children with OI in the second half of 2021 following additional discussions with the regulators.

We plan to develop our product candidates for oncology and rare diseases through the next key clinical milestone and then partner where it makes sense to do so strategically but also in select cases to develop through regulatory approval and potentially commercialization.

Our second oncology product, navicixizumab ("Navi") for the treatment of late line ovarian cancer has completed a Phase 1b study and has been partnered for further development with OncXerna Therapeutics, Inc. ("OncXerna") on a global basis.

We plan to partner or sell our other two product candidates, acumapimod for the treatment of AECOPD and leflutrozole for the treatment of infertility and Hypogonadotropic Hypogonadism ("HH") in obese men, recognizing the need for greater resources to take these product candidates to market.

Our strategy is selectively to acquire and develop product candidates for oncology and rare diseases that have already received significant investment from large pharmaceutical and biotechnology companies and that have substantial pre-clinical, clinical and manufacturing data packages. Since our formation in March 2015, we have successfully executed on this strategy by acquiring six clinical-stage product candidates of which four were in oncology and rare diseases. Four of our six clinical-stage product candidates were acquired from large pharmaceutical companies and two were acquired in the merger with OncoMed Pharmaceuticals, Inc. ("OncoMed", subsequently renamed as Mereo BioPharma 5, Inc., "Mereo BioPharma 5"). We aim to efficiently develop our product candidates through the clinic and have successfully commenced or completed large, randomized Phase 2 clinical trials for five of our product candidates.

Oncology and rare diseases represent an attractive development and, in some cases, commercialization opportunity for us since they typically have high unmet medical need and can utilize regulatory pathways that facilitate acceleration to approval and to the potential market. Development of products for oncology and rare diseases both involve close collaboration with key opinion leaders and investigators. Development of rare disease products generally involves close coordination with the patient organizations and patients are treated at a limited number of specialized sites which helps identification of the patient population and enables a small targeted sales infrastructure to commercialize the products in key markets.

Our team has extensive experience in the pharmaceutical and biotechnology sector in the identification, acquisition, development, manufacturing and commercialization of product candidates in multiple therapeutic areas, including oncology and rare diseases. Our senior management has long-standing relationships with senior executives of large pharmaceutical and biotechnology companies, which we believe enhances our ability to form strategic partnerships on our product candidates, and to identify and acquire additional product candidates.

Our Pipeline

The following tables summarize our pipeline for our oncology and rare disease product candidates and our other product candidates. We have global commercial rights to etigilimab, alvelestat, acumapimod and leflutrozole. We have commercial rights to setrusumab in Europe.

We intend to become a leading biopharmaceutical company developing innovative therapeutics that aim to improve outcomes for patients with rare diseases and select oncology indications. The key elements of our strategy to achieve this goal include:

- **Rapidly develop and potentially commercialize our rare disease and oncology product candidates.** Etigilimab, our lead oncology program, has completed a Phase 1a dose escalating monotherapy study and has been evaluated in a Phase 1b combination study with nivolumab in a range of tumor types. We recently advanced etigilimab into an open label Phase 1b/2 basket study evaluating our anti-TIGIT in combination with an anti-PD-1 in a range of tumor types including three rare tumors, including sarcoma, several gynecological carcinomas including cervical and endometrial carcinomas and tumours with high mutation burden. We have commenced a Phase 2 proof-of-concept clinical trial of alvelestat for the treatment of severe AATD and now expect to report top-line data or an interim analysis from this trial in late 2021. If the results are favorable and pending regulatory feedback, we will determine the optimum path forward for development of alvelestat towards approval and commercialization. We also announced the initiation of a Phase 1b/2 placebo-controlled clinical trial to evaluate the safety and efficacy of alvelestat in hospitalized, adult patients with moderate to severe COVID-19 respiratory disease. We have completed and announced top-line data on a Phase 2b clinical trial of setrusumab for the treatment of OI in adults in the United States, Europe and Canada. We reported top-line data on the three blinded dose ranging arms in November 2019 with the results supporting progression of setrusumab into a pediatric pivotal study in OI. Following the completion of the dosing part of the study, patients have been followed for a further twelve months to examine the off-effects of setrusumab and we expect to report these results by mid-2021. In September 2020, the FDA granted Rare Pediatric Disease designation to setrusumab for the treatment of OI. Following our completion of the Phase 2b ASTEROID study, we met with both the FDA (end-of-Phase 2 (EOP2) meeting in February 2020) and the EMA (PRIME meeting in May 2020) to discuss the principles of a design of a single Phase 2/3 registrational pediatric study in OI. In December 2020, we signed a license and collaboration agreement for setrusumab in OI with Ultragenyx Pharmaceutical, Inc. We intend to commercialize our oncology and rare disease product candidates where it makes strategic sense to do so. For example, in our global licensing and collaboration with Ultragenyx we have retained commercial rights to setrusumab for children and adults with OI in the EU and UK.

- **Efficiently advance our other product candidates and explore strategic relationships with third parties for further clinical development and/or commercialization or strategic sales or out-licensing.** Based on the results from our Phase 2 clinical trial of acumapimod, we plan to enter into one or more strategic relationships with third parties for acumapimod to undertake the next phase of clinical development and, if approved, commercialization. In March 2018, we reported top-line Phase 2b data for leflutrozole for the treatment of HH and in December 2018, we reported positive results from the safety extension study for leflutrozole. We intend to explore strategic relationships with third parties for the further development and commercialization of leflutrozole. Our second oncology product, navicixizumab, for the treatment of late line ovarian cancer, has completed a Phase 1 study and has been partnered on a global basis with OncXerna.

- **Continue to be a partner of choice for large pharmaceutical and biotechnology companies.** We believe that we are a preferred partner for large pharmaceutical and biotechnology companies as they seek to unlock the potential in their development pipelines and deliver therapeutics to patients in areas of high unmet medical need. We have strong relationships with these companies, as evidenced by our agreements with Novartis and AstraZeneca, as well as by the merger with Mereo BioPharma 5, and a track record of structuring transactions that enable us to leverage our core capabilities while creating value for all stakeholders. We intend to continue to enter into strategic relationships that align our interests with those of large pharmaceutical and biotechnology companies and that we believe to be mutually beneficial.

- **Leverage our expertise in business development.** Our senior management team has extensive relationships with large pharmaceutical and biotechnology companies. These relationships are important to us as we seek to form strategic partnerships on our product candidates and as appropriate, to grow our pipeline of product candidates in oncology and rare diseases.

Introduction
The Group's strategy continues to be to build a portfolio of oncology and rare disease products acquired from pharmaceutical and large biotechnology companies and to selectively partner or potentially develop these through regulatory approval and subsequent commercialization.

During the year, we initiated our Phase 1b/2 basket study of etigilimab in combination with an anti-PD-1 focusing on rare tumors and several gynecological tumor types, announced a collaboration with Ultragenyx for the future global development of setrusumab for OI in both pediatric and adult patients and significantly strengthened our cash position following a recent financing in February 2021. We also cancelled admission of the Company's ordinary shares to trading on the AIM market of the London Stock Exchange in December 2020, retaining our now sole listing of American Depositary Shares ("ADSs") on the Nasdaq Global Market. We have also gained the skills and expertise of additional employees in the U.S., including highly relevant oncology clinical development and broad regulatory expertise.

Development and Partnering
Our current portfolio consists of six clinical-stage product candidates including two in ongoing clinical studies, two partnered and two which we plan to progress with a partnership or additional funding. Etigilimab remains an attractive investment opportunity for the Company especially given the recent developments with other anti-TIGIT programs. Our rare disease and orphan drug product candidates, setrusumab for the treatment of OI and alvelestat for the treatment of severe AATD, represent attractive development opportunities for us.

In January 2020 we announced a global licensing deal with OncXerna Therapeutics, Inc. on our second oncology program, navicixizumab, for ovarian cancer. Under the terms of the deal OncXerna will develop navicixizumab through to approval and we are eligible for up to $300 million in clinical, regulatory and sales milestones and royalties on global sales.

In December 2020 we announced a strategic partnership for setrusumab in OI with Ultragenyx Pharmaceutical, Inc. and received a $50 million upfront payment in January 2021. Under the terms of the collaboration, Ultragenyx will lead future global development of setrusumab in both pediatric and adult patients. We granted Ultragenyx an exclusive license to develop and commercialize setrusumab in the US and rest of the world, excluding Europe where we retain commercial rights. Ultragenyx has a significant amount of experience with development and commercialization of products for rare bone diseases and we are pleased to have a strong partner for this program whilst retaining commercial rights in Europe.

Under the terms of the agreement Ultragenyx has agreed to pay a total of up to $254 million upon achievement of certain clinical, regulatory, and commercial milestones. We will receive tiered double digit percentage royalties from Ultragenyx on net sales outside of Europe and the UK, and we will pay a fixed double digit percentage royalty to Ultragenyx on net sales in Europe and the UK. Under the terms of our 2015 agreement with Novartis, we made a payment to Novartis of approximately £7.3 million ($10 million).

Together with Ultragenyx, we intend to initially prioritize the development of setrusumab for pediatric patients with OI. Development plans are being finalized which may include changes to current study designs, and will require discussions with regulatory agencies, for a pediatric Phase 2/3 study that first focuses on determining the optimal dose and an acceptable safety profile. Following determination of the dose, the study is intended to adapt into a pivotal Phase 3 stage, evaluating fracture reduction over an estimated 15 to 24 months as the primary endpoint pending regulatory review. The pediatric Phase 2/3 study is expected to start in late 2021 following discussions with the regulatory agencies. A separate pivotal study is also being planned for adults with OI.

Financing
In June 2020, we completed a private placement of $70 million (£56 million) (the "Fundraising") before commission and expenses with a number of new and existing principally U.S based institutional and accredited investors. OrbiMed led the Fundraising with participants including Vivo Capital, Surveyor Capital (a Citadel company), Pontifax Venture Capital, Samsara BioCapital, Commodore Capital, and funds managed by Janus Henderson Investors alongside existing investors Boxer Capital of Tavistock Group and Aspire Capital.

In February 2021, we completed an underwritten public offering of our ADSs and a full exercise of the underwriters' option to purchase additional ADSs. The offering was subscribed for by new and existing shareholders. We received aggregate net proceeds from the offering of $108.2 million (£78.3m).

Organizational changes

In July 2020 we appointed Mr. Michael Wyzga, a board member, as Interim Chief Financial Officer following the departure of Mr. Richard Jones. Mr. Wyzga stepped down from this position in January 2021 following the appointment of Ms. Christine Fox as Chief Financial Officer.

On September 28, 2020, we announced that Dr. Brian Schwartz, former Chief Medical Officer of Arqule, Inc., and Dr. Jeremy Bender, former Vice President of Corporate Development at Gilead Sciences, Inc. and recently appointed Chief Executive Officer of Day One BioPharmaceuticals, Inc. were to join Mereo's Board of Directors. Drs. Schwartz and Bender, respectively, bring significant oncology and rare disease drug development and corporate development experience to Mereo. In order to maintain the number of board members at a maximum of nine, Paul Blackburn left our Board of Directors after a five year tenure as a Non-Executive Director. The changes to our Board became effective from October 1, 2020.

Update on impact of COVID-19

The outbreak of COVID-19 has developed into a global pandemic, spreading to most regions of the world, including the United States, the United Kingdom and locations where we have facilities or ongoing clinical trials. The pandemic has resulted in impacts both direct and indirect to businesses including disruptions to resources, inability of workers to carry out their jobs effectively, disruptions to supply chains, inability to travel and increased pressure on health systems required to treat COVID-19.

We continue to monitor how the effects and risks of COVID-19 impact our day-to-day operations, including our ongoing clinical trial activities:

- We do not anticipate that COVID-19 will significantly impact on our ability to enrol patients into the Phase 1b/2 for etigilimab in the U.S.

- We are currently completing the Phase 2b extension part of the ASTEROID study for adult patients with OI and continue to expect to report these data by mid-2021.

- Our Phase 2 alvelestat trial recruits individuals with alpha-1 antitrypsin deficiency-related lung disease, who are potentially at greater risk from COVID-19 exposure. As a result, and as we announced in March 2020, recruitment into our Phase 2 alpha-1 antitrypsin study will be delayed, with topline data or an interim analysis now expected in late 2021. We continue to closely monitor enrolment in the Phase 2 study and are putting in place a contingency plan that if we have not reached full enrolment on schedule, we will conduct an interim analysis that will provide direction on the primary end point for the study and the number of patients required.

- Our investigator at the University of Alabama recently initiated a Phase 2a study in COVID-19 infected patients and we expect to report data on this study in mid-2021. If the infections in the US are reduced significantly due to treatment or vaccination, this could delay enrolment into this study.

As a business, we have taken necessary measures across our sites in the United Kingdom and the United States to ensure that our employees and other key stakeholders best adhere to the advice set out by the relevant authorities. Such measures have included the introduction of remote working arrangements, reduced face to face contact by encouraging the use of teleconferencing and a ban on domestic and international travel, as well as other measures considered necessary by our COVID-19 committee which is responsible for business continuity planning during this challenging time.

Section 172(1) Companies Act 2006
The Directors in line with their duties under section 172 of the Companies Act 2006, act in a way they consider, in good faith to promote the success of the Group for the benefit of its members as a whole. As set out within the content of this annual report, the Directors have considered the following matters throughout the year and in formulating the future strategy of the business:

- The likely long-term consequences of any decision;
- The interests of the Group's employees;
- The need to foster the Group's business relationships with suppliers, customers and others;
- The impact of the Group's operations on the community and the environment;
- The desirability of the Group maintaining a reputation for high standards of business conduct; and
- The need to act fairly between shareholders of the Group.

The Board of Directors takes care to have considered the likely consequences on all stakeholders of the decisions and actions which they take and these are discussed regularly in the Board meetings. The Group's long-term strategy and the principal risks and uncertainties in the view of the Board are set out in pages 19 to 27.

As set out in greater detail in the Corporate Governance Report, the Board considers the Group's future success to depend on our ability to recruit and retain key employees. The Board maintains constructive dialogue with employees through the Chief Executive Officer ("CEO") and through regular "town hall" all-employee meetings and video conference calls where the Executive Team provides updates on strategic progress and a forum for answering questions. We implemented a new long-term incentives plan in April 2019, which will allow us to incentivize and retain employees across the Group and aligns employees' objectives with those of the Group. We granted options under these new schemes to both employees and Non-Executive Directors in 2020 and early 2021.

The Group endeavors to maintain good relationships with our suppliers by contracting, where possible, on their standard business terms and paying them in accordance with the relevant terms agreed. We meet with our significant suppliers regularly, using the meetings to ensure that our research programs are planned and delivered effectively and in a timely and cost-efficient manner. This ensures that the Group's and our significant suppliers' interest are aligned. The Group also maintains excellent working relationships with our partners in collaboration agreements, with regular meetings and updates.

The Board understands the importance of environmental, social and governance matters and it endeavors to consider the impact on the community when operating its business. Our first greenhouse gas emissions report which is in compliance with streamlined energy and carbon reporting requirements is included on page 63. As a result of COVID 19 restrictions, there has been an increase in the use of video conferencing for external meetings and board meetings, reducing the need for travel. The emissions saving resulting from these activities has not been quantified, but this practice has resulted in behaviour changes that are expected to continue for the foreseeable future.

The Board recognizes the importance of maintain high standards of business conduct. The Group operates a Code of Business Conduct and Ethics, publicly available on our website, which contains general guidelines for conducting the business of the Group consistent with the highest standard of business ethics. In addition, the Group has an Employee Handbook that employees are required to read and acknowledge on an at least annual basis and which also includes details of the whistleblowing policy that allows all employees to raise concerns to senior management in strict confidence about any unethical business practices, fraud, misconduct or wrongdoing. The Group also works with business management consultants at a Company and Executive team level to assess the state of our culture and to agree and embed any modifications.

In maintaining good corporate governance structures (see pages 28 to 38), the Board considers the need to act fairly to all shareholders of the Group. The Group maintains a regular dialogue with our institutional investors. The Group's website has a dedicated investor section which provides useful information for our shareholders including, the latest announcements, press releases, published financial information, details of our products and our current development pipeline and other information about the Company.

Business overview

Core Oncology and Rare Disease Product Candidates

- **Etigilimab (OMP-313M32):** Etigilimab is an antibody against TIGIT (T-cell immunoreceptor with Ig and ITIM domains). TIGIT is a next generation checkpoint receptor shown to block T-cell activation and the body's natural anti-cancer immune response. Etigilimab is an IgG1 monoclonal antibody which binds to the human TIGIT receptor on immune cells with a goal of improving the activation and effectiveness of T-cell and NK cell anti-tumor activity. Mereo completed a Phase 1a dose escalation clinical trial with etigilimab in patients with advanced solid tumors and enrolled patients in a Phase 1b study in combination with nivolumab in selected tumor types.

  23 patients were treated in the Phase 1a dose escalation study with doses up to 20mg/kg Q2W. Tumor types included colorectal cancer, endometrial cancer, head and neck cancer, pancreatic cancer and other tumor types. No dose limiting toxicities were observed. In the Phase 1b combination study, a total of ten patients, nine of whom had progressed on prior anti-PD1/PD-L1 therapies were enrolled at doses of 3, 10, and 20 mg/kg. Tumor types included gastric cancer and six other tumor types. Eight patients were evaluable for tumor growth assessment, and all of these patients had progressed on PD1/PD-L1 therapies with best responses including two patients with a partial response and stable disease. Patients remained on study for up to 224 days. No dose limiting toxicities (DLTs) were observed.

  Treatment emergent adverse events (TEAEs) related to study drug were reported by 16 patients (69.6%) in the Phase 1a portion of the study and 7 patients (70.0%) in the Phase 1b portion of the study. The most commonly reported related TEAEs in the Phase 1a portion of the study were pruritus (4 patients, 17.4%) and fatigue, nausea, rash, and maculopapular rash (each reported by 3 patients, 8.7%). In the Phase 1b portion of the study, the most commonly reported related TEAEs were fatigue (3 patients, 30.0%) and pruritus, rash, and pruritic rash (each reported by 2 patients, 20.0%).

  There was only one treatment-related serious adverse event in the Phase 1a portion (autoimmune hepatitis) and there were no treatment-related serious adverse events in the Phase 1b portion of the study. The Phase 1b study has now been completed.

  We recently advanced etigilimab into an open label Phase 1b/2 basket study in combination with an anti-PD-1 in the US in a range of tumor types. This multi-center study is initially focused on three rare tumors including sarcoma, several gynecological carcinomas including cervical, ovarian and endometrial carcinomas and tumors with high mutation burden, and we expect to report some data from these initial cohorts in the second half of 2021.We have worldwide rights to etigilimab.

- **Alvelestat (MPH-966):** Alvelestat is a novel, oral small molecule we are developing for the treatment of severe AATD Lung Disease, a potentially life-threatening, rare, genetic condition caused by a lack of effective alpha-1 antitrypsin ("AAT"). The lungs are normally protected from enzymatic degradation by neutrophil elastase by the AAT protein, but in severe AATD the AAT is either misfolded and fails to be released into the circulation, inactive or completely missing, The degradation of tissue by unopposed neutrophil elastase leads to severe debilitating diseases, including early-onset pulmonary emphysema, a disease that irreversibly destroys the tissues that support lung function. There are an estimated 50,000 patients in North America and 60,000 patients in Europe with severe AATD. Alvelestat is designed to inhibit NE, a neutrophil protease, which is a key enzyme involved in the destruction of lung tissue. We believe the inhibition of NE has the potential to protect patients with AATD from further lung damage.

  Prior to our license of alvelestat, AstraZeneca conducted 12 clinical trials involving 1,776 subjects, including trials in bronchiectasis and CF. Although these trials were conducted in diseases other than AATD, we believe the data demonstrated potential clinical benefit and biomarker evidence of treatment effect for AATD patients. These trials created a safety database of 1149 subjects treated with alvelestat.

  We have initiated a Phase 2 proof-of-concept clinical trial in patients with severe AATD in the United States and the EU and expect to report data from this trial or an interim analysis in late 2021. An investigator-initiated complementary study, including testing of alvelestat on top of AAT replacement therapy in AATD is also underway in the US. Emerging data on the potential of NE inhibition to reduce the inflammatory and thrombotic effects of Neutrophil Extracellular Traps (NETs) in COVID-19, led to the initiation of an ongoing study in this disease which we expect to report on in the second half of 2021.

- **Setrusumab (BPS-804):** Setrusumab is a novel antibody designed to inhibit sclerostin, a protein that inhibits the activity of bone-forming cells. Inhibiting sclerostin has been shown to promote increases in bone mineral density through stimulation of bone-formation (through osteoblasts) and inhibition of bone-resorption (through osteoclasts). We are developing setrusumab as a treatment for OI, a rare genetic disease that results in bones that can break easily and is commonly known as brittle bone disease. OI is a debilitating orphan disease for which there are no treatments approved by the FDA or EMA. It is estimated that OI affects a minimum of 25,000 people in the United States and approximately an aggregate of 32,000 people in Germany, Spain, France, Italy, and the United Kingdom. We believe setrusumab's mechanism of action is well suited for the treatment of OI and has the potential to become a novel treatment option for patients that could reduce fractures and improve patient quality of life.

  Prior to our acquisition of setrusumab, Novartis conducted four clinical trials in 106 patients and healthy volunteers. In 2016, we obtained orphan drug designation in OI for setrusumab in the United States and the EU and, in November 2017, it was accepted into the Priority Medicines scheme ("PRIME") of the EMA. In September 2020 we received rare pediatric disease designation for setrusumab in OI from the FDA. In November 2019 we reported top-line data on a Phase 2b clinical trial of setrusumab for adults with OI. The Phase 2b was a dose ranging study with three blinded arms at high, medium and low doses to establish the dose response curve and an open label arm at the top dose. Setrusumab demonstrated statistically significant improvements in bone formation biomarkers and bone mineral density (measured by Dual Energy X-ray Absorptiometry) and a trend to a reduction in fractures at the high dose, compared to the other doses, even though the study was not powered for fracture reduction. The results support the progression of setrusumab into a pediatric pivotal study in OI.

  Following the completion of the dosing part of the study, patients have continued to be followed for a further twelve months to examine the off-effects of setrusumab. We expect to report the results of this extension study by mid-2021.

  We completed a Type B end of Phase 2b meeting with the FDA in February 2020, a priority medicines scheme (PRIME) meeting with the EMA in May 2020 and sought scientific advice from the EMA in December 2020. These meetings resulted in alignment between the regulators on a Phase 2/3 pediatric study in children with OI.

  In December 2020 we announced a partnership with Ultragenyx for the development of setrusumab for OI. Under the terms of the partnership, Ultragenyx will lead future global development of setrusumab in both pediatric and adult patients. We granted Ultragenyx an exclusive license to develop and commercialize setrusumab in the US and rest of the world, excluding Europe and the UK where we retain commercial rights. Each party will be responsible for post-marketing commitments in their respective territories.

  Ultragenyx made an upfront payment of $50 million to Mereo and will fund global development of the program until approval and has agreed to pay a total of up to $254 million upon achievement of certain clinical, regulatory and commercial milestones. Ultragenyx will pay tiered double-digit percentage royalties to us on net sales outside of Europe and the UK and we will pay a fixed double digit percentage royalty to Ultragenyx on net sales in Europe and the UK. Under the terms of our 2015 agreement with Novartis, we made a payment to Novartis of approximately £7.3 million ($10 million).

  We and Ultragenyx will initially prioritize the development of setrusumab for pediatric patients with OI. Development plans are being finalized and these require discussions with the regulators. The first part of the pediatric study will focus on determining the optimal dose based using biomarkers of bone formation and an acceptable safety profile. Following determination of dose, the study is intended to adapt into a pivotal Phase 3, evaluating fracture reduction over a 15-24 month period as the primary end point. The pediatric Phase 2/3 study is expected to start in late 2021 following discussions with the regulators and separate planning is underway for adults. We believe that the results from this Phase 2/3 trial, if favorable, will be sufficient to support the submission of a Marketing Authorisation Application ("MAA") to the EMA and a Biologics License Application ("BLA") to the FDA for setrusumab for the treatment of children with severe OI.

Our Partnering Portfolio

Following completion of successful Phase 1 or Phase 2 studies the products below are either partnered or programs which we intend to partner or spin-out with separate funding.

- **Acumapimod (BCT-197):** Acumapimod is a p38 MAP kinase inhibitor therapy for treatment of severe acute exacerbations of chronic obstructive pulmonary disease (AECOPD). In a Phase 2 trial, acumapimod given over 5 days in patients hospitalized with AECOPD, demonstrated a statistically significant reduction in re-hospitalization for treatment failure and recurrent exacerbations. Acumapimod was reported to be safe and well tolerated. Following meetings with FDA and EMA a global Phase 3 registrational program has been designed and we intend to seek separate funding for further development.

- **Leflutrozole (BGS-649):** Leflutrozole is an oral inhibitor of aromatase for the treatment of infertility and HH in obese men. Excess aromatase in fat tissue reduces testosterone, LH and FSH, leading to HH. In Phase 2 trials, leflutrozole normalized testosterone, increased LH and FSH and was reported to be well-tolerated., Effects on sperm counts supported that future development of leflutrozole should focus on male infertility. We intend to explore strategic options with third parties for the further development of leflutrozole.

- **Navicixizumab (OMP-305B83):** Navi is a bispecific antibody that inhibits delta-like ligand 4 (DLL4) and vascular endothelial growth factor (VEGF). We acquired this therapeutic product in the merger with Mereo BioPharma 5 (formerly OncoMed). In a Phase 1a clinical trial, Navi demonstrated single agent activity. Following this we conducted a Phase 1b clinical trial in ovarian cancer, in combination with paclitaxel, in platinum-resistant ovarian cancer. A successful FDA Type B meeting was held in July 2019 and the potential for accelerated approval was discussed. Navicixizumab has also been granted Fast Track Approval by the FDA. In January 2020 Navi was licensed by the Group to OncXerna pursuant to the terms of a global licensing agreement. Under the terms of the contingent value rights agreement between us and Computershare from April 2019 (the Mereo CVR Agreement), the holders of contingent value rights are entitled to receive the benefit of certain cash milestone payments made to Mereo under the license agreement. Pursuant to the terms of the Mereo CVR Agreement, if a milestone occurs prior to the fifth anniversary of the closing of Mereo's merger with Mereo BioPharma 5, then holders of CVRs will be entitled to receive an amount in cash equal to 70% of the aggregate principal amount received by Mereo after deduction of costs, charges and expenditures set out in detail in the Mereo CVR Agreement. Such milestone payments are also subject to a cash consideration cap, pursuant to which the aggregate principal amount of all cash payments made to holders of CVRs under the Mereo CVR Agreement shall in no case exceed $79.7 million.

New product opportunities

To support our aim of becoming a leading oncology and rare disease company, we continue to seek and review new product opportunities to expand and grow our portfolio in oncology and rare diseases. There continues to be a good number of opportunities arising from large pharma and biotechnology companies as they continue to reappraise development pipelines on an ongoing basis to allow them to focus on a smaller number of strategically targeted therapeutic areas.

Future outlook

With the closing of the strategic partnership with Ultragenyx whilst retaining EU and UK commercial rights, and the two significant fund raisings in June 2020 and February 2021, combined with our initiation of the Phase 1b/2 combination study with etigilimab and our COVDI-19 study with alvelestat, we remain focused on our oncology and rare disease corporate strategy. 2021 is set to be a year of executing on our plan with data expected to be reported on our Phase 1b/2 for etigilimab, our Phase 2a for alvelestat in COVID-19 infected patients and our Phase 2 for alvelestat in AATD. We also expect our partner Ultragenyx to initiate the Phase 2 part of a Phase 2/3 study for setrusumab in pediatric patients with OI.

Following the partnership with OncXerna for Navi and Ultragenyx for setrusumab, we continue to focus on partnering opportunities for our other non-core product candidates, acumapimod and leflutrozole.

Finally, we are now funded into 2024 providing the Company sufficient balance sheet strength and cash runway to deliver on our clinical and business development milestones.

Information about the Group's employees
Within our corporate governance report on page 35, further information about the Group's employees and gender diversity can be found.

The Board has a good relationship with the Group's employees. The Board maintains constructive dialogue with employees through the Chief Executive Officer ("CEO") and through regular "town hall" all-employee meetings and video conference calls where the Executive Team provides updates on strategic progress and a forum for answering questions. Appropriate remuneration and incentive schemes are maintained to align employees' objectives with those of the Group.

As set out in our Code of Business Conduct and Ethics, the Group is committed to providing a safe and healthy working environment for its employees and to avoiding adverse impact and injury to the environment and the communities in which we do business. To achieve this, Group employees must comply with all applicable external environmental, health and safety laws and other regulations as well as our own internal standards.

We present our Directors' Remuneration Report on pages 39 to 61.

Environmental matters
We currently outsource our research, development, testing and manufacturing activities. These activities are subject to various environmental, health and safety laws and regulations, which govern, among other things, the controlled use, handling, release and disposal of, including the maintenance of a registry for, hazardous materials and biological materials. If we or our partners fail to comply with such laws and regulations, we could be subject to fines or other sanctions.

As with other companies engaged in similar activities, we face a risk of environmental liability that is inherent in our current and historical activities, including liability relating to releases of or exposure to hazardous or biological materials. Environmental, health and safety laws and regulations are becoming more stringent. We may be required to incur substantial expenses in connection with future environmental compliance or remediation activities, in which case, production and development efforts being carried out by our outsourced partners relating to our products may be interrupted or delayed.

Our first report on greenhouse gas emissions is included in our Directors' report.

Dr. Peter Fellner	**Dr. Denise Scots-Knight**
Chairman	Chief Executive Officer
April 16, 2021	April 16, 2021

The financial statements contained within this annual report are presented on a consolidated Group basis prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in conformity with the requirements of the Companies Act 2006 as of and for the year ended December 31, 2020. Comparative data is shown on the same basis for the year ended December 31, 2019.

Financial KPIs
The Directors consider that our underlying cash burn, cash balances and future cash runway, and our committed and planned expenditure on research and development ("R&D") to be the Group's key financial KPIs at its current stage of development. Progress and performance against these key financial KPIs are discussed further in this financial review.

The Directors consider that the most important non-financial KPIs are:

- Progress with our R&D pipeline including our clinical studies and related manufacturing activities;
- The management and development of our patent portfolio; and
- Business development including partnering or out-licensing activities.

These activities are discussed in the Chairman and CEO's Statement and our product overview.

Key transactions during the year
Aspire Capital Transaction
On February 10, 2020, we entered into a Purchase Agreement with Aspire Capital, which provides that, upon the terms and subject to the conditions and limitations set forth therein, Aspire Capital is committed to purchase up to an aggregate of $25.0 million worth of our ordinary shares that are exchangeable for ADSs over the approximately 30-month term of the Purchase Agreement. In addition, pursuant to the Purchase Agreement, Aspire Capital purchased 11,432,925 ordinary shares equivalent to 2,286,585 ADSs for $3.0 million (£2.3 million). In consideration for entering into the Purchase Agreement, concurrently with the execution of the Purchase Agreement, we paid Aspire Capital a commission fee of $0.3 million, which was wholly satisfied by the issuance to Aspire Capital of 2,862,595 ordinary shares equivalent to 572,519 ADSs.

Novartis Loan Note
On February 10, 2020, we entered into a £3.8 million convertible loan note instrument with Novartis pursuant to which we issued 3,841,479 unsecured convertible loan notes (the "Novartis Loan Note") and warrants to purchase 1,449,614 ordinary shares, exercisable until February 2025.

Boxer Capital Transaction
On February 19, 2020, we entered into a securities purchase agreement with Boxer Capital. Under the terms of the agreement, Boxer Capital agreed to invest $3.0 million (£2.3 million) by purchasing 12,252,715 ordinary shares equivalent to 2,450,543 ADSs.

June 2020 Private Placement
On June 3, 2020, we entered into a securities purchase agreement with institutional investors pursuant to which we received approximately $70.0 million (£56.0 million) from the purchasers comprising: $19.4 million (£15.5 million) of ordinary shares and the subscription for Tranche 1 convertible loan notes ("Loan Notes") in an aggregate principal amount of approximately $50.6 million (£40.5 million). Following the passing of resolutions at our General Meeting on June 30, 2020 the Loan Notes automatically converted into ordinary shares except that no new ordinary shares were issued which would result in any person holding in excess of 9.99 percent of the aggregate voting rights in the Company as a result of the relevant conversion. As a result of automatic conversion, Loan Notes in an aggregate principal amount of £21.8 million (together with accrued interest) converted into 125,061,475 ordinary shares on June 30, 2020. As of December 31, 2020, Loan Notes in an aggregate principal amount of £18.9 million remained outstanding and convertible into new ordinary shares or ADSs in accordance with their terms.

Investors in the June 2020 Private Placement also received warrants entitling the holders to subscribe for an aggregate of 161,048,366 new ordinary shares. As of December 31, 2020, there were 160,358,161 warrants outstanding to purchase ordinary shares at an exercise price of £0.348 per ordinary share, subject to the

terms of the warrants. In accordance with the terms of the warrants, holders may elect to exercise their warrants on a cashless basis.

The following table sets forth Mereo's results of operations for the years ended December 31, 2020 and 2019.

	Year Ended December 31, 2020 £'000s	2019 £'000s
Research and development expenses	(16,347)	(23,608)
Administrative expenses	(21,222)	(15,909)
Operating loss	**(37,569)**	**(39,517)**
Net income recognized on acquisition of subsidiary	—	1,035
Finance income	44	377
Finance costs	(6,383)	(4,371)
Changes in fair value of financial instruments	(109,849)	875
Loss on disposal of intangible assets	(10,872)	—
Net foreign exchange (loss)/gain	(1,821)	483
Loss before tax	**(166,450)**	**(41,118)**
Taxation	2,822	6,274
Loss attributable to equity holders of the parent	**(163,628)**	**(34,844)**
Exchange differences on translation of foreign operations	349	(499)
Total comprehensive loss attributable to equity holders of the parent	**(163,279)**	**(35,343)**

Comparison of Years Ended December 31, 2020 and 2019

Research and development ("R&D") Expenses

The following table sets forth our R&D expenses by product development program for the years ended December 31, 2020 and 2019.

	Year Ended December 31, 2020 £'000s	2019 £'000s
Setrusumab (BPS-804)	7,695	13,734
Alvelestat (MPH-966)	4,709	4,976
Etigilimab	1,029	767
Leflutrozole (BGS-649)	135	1,089
Acumapimod (BCT-197)	108	388
Navicixizumab	1,734	1,721
Other	153	432
Unallocated costs	784	501
Total R&D expenses	16,347	23,608

Total R&D expenses decreased by £7.3 million, or 31%, from £23.6 million in 2019 to £16.3 million in 2020.

R&D expenses relating to setrusumab decreased by £6.0 million, or 44%. The decrease was driven primarily by the completion of the adult Phase 2b study which reported top-line data in November 2019, with a further update in January 2020. Following the licensing and collaboration agreement with Ultragenyx, future ongoing development costs for setrusumab are expected to decrease significantly.

R&D expenses relating to alvelestat remained consistent, reflecting the ongoing Phase 2 proof-of-concept study.

R&D expenses relating to leflutrozole decreased by £1.0 million, or 88%, due to the completion of the Phase 2b study in 2019 and limited activity in 2020 following the completion of the study. Similarly, there were no ongoing studies for acumapimod in 2020 and this resulted in a decrease in R&D expenses for acumapimod of £0.3 million, or 72%.

Partially offsetting the decrease, R&D expenses relating to etigilimab increased by £0.3 million, or 34%. The increase was driven primarily by the costs associated with preparing for the open label Phase 1b/2 basket study in combination with an anti-PD-1 in a range of tumor types. We expect the costs related to the etigilimab program to increase significantly in 2021.

Administrative expenses

Administrative expenses increased by £5.3 million, or 33%, from £15.9 million in 2019 to £21.2 million in 2020.

The increase was primarily due to incremental legal and professional fees associated with various transactions during the year. Professional and legal fees increased from £1.7 million to £6.9 million in 2019 and 2020, respectively. The increase reflects transaction costs associated with the June 2020 Private Placement and the cancellation of admission of our ordinary shares to trading on the AIM market of London Stock Exchange in December 2020, along with higher costs associated with the Nasdaq listing and managing a larger business in two jurisdictions following the acquisition of Mereo BioPharma 5, partially offset by intellectual property related costs as a result of lower activity associated with setrusumab. Employee-related costs increased by £1.5 million to £7.3 million in 2020 primarily due to the expansion of our management team in 2020 compared to 2019. Premises-related costs increased by £1.7 million in 2020 primarily due to transaction costs associated with renegotiation of our office lease in Redwood City. This was partially offset by a gain on lease modification of £0.9 million. Offsetting these increases were lower travel-related costs, which decreased by £0.5 million from 2019 due to COVID-19 travel restrictions.

Net income recognized on acquisition of subsidiary

In 2019, as Mereo BioPharma 5 (formerly OncoMed) was acquired for an amount less than the fair market value of the net assets acquired on the date control was obtained, a gain on bargain purchase of £3.7 million was realized (recognized net against the acquisition transaction costs within the consolidated statement of comprehensive loss). Total acquisition transaction costs amounted to £2.7 million which were wholly incurred in connection with the acquisition. The resulting net income recognized on acquisition of Mereo BioPharma 5 was £1.0 million.

Finance income and costs

In 2020, a minimal amount of finance income was earned on short-term deposits and the £0.3 million decrease from the prior year was due to the sale of short-term investments in 2019.

Total finance costs increased from £4.4 million in 2019 to £6.4 million in 2020. The increase is primarily related to £2.2 million of additional interest costs on convertible loan notes. This increase was partially offset by a decrease in bank loan interest of £0.4 million and decrease in lease liability finance charges of £0.2 million. In addition, in 2019, there was a bank loan modification gain of £0.5 million. In 2020, there were no such gains or losses and the bank loan was settled in full in December 2020.

Changes in fair value of financial instruments

The total change in fair value of financial instruments for 2020 was a loss of £109.8 million. The loss primarily resulted from the Loan Notes and Warrants in respect of the June 2020 Private Placement, including: (i) a £63.2 million loss realized on the embedded derivative associated with the Loan Notes that was conditional on the passing of the Resolutions at a subsequent general meeting of shareholders held on June 30, 2020, and (ii) a £46.0 million unrealized loss on the Warrants. In addition, the unrealized loss on warrants issued to our former lenders in connection with the loan facility was £0.7 million in 2020.

Net foreign exchange gain/(loss)

The net foreign exchange loss for the year was £1.8 million, a decrease of £2.3 million from a £0.5 million gain in 2019. The net foreign exchange loss consists of a £1.6 million foreign exchange loss on the translation of cash deposits which are primarily held in U.S. dollars throughout the year.

Taxation
The income tax benefit for the year was £2.8 million, a decrease of £3.5 million or 55% from £6.3 million in 2019. The income tax benefit represents eligible cash rebates paid or receivable from the tax authorities in the jurisdictions within which we operate for eligible types of research and development activities and associated expenditure (the "R&D tax credit").

Further, in February 2020, Mereo BioPharma 5 received a tax refund in respect of AMT of £0.2 million from the U.S. Internal Revenue Service ("IRS"). We currently estimate that an additional £0.8 million of tax refund in respect of AMT will be received in 2021 with respect to 2019.

Loss per share
The loss attributable to equity holders increased £128.8 million from a loss of £34.8 million in 2019 to a loss of £163.6 million in 2020, and during the same period, the weighted average number of ordinary shares increased from 89.4 million in 2019 to 339.0 million in 2020. The resulting increase in basic and diluted loss per share was £0.09 from a loss per share of £0.39 and £0.48 in 2019 and 2020, respectively.

The table below summarizes our cash flows from (used in) operating, investing and financing activities for the years ended December 31, 2020 and 2019.

	Year Ended December 31, 2020 £'000s	2019 £'000s
Net cash used in operating activities	(28,341)	(45,931)
Net cash from investing activities	1,495	43,295
Net cash from/(used) in financing activities	34,737	(5,710)
Net increase/(decrease) in cash and cash equivalents	7,891	(8,346)

Operating Activities
Net cash used in operating activities for the year ended December 31, 2020 was £28.3 million, a decrease of £17.6 million from £45.9 million in 2019. The decrease was primarily driven by tax credits received of £10.4 million (2019: £1.1 million), an increase of £9.4 million, along with an increase in working capital due mainly to a £3.2 million reduction in trade and other payables. Tax credits received during 2020 relate primarily to the 2018 and 2019 R&D tax credits from the U.K. tax authorities.

Investing Activities
Net cash from investing activities for the year ended December 31, 2020 was £1.5 million, a decrease from £43.3 million in 2019. The decrease was due to the acquisition of Mereo BioPharma 5 in 2019, which provided a net cash inflow on acquisition of £10.1 million and receipt of £32.9 million of short-term investments in the form of short-dated US treasuries, all of which were sold by December 31, 2019. In 2020, we received net proceeds of £1.8 million following the global licensing arrangement for navicixizumab to OncXerna.

Financing Activities
Net cash from financing activities for the year ended December 31, 2020 was £34.8 million, an increase of £40.5 million from a cash outflow of £5.7 million in 2019. The increase is primarily attributable to the total proceeds from the issuance of ordinary shares of £20.1 million and convertible loan notes of £44.4 million, gross of associated transaction costs of £1.3 million and £3.6 million, respectively. These financing transactions included the Aspire Capital Transaction, the Novartis Loan Note, the Boxer Capital Transaction and the June 2020 Private Placement, described above. This increase was partially offset by the repayment of the principal amount and interest of our credit facility in December 2020 of £22.7 million.

Subsequent to the end of the financial year, the Company has entered into certain arrangements which provide additional liquidity and capital resource. Those arrangements include:

- On December 17, 2020, the Company announced a license and collaboration agreement with Ultragenyx for setrusumab, a monoclonal antibody in clinical development for OI. The agreement, which was subject to Hart-Scott-Rodino Antitrust Improvements Act 1976 (HSR) review completed on January 25, 2021. Under the terms of the collaboration, Ultragenyx will lead future global development of setrusumab in both pediatric and adult patients. The Company granted Ultragenyx an

exclusive license to develop and commercialize setrusumab in the U.S. and rest of the world, excluding Europe where the Company will retain commercial rights. Under the terms of the agreement, Ultragenyx made an upfront payment of £36 million ($50 million) in January 2021. Ultragenyx will also fund global development of the program until approval, and has agreed to pay a total of up to $254 million in contingent payments upon achievement of certain clinical, regulatory, and commercial milestones. Ultragenyx will pay tiered double digit percentage royalties to Mereo on net sales outside of Europe and Mereo will pay a fixed double digit percentage royalty to Ultragenyx on net sales in Europe. As the license and collaboration agreement became effective in January 2021, no revenue was recognized in the year ended December 31, 2020.

As a consequence of the license and collaboration agreement with Ultragenyx and in accordance with terms of the agreement with Novartis as set out in Note 25.3, the Company made a payment to Novartis of approximately £7.3 million ($10 million). As the agreement was not effective until January 2021, a provision for this payment was not recognized in the year ended December 31, 2020.

On February 12, 2021, the Company announced an underwritten public offering of 39,675,000 American Depositary Shares, at a public offering price of $2.90 per ADS. Each ADS represents five ordinary shares of the Company. The aggregate gross proceeds to the Company from the offering, before deducting underwriting discounts and commissions and offering expenses were $115.1 million. The net proceeds, after transaction costs were $108.2 million (£78.3 million).

Financial Outlook

Under the current business plan and cash flow forecasts, and in consideration of (i) our ongoing research and development efforts which are focused on our etigilimab, our oncology product candidate, and on our rare disease product candidates, setrusumab and alvelestat, (ii) our general corporate funding requirements, (iii) the upfront payment received under the license and collaboration agreement for setrusumab, and (iv) our recently completed public offering of ADSs in February 2021, we anticipate that our current on-hand cash resources will extend into 2024.

Risks Related to Our Business and Industry

We are a multi-asset, clinical stage biopharmaceutical company focused on the development and commercialization of innovative therapeutics that aim to improve outcomes for patients with oncology and rare diseases. As such, and in common with other such companies, we face significant risks and uncertainties relevant to our operations. The Board has adopted a strategy designed to identify, quantify, manage and mitigate the risks we face, whilst recognizing that no risk management strategy can provide absolute assurance against loss and that drug development and commercialization is inherently uncertain.

The Audit and Risk Committee ("ARC") reviews risks and receives presentations from risk owners at its regular meetings to oversee the management and mitigation of the principal risks faced by the Group and reports its findings to the Board. Executives from the Company routinely attend meetings. The Board reviews risks at its regular Board meetings, including, but not limited to, an update on progress with our clinical trials and manufacturing, our patents, our financial results and projections, and our corporate development activities. Progress against objectives is measured by financial and non-financial key performance indicators ("KPIs").

We set out below our key risk factors that have been identified through our risk management review process. Some of these risk factors are specific to us and others are more generally applicable to the biopharmaceutical industry in which we operate.

The Board believes that it has taken all reasonable steps to satisfy itself that the risk management process is effective and fit for purpose. Our control of risk is supported by an in-house quality team that has developed and implemented a fully Good Practice (GxP) compliant quality management system to mitigate risk. The Head of Quality reports to the General Counsel with appropriate escalation measures in place to review and control new and emerging risks within the business.

Risk

The COVID-19 pandemic or any other similar pandemic may materially impact our business

Description

The outbreak of COVID-19 has developed into a global pandemic, spreading to most regions of the world including the United States, and the United Kingdom and locations where we have facilities or ongoing clinical trials. The pandemic has resulted in impacts both direct and indirect to businesses including disruptions to resources, inability of workers to carry out their jobs effectively, disruptions to supply chains, inability to travel and increased pressure on health systems required to treat COVID-19. As a result of government and local regulation, we have been required to introduce a work from home policy for the large majority of our work force and our facilities remain open only for business-critical activities. The requirement by governments to stay at home or to "social distance" limits normal communications and may also increase cyber security risk or create data accessibility concerns. It also significantly curtails the numbers of individuals who can work in our offices.

COVID-19 has created an unprecedented burden on health systems in impacted countries around the world. As a result, clinical centers have diverted resources away from the performance of clinical trials and because of that and the vulnerability of patients in the Company's Phase 2 alvelestat program for patients with severe AATD, the Company's clinical activities will face some delays. AATD patients, in particular, are at greater risk from COVID-19 given that the condition is a respiratory and lung condition, for this reason, our Phase 2 alvelestat trial will be delayed with topline data or an interim analysis now expected in late 2021. We have recently initiated a Phase 1b/2 study with etigilimab in a range of tumor types and we may face delays in enrolment in this study.

The COVID-19 pandemic continues to rapidly evolve and the extent to which it may impact our future business is highly uncertain and difficult to predict. In particular, it is not currently known how long travel restrictions and social distancing/isolation requirements will continue to apply in the countries in which we operate and the impact on global health systems, financial markets or the economy as a whole is not yet known.

We continue to monitor the global spread of COVID-19 and have put in place and will continue to put in place measures as appropriate and necessary for our business. Any prolonged deviations from normal daily operations could negatively impact our business.

Risk Mitigation and developments to date
We continue to closely monitor enrolment in our Phase 2 alvelestat study and are putting in place a contingency plan that if we have not reached full enrolment on our revised schedule, we will conduct an interim analysis that will provide direction on the primary end point for the study and the number of patients required.

As a business, we have taken necessary measures across our sites in the U.K. and U.S. to ensure that our employees and other key stakeholders best adhere to the advice set out by the relevant authorities. Such measures have included the introduction of remote working arrangements, reduced face to face contact by encouraging the use of teleconferencing, a ban on domestic and international travel as well as other measures considered necessary by our COVID-19 committee which is responsible for business continuity planning during this challenging time.

Any prolonged disruption of our clinical trials, suppliers or contract manufacturers, closures of facilities, such as clinical trial sites, suppliers, manufacturers and distributors, including single-source suppliers could impact our ability to advance our development programs as planned, and could have impacts such as delaying regulatory approvals or the commercialization of any current or future products.

Risk
Further successful development of our product candidates

Description
Our existing portfolio consists of six clinical-stage product candidates. Our oncology product candidate etigilimab and our rare disease "orphan" product candidates, setrusumab and alvelestat, have generated positive clinical data for their target indications or for a related indication. We plan to partner or sell our existing non-core disease product candidates, leflutrozole and acumapimod. We have partnered our other non-core product candidate navicixizumab and our rare disease product candidate setrusumab and further successful development of these will be dependent on our partners.

Our portfolio remains under development. Whilst we have made substantial progress throughout 2020, our ability to successfully further develop our product candidates could be influenced by several factors.

Those factors include the ability to demonstrate satisfactory safety and efficacy in clinical trials; delays in completing clinical trials, which may cause us to incur additional costs; delays or difficulties in the enrolment of patients into clinical trials, including if other competing clinical trials are initiated in the same therapeutic area; unforeseen adverse events in connection with clinical trials; reliance on the completeness and accuracy of data packages provided by the product originator; reliance on third-party contract research organizations ("CROs") for the conduct of clinical trials; and reliance on contract manufacturing organizations ("CMOs") for the manufacturing of product candidates in sufficient quantity and to the requisite quality and in compliance with good manufacturing practice ("GMP").

Risk Mitigation and developments to date
Our highly experienced in-house team manages the control over our external vendors and partners that assist us as sponsor in managing our clinical trials under GxP.

In addition to quality audits of our CROs and clinical trial sites, we also undertake specialized data analytics that are designed to validate the quality of data generated from our clinical trials.

During the year ended December 31, 2020, the following achievements are notable across our product portfolio:

Etigilimab
In 2020 we initiated a Phase 1b/2 combination study of etigilimab in combination with an anti-PD1 in selected tumor types..

Navicixizumab
In January 2020 we announced a global license agreement with OnXerna, for the development and

an exclusive worldwide license to develop and commercialize Navi in return for potential milestones and royalties.

Setrusumab

In February 2020 we completed a Type B end of Phase 2b meeting with the U.S. Food and Drug Administration ("U.S. FDA"), a PRIME with the EMA in May 2020 and sought scientific advice from the EMA in December 2020. In September 2020, we received rare pediatric disease designation from the FDA. In December 2020 we announced a global license and collaboration agreement for setrusumab for OI with Ultragenyx Pharmaceutical Inc.

Alvelestat

In late 2018 we commenced a Phase 2, 12-week randomized, placebo-controlled Phase II proof-of-concept clinical trial evaluating two doses of alvelestat versus placebo. It is now expected that top line data or an interim analysis will be reported in late 2021 and, if the results are positive, regulatory advice on the design of a pivotal trial in the U.S. and the E.U. will be sought.

Leflutrozole

Following positive results of the Phase 2b trial and a successful end of Phase 2 meeting with the U.S. FDA in 2019, we intent to explore strategic relationships with third parties for further development and commercialization of lefutrozole.

Risk
Manufacturing

Description

The Group does not have its own manufacturing infrastructure but relies on third-party CMOs to produce its product candidates. Mereo's ability to commence or continue its development activities could be impacted by a failure of the CMOs to meet the required output in terms of quality, scheduling, scale-up, reproducibility, yield, purity, cost, potency or quality; or a failure on the part of the CMO to adhere to regulatory requirements. In addition, setrusumab is a large molecule monoclonal antibody, which, as a result, has a more complex manufacturing process than our other small molecule candidate products.

The manufacture of biologics involves expensive and complex processes and worldwide capacity at CMOs for the manufacture of biologics is currently limited. This situation has been recently exacerbated due to the additional constraints caused by the priority given to the manufacture COVID-19 treatments and the resultant decrease in available CMO capacity.

In addition, setrusumab is of the IgG2 type subclass monoclonal antibody. The IgG2 subclass is known for having a tendency to reversibly self-associate and this can cause an opalescence appearance to the liquid antibody formulation, which can be mediated by protein concentration, pH and temperature. The presence of an opalescence in the solution does not have an impact on product potency and effectiveness and does not generally correlate with the formation of aggregates or particles.

Risk Mitigation and developments to date

The Group has an experienced in house team that is working with a number of specialist manufacturers in respect of its drug manufacturing capabilities. We have a comprehensive in house quality management process that covers the selection, monitoring and audit inspection of our CMOs and other associated vendors.

Specific to setrusumab, we have conducted several large scale manufacturing runs of drug substance and drug product at third-party CMOs without observing any opalescence, and we have further conducted formulation studies in order to minimize any risk of significant opalescence or of aggregate formation. We have also conducted product stability studies and excipient optimization, resulting in a change in the methodology for product reconstitution; however, there can be no assurances that this opalescence will not occur in future manufacturing runs.

Risk
Successful commercialization

Description
We operate in a highly competitive and rapidly changing industry, which may result in others acquiring, developing or commercializing competing product candidates before, or more successfully than we do.

Future success for the Group is dependent on obtaining a commercial return from products, either by entering into arrangements with third parties for commercialization or commercializing certain product candidates ourselves.

At present, none of our existing portfolio is commercialized, because all our candidate products remain under development and have yet to receive approval / marketing authorization, which is an essential pre-requisite to pharmaceutical launch and commercialization.

Our ability to obtain a commercial return on product candidates could be influenced by a number of factors in addition to receiving approval/marketing authorization including the ability to establish effective sales and marketing capabilities; the ability to enter into product divestment, licensing or co-commercialization agreements with third parties; competition that may lead to third parties developing or commercializing products earlier or more successfully than Mereo; the ability to achieve commercially reasonable rates for pricing and reimbursement for product candidates commercialized by Mereo; and physician and patient acceptance of product candidates approved for commercial sale, amongst others.

In addition, if etigilimab, alvelestat, setrusumab, acumapimod or leflutrozole is approved and launched on the market, we will face intense competition from a variety of businesses, including large, fully-integrated pharmaceutical companies, other rare disease pharmaceutical or biotechnology companies, and non-rare pharmaceutical and biopharmaceutical companies, in the U.S., Europe and other jurisdictions.

Risk Mitigation and developments to date
For our rare disease programs, we engage with regulators, health technology assessment ("HTA") bodies, treating physicians and patient representative organisations at all stages of our development.

Setrusumab has been designated a Priority Medicine in Europe under the EMA's PRIME scheme. As such, we benefit from ongoing advice from regulators, payers and HTA bodies on an ongoing basis.

We are also in regular dialogue with the European payers through the Mechanism of Coordinated Access to Orphan Medicinal Products ("MoCA").

Treating physicians, notably those in the lead centres of expertise are part of our development work on an ongoing basis; and we also consult regularly with the patient representative organisations from the therapeutic areas we intend to address.

Market research work, including pricing, has been initiated for our two rare disease candidate products. We constantly monitor development programs from other companies in our target indications, to allow us to effectively understand and evaluate the competitive landscape for etigilimab, alvelestat and setrusumab on an ongoing basis.

We have commenced licensing and/or partnering discussions for acumapimod and leflutrozole and these discussions are ongoing.

Risk
Failure to obtain regulatory approvals

Description
We operate in a highly regulated industry, giving rise to a number of risks that could affect the development and commercialization of our product candidates, including the ability to obtain required regulatory marketing approvals. The regulatory approval processes of the U.S. FDA, the EMA and comparable foreign authorities are lengthy, time consuming, and with inherently unpredictable outcomes, because they rely on third-party decisions outside of our control. If we are ultimately unable to obtain regulatory approval for our product candidates, our business will be impacted.

Even if any of our product candidates obtains regulatory approval, we will be subject to ongoing obligations and continued regulatory review including potential additional studies or data generation, which may result in significant additional time and expense.

Regulatory approval of any product candidate in a major market, such as the U.S. or E.U., does not guarantee that we are able to obtain reimbursed inclusion in government healthcare systems or by private insurance providers. Regulatory approval to commercialize that product in one jurisdiction does not guarantee that we are able to receive such authorisation in other markets.

Risk Mitigation and developments to date
Heidi Petersen joined the management team as SVP of Regulatory Affairs, bringing significant expertise and experience to the Company.

To supplement our experienced in-house team, we work with several specialized regulatory advisors to give guidance on regulatory strategy for each of our candidate products.

As our programs continue through their respective development plans, the relative risk that we fail to obtain regulatory approval continues to decrease. Matters that remain outside our control, e.g., the scientific performance of a compound in a clinical study, or the ultimate decision-making of a regulatory body, are mitigated by dialogue with decision- makers and rigorous study preparation and design.

We completed a Type B end of Phase 2b meeting with the U.S. FDA in February 2020, a PRIME with the EMA in May 2020 and sought scientific advice from the EMA in December 2020. These meetings resulted in alignment between the regulators on a Phase 2/3 pediatric study in children with OI.

Risk
Continued compliance with new laws and regulations

Description
We face an ever-increasing amount of corporate regulation as a US listed publicly traded company.

We are subject to the U.K. Bribery Act, the U.S. Foreign Corrupt Practices Act and other anti- competition laws, as well as export control laws, customs laws, sanctions laws and other laws governing our operations. If we fail to comply with these laws, we could be subject to civil or criminal penalties, other remedial measures, and legal expenses, which could adversely affect our business, results of operations and financial condition.

We are subject to diverse laws and regulations relating to data privacy and security in the EU, and the UK including the UK General Data Protection Regulation ("GDPR"). New global privacy rules are being enacted and existing ones are being updated and strengthened. We are likely to be required to expend capital and other resources to ensure ongoing compliance with these laws and regulations.

As a Foreign Private Issuer ("FPI"), we are required to comply with the reporting regime under the U.S. Exchange Act, and will incur significant legal, accounting and other expenses should we deviate from this. Our management is now required to devote substantial additional time to ongoing compliance initiatives, financial controls and monitoring activities and corporate governance matters. We are also required to provide an annual attestation under Section 404(a) of the Sarbanes-Oxley Act of 2002.

Risk Mitigation and developments to date
Following our U.S. listing of our American Depository Shares ("ADSs") in 2019, we introduced new policies and procedures to ensure that our business practices are aligned with those expected of a Nasdaq listed Company. This has included updates to the Terms of Reference for the Board Committees which are available for inspection on our website. We cancelled admission of the Company's ordinary shares to trading on the AIM market of the London Stock Exchange in December 2020. Following the cancellation of AIM admission, many of our corporate governance policies and procedures as well as the terms of reference for the Board Committees were updated to reflect the Company's sole listing on the Nasdaq Global Market.

As a data controller, we are accountable for any third-party data service providers we engage to process personal data on our behalf. We attempt to address the associated risks by performing security assessments, detailed due diligence and regularly performing privacy and security reviews of our vendors and requiring all such third-party providers with data access to sign agreements, including business associate agreements, and where required under EU or UK law, obligating them to only process data according to our instructions and to take sufficient security measures to protect such data.

The Group's General Counsel and Company Secretary, who serves as an Executive Officer, is responsible for ensuring compliance with laws and regulations. For certain matters, the Company will engage external counsel or regulatory advisors.

We continued to make progress during the year in refining our internal financial processes and controls to support our attestation under Section 404(a) of the Sarbanes- Oxley Act of 2002 and involved our Audit and Risk Committee ("ARC") throughout the process.

Risk
The United Kingdom's withdrawal from the European Union

Description
Our principal office space is located in the United Kingdom. The United Kingdom formally exited the European Union, commonly referred to as Brexit, on January 31, 2020. Under the terms of its departure, the United Kingdom entered a transition period, or the Transition Period, during which it continued to follow all European Union rules. The Transition Period ended on December 31, 2020. On December 30, 2020, the United Kingdom and European Union signed the Trade and Cooperation Agreement, which includes an agreement on free trade between the two parties.

There is considerable uncertainty resulting from a lack of precedent and the complexity of the United Kingdom and EU's intertwined legal regimes as to how Brexit (following the Transition Period) will impact the life sciences industry in Europe, including our company, including with respect to ongoing or future clinical trials. Since a significant proportion of the regulatory framework in the United Kingdom applicable to our business and our product candidates is derived from EU directives and regulations, the withdrawal could materially impact the regulatory regime with respect to the development, manufacture, importation, approval and commercialization of our product candidates in the United Kingdom or the European Union. The impact will largely depend on the model and means by which the United Kingdom's relationship with the European Union is governed post-Brexit and the extent to which the United Kingdom chooses to diverge from the EU regulatory framework.

Risk Mitigation and developments to date
We continue to actively monitor the developments relating to the U.K.'s exit from the E.U. and will remain alert to any developments that may impact our business or the wider industry.

In 2018, we established a wholly owned Irish subsidiary that now holds our E.U. orphan designation and acts as our E.U. representative for all ongoing E.U. clinical studies, regulatory dialogue and eventual regulatory submissions.

Risk
Cybersecurity risks including loss of data

Description
Cybersecurity continues to increase in importance to mitigate the threat to data privacy, the protection of confidential data and the effective functioning of the Company's infrastructure. The threat from online attacks or data breaches continues to increase, becoming more complex for all companies and we are no exception.

Risk Mitigation and developments to date
During the year we continued to implement further controls over our cybersecurity

Following the Acquisition, we performed a full review of the Group's IT environment. We also implemented group cybersecurity policies in the U.S., which included upgrading software and hardware. Further, in early 2020 we moved our IT hardware in the U.S. into a more secure off-site specialist data centre.

We also regularly test our IT control environment and our personnel and undertake additional employee training measures where required, based on the outcome of this testing. Where relevant, we obtain external third-party support to the extent that risks evolve or require specialist consideration.

Since 2019, our IT control environment is also subject to evaluation under Section 404(a) of the Sarbanes-Oxley Act of 2002, with relation to financial accounting and reporting processes.

Risk
Continued maintenance of strong intellectual property (IP) portfolio

Description
Our ability to successfully license, divest or commercialize our product candidates depends in large part on our ability to obtain and maintain effective patent protection for our products in the U.S., Europe and other territories. If we are unable to obtain or maintain patent protection for our product candidates, or if the scope of the patent protection is not sufficiently broad, competitors could develop and commercialize similar products, which would materially affect our potential commercial return from our products.

We are subject to additional risks, including infringement of patent rights and inability to protect the confidentiality of our know-how, which could have an adverse effect on the competitive advantage of our product candidates.

Risk Mitigation and developments to date
We have had a dedicated Head of IP since 2015 and, in addition, we utilize expert external counsel in the prosecution and maintenance of our IP portfolio.

The etigilimab patent portfolio contains one core patent family that covers the product per se as well as medical uses thereof. Patents in this family will expire in 2036. The portfolio also includes a second patent family that relates to specific methods of treatment using etigilimab. Patents that issue from this family will expire in 2037.

Two families of patents for alvelestat have been licensed under our agreement with AstraZeneca. The first family includes claims to the alvelestat compound and its uses, and these patents will expire in 2024. The second family includes claims to the specific tosylate salt form of the alvelestat compound and these patents will expire in 2030. Further patent applications have recently been filed relating to dosage regimens for alvelestat, which, if granted, will expire in 2041.

Our issued patents and patent applications for setrusumab, if issued, include claims directed to the setrusumab antibody as well as nucleic acids encoding the antibody and the antibody's use as a medicament; the use of anti-sclerostin antibodies in the treatment of OI; the use of the setrusumab antibody in the treatment of OI with a specific dosing regimen; and use of a sclerostin antagonist in the treatment of a myopathy with expected expiry dates between 2028 and 2039. In December 2020, we entered into a license and collaboration agreement with Ultragenyx for setrusumab for OI. The setrusumab antibody also has orphan status in both the U.S. and the E.U.

The issued patents and patent applications for leflutrozole (BGS-649), if issued, include claims directed to leflutrozole formulations and the use of leflutrozole in treating hypogonadism according to a specific dosing regimen, with expected expiry dates between 2032 and 2037.

The first patent family of our acumapimod patent portfolio relates to the acumapimod compound and other five membered heterocycle-based p38 kinase inhibitors and these patents will expire in 2024. The second patent family relates to the use of pyrazole derivatives in the treatment of AECOPD, and these patents will expire in 2033. Further patent applications have been filed relating to dosage regimens of acumapimod, the use of acumapimod in the treatment of specific patient subpopulations, methods of producing specific polymorphs of acumapimod and synthetic methods of production of acumapimod, with expected expiry dates not earlier than between 2036 and 2039.

The patent portfolio relating to Navi contains two core patent families, both of which cover the product per se as well as medical uses thereof. Patents and patent applications, if issued, in these core families are expected to expire between 2030 and 2032. The portfolio also includes several other patent families including issued U.S. and foreign patents and pending applications that relate to specific methods of treatment using Navi. Patents and patent applications, if issued, in these families are expected to expire between 2030 and 2039. Navi was licensed by the Group to OncXerna in January 2020 pursuant to the terms of a global licensing agreement.

Risk
Availability of finance

Description
While we raised approximately £137.9 million in private placements and convertible loan notes in 2020 and in a public offering of ADSs in 2021, we expect our expenses to increase substantially in connection with our ongoing activities, particularly as we continue to advance our oncology and rare disease portfolio. In addition, if we obtain marketing approval for product candidates where we retain commercial rights, we expect to incur significant commercialization expenses related to product sales, marketing, distribution and manufacturing. Furthermore, we expect to incur additional costs associated with operating as a public company in the United States and maintaining a listing on Nasdaq. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we could be forced to delay, reduce or eliminate our research and development programs or any future commercialization efforts We have significant expenditures in US Dollars and Euros; consequently, our financial results could be adversely impacted by foreign currency movements.

Risk Mitigation and developments to date
As at December 31, 2020 the Group had total cash resources (being cash and short-term deposits) of £23.5 million. In January 2021, the Group received an upfront payment of £36.5 million ($50 million) under the terms of our license and collaboration agreement with Ultragenyx for setrusumab. Taken together with the public offering which completed on February 12, 2021 and which raised net proceeds of approximately £78.3 million, the Group has sufficient cash resources. The Directors have prepared detailed quarterly cashflow forecasts through December 31, 2024. These forecasts indicate that the Group has a total cash runway into 2024 and will have sufficient funds to meet its liabilities as they fall due for at least the next 12 months.

Risk
Constraints in the growth of the Group

Description
Our future success depends upon our ability to retain key employees, including the executive directors and executive officers, and to attract, retain and motivate qualified individuals. We anticipate expanding our operational capabilities, and there is a risk that we may encounter difficulties in managing this growth, which could disrupt our business. Our growth plans are dependent upon our ability to not only successfully develop and commercialize our existing product candidates but also to identify and successfully onboard further product candidates as well as to integrate such products into our business. Our operations may be adversely impacted if we are unable to successfully accomplish this; or are unable to comply with the terms of licensing or acquisition agreements and applicable laws and regulations, including data privacy, amongst others.

Risk Mitigation and developments to date

We continue to attract highly experienced people and to expand our team in terms of numbers and breadth of specialty industry-relevant experience. We currently have 42 employees as of the date of the report.

We implemented new long-term incentives in April 2019, which will allow us to incentivize and retain employees across the Group. We granted options under these new schemes to both employees and Non-Executive Directors in 2020 and early 2021.

Further details are set out in our Director's Remuneration Report on pages 39 to 61.

This strategic report, which has been prepared in accordance with Companies Act 2006, has been approved by the Board and signed on behalf of the Board:

Dr. Peter Fellner	**Dr. Denise Scots-Knight**
Chairman	Chief Executive Officer
April 16, 2021	April 16, 2021

Chairman's governance overview

I am pleased to present the Corporate Governance Report for the year ended December 31, 2020.

The role of Chairman is to ensure that the Board of Mereo operates effectively in delivering the long-term success of the Company. In fulfilling this role, the Chairman seeks to ensure that the Board proceedings are conducted in such a way to as to allow all directors to have the opportunity to express their views openly and, in particular, the Non-Executive Directors ("NEDs") are able to provide constructive support and challenge to the Company's executive leadership team.

Good corporate governance is a central element of the successful growth and development of the Company. The Board and its Committees play a key role in the Company's governance by seeking to ensure that an effective system of internal controls and risk management procedures is in place.

This section of the annual report describes our corporate governance structures and processes and how they have been applied throughout the year ended December 31, 2020 and up to the date of this report in 2021.

The Board also takes into consideration how the Group's growth may result in the evolution of the corporate governance framework. Following the cancellation of admission of the Company's ordinary shares to trading on the AIM market of the London Stock Exchange, many of the Company's corporate governance policies and procedures as well as the terms of reference for the Board Committees were updated to reflect the Company's sole listing on the Nasdaq Global Market. Since December 2020 and up to the date of this report, those terms of reference have been consistently applied in the activities performed by the Board Committees.

The Board recognizes that a healthy corporate culture is important to Mereo's business purpose and strategy. The Executive Officers of Mereo have a key role in establishing the key elements of our culture and the behaviors we expect to see. They provide feedback to the Board on this on a regular basis. Executive Officers of Mereo hold monthly meetings with the Company employees at which they highlight our values and approach to business integrity. In addition, we work with business management consultants at a Company and Executive team level to assess the state of our culture and to agree and embed any modifications.

The Nasdaq Global Market and U.S. securities laws

Following the listing of the Company's American Depositary Shares ("ADSs"), each representing five Mereo ordinary shares, on the Nasdaq Global Market in April 2019 we are required to comply with certain U.S. securities laws and Nasdaq rules that are relevant to us an Emerging Growth Company ("EGC") (as defined under US securities laws) and as a non-U.S. company with foreign private issuer status (as defined under US securities laws). As an EGC, we are subject to reduced public company disclosure requirements and, as a non-U.S. company with foreign private issuer status, we are exempted from certain corporate governance provisions of U.S. securities laws and Nasdaq rules that are generally applicable to U.S. domestic public companies.

Other Board reports

I am pleased to include the Directors' Remuneration Report, see pages 39 to 61, as a stand-alone report.

The Board and Board changes

As at the date of this report the Board comprises the Chairman, one Executive Director and seven Non-Executive Directors. The Board considers there to be sufficient independence on the Board and that all the Non-Executive Directors are of sufficient competence and calibre to add strength and objectivity to the Board. The Board also reflects a good balance of skills, diversity and experience from financial, operational and sector specific backgrounds as described in the Directors' biographies on pages 36 to 38.

In July 2020, Michael Wyzga was appointed the Interim Chief Financial Officer following the announced departure of Richard Jones, the Company's former Chief Financial Officer ("CFO"). Michael Wyzga served as Interim CFO until January 4, 2021 when Christine Fox was appointed as our current CFO. Michael Wyzga now serves as a Non-Executive Director and Deputy Chairman.

In recognition of OrbiMed's participation in, and assistance with, the fund raising undertaken in June 2020, the Company agreed to grant OrbiMed the right to nominate two persons to be appointed to the Board of Directors (out of a maximum number of nine directors), within a period of 180 days from June 3, 2020 subject

to the appropriateness of the nominees. Dr Jeremy Bender and Dr Brian Schwartz were both appointed to the Board of Directors with effect from October 1, 2020.

Our Non-Executive Directors currently have a limited number of equity incentive awards issued to them from the Mereo BioPharma Group Limited Share Option Plan (the "2015 Plan") or the 2019 Non-Executive Director Equity Incentive Plan (the "NED EIP"). Equity incentive awards awarded to Non-Executive Directors are discussed in further detail in the Directors' Remuneration Report. Considering the limited number of equity incentive awards issued to Non-Executive Directors, the Board does not consider that the awards impact the independence of the Non-Executive Directors.

Dr. Peter Fellner, Peter Bains, Kunal Kashyap, Dr. Anders Ekblom, Michael Wyzga, Dr. Deepa Pakianathan, Dr. Jeremy Bender and Dr. Brian Schwartz qualify as "independent" under U.S. securities laws and Nasdaq rules.

Name	Date of appointment
Non-Executive Directors	
Dr. Peter Fellner	July 29, 2015
Peter Bains	July 29, 2015
Paul Blackburn*	October 6, 2015
Dr. Anders Ekblom	July 29, 2015
Kunal Kashyap	July 29, 2015
Michael Wyzga	April 23, 2019
Dr. Deepa Pakianathan	April 23, 2019
Dr. Jeremy Bender	October 1, 2020
Dr. Brian Schwartz	October 1, 2020
Executive directors	
Dr. Denise Scots-Knight, Chief Executive Officer	March 10, 2015
Richard Jones, Chief Financial Officer*	January 30, 2017
Company Secretary	
Charles Sermon	May 19, 2015

(*) Paul Blackburn resigned from the Board on October 1, 2020

(*) Richard Jones resigned from the Board on June 29, 2020

The Board typically has five scheduled meetings per year with additional Board meetings and Board Committee meetings as circumstances and business needs dictate. The Board is responsible to the shareholders for the proper management of the Group and meets regularly to set the overall direction and strategy of the Group and to review scientific, operational and financial performance. The Board has also convened on an ad-hoc basis between scheduled Board meetings to review specific business opportunities and other matters that require more immediate Board input. The key responsibilities of the Board are as follows:

- Setting the Company's values and standards;
- Approval of long-term objectives and strategy;
- Approval of budgets and plans;
- Oversight of operations, ensuring that adequate systems of internal controls and risk management are in place, maintenance of accounting and other records and compliance with statutory and regulatory obligations;
- Review of performance considering strategy and budgets, ensuring any necessary corrective actions are taken;
- Approval of the annual report and financial statements and major projects such as new product acquisitions;
- Changes to the structure, size and composition of the Board;
- Determining the remuneration policy for the directors and approval of the remuneration of the Non-Executive Directors; and
- Approval of communications with shareholders and the market.

There is a clear separation of the roles of the Chief Executive Officer and the Chairman. The Chairman is responsible for overseeing the running of the Board, ensuring that no individual or group dominates the Board's decision making and ensuring the Non-Executive Directors are properly briefed on matters. The Chief Executive Officer has the responsibility for implementing the strategy of the Board and managing the day-to-day business activities of the Group.

In accordance with the Company's articles of association each of its Directors retires from office at the third Annual General Meeting after he or she was elected or last re-election. Retiring directors are eligible for re-election at the relevant Annual General Meeting and, if no other director is elected to fill his or her position, and if the director is willing, shall be re-elected by default unless a resolution is passed not to fill the vacancy or a resolution to re-appoint the director is put to the Annual General Meeting and lost. All our directors will retire in accordance with the articles of association at the Annual General Meeting in 2021, except for Michael Wyzga and Dr. Deepa Pakianathan, whose current terms expire in 2022 following their re-appointment at our AGM held on June 19, 2019.

Directors are required to notify the Board of any conflicts of interest and a register of such interests is maintained by the Company Secretary and reviewed at Board meetings. Any planned changes to their interests, including directorships outside the Mereo Group are notified to the Board.

Development, information and support
Updates are given to the Board on developments in governance and regulations as appropriate, including presentations from the Company's financial, legal and remuneration advisors. The Board has access to the advice of the Company Secretary, who is a qualified lawyer and acts as secretary to the Board and its committees and is responsible for ensuring that Board procedures are followed, and applicable rules and regulations are complied with.

Performance evaluation
The Board recognizes the need to regularly review the effectiveness of its performance as well as that of its committees and individual directors and recently completed a performance evaluation of all the Board committees. Changes to the membership of the Board committees which took effect from April 1, 2021 are set out in this report under Board Committees.

The Nominations and Corporate Governance Committee is responsible for performance evaluation of the Board including that of its Committees and individual directors, including the Chairman.

Attendance at Board and Committee meetings
There were 17 Board meetings during 2020. Directors' attendance at Board and Committee meetings was as follows:

	Board (out of 17)	Remuneration Committee (out of 9)	Audit and Risk Committee (out of 13)	R&D Committee (out of 4)
Current directors				
Dr. Peter Fellner	17	n/a	n/a	n/a
Peter Bains	16	9	n/a	4
Dr. Anders Ekblom	17	8	n/a	4
Kunal Kashyap	15	n/a	12	n/a
Michael Wyzga	17	n/a	13	n/a
Dr. Deepa Pakianathan	17	9	3	4
Dr. Denise Scots-Knight	17	n/a	n/a	n/a
Dr. Jeremy Bender	3	n/a	3	n/a
Dr. Brian Schwartz	3	n/a	n/a	1
Past Directors				
Richard Jones	12	n/a	n/a	n/a
Paul Blackburn	14	n/a	10	n/a

(1) Dr. Deepa Pakianathan served as the chair of the Audit and Risk Committee for part of the year. She has attended all scheduled meetings.

(2) Dr. Jeremy Bender and Dr Brian Schwartz were appointed to the Board of Directors on October 1, 2020. Since that date, they have attended all scheduled meetings.

(3) Paul Blackburn resigned from the Board on October 1, 2020. Richard Jones resigned from the Board on June 29, 2020.

Board members' time commitment is considered necessary for the performance of their duties and Board members are expected to attend all Board and relevant Committee meetings, unless other previous commitments have been arranged.

Board Committees
To effectively manage governance of the Group, the Board has delegated certain responsibilities to sub-committees, as detailed below. These and other changes were implemented as noted below.

Audit and Risk Committee
Michael Wyzga (Chair) (from January 4, 2021)
Kunal Kashyap
Dr. Deepa Pakianathan (Chair and Member from August 1, 2020 until January 4, 2021)
Dr. Jeremy Bender (from October 1, 2020)

Remuneration Committee
Peter Bains (Chair and Member until April 1, 2021)
Dr. Anders Ekblom
Dr. Deepa Pakianathan (Chair from April 1, 2021)
Dr. Brian Schwartz (from April 1, 2021)

Nomination and Corporate Governance Committee
Dr. Peter Fellner (Chair)
Peter Bains (Member until April 1, 2021)
Dr. Anders Ekblom
Dr. Jeremy Bender (Member from April 1, 2021)
Kunal Kashyap (Member from April 1, 2021)
Michael Wyzga (Member from April 1, 2021)

Research and Development Committee
Dr. Anders Ekblom (Chair)
Peter Bains
Dr. Deepa Pakianathan
Dr. Brian Schwartz (from October 1, 2020)

The detailed charters for each of the committees can be found on the Group's website at www.mereobiopharma.com. All the Board committees are authorized to obtain, at the Company's expense, professional advice on any matter within their terms of reference and to have access to enough resources to carry out their duties.

Audit and Risk Committee
The Audit and Risk Committee, which consists of Michael Wyzga, Kunal Kashyap and Dr. Jeremy Bender, assists the Board in overseeing our accounting and financial reporting processes and the audits of our financial statements. Mr. Wyzga serves as Chairman of the Audit and Risk Committee.

The Audit and Risk Committee consists exclusively of members of our Board who are financially literate, and Michael Wyzga is considered an "audit committee financial expert" as defined by applicable U.S. Securities and Exchange Commission ("SEC") rules and has the requisite financial sophistication as defined under the applicable Nasdaq rules and regulations. Our Board has determined that all of the members of the Audit and Risk Committee satisfy the "independence" requirements set forth in Rule 10A-3 under the Exchange Act. The Audit and Risk Committee is governed by a charter that complies with Nasdaq rules.

The Audit and Risk Committee's responsibilities include:

- Recommending the appointment of the independent auditor to the general meeting of shareholders;
- The appointment, compensation, retention and oversight of any accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit services;
- Pre-approving the audit services and non-audit services to be provided by our independent auditor before the auditor is engaged to render such services;
- Evaluating the independent auditor's qualifications, performance and independence, and presenting their conclusions to the full Board on at least an annual basis;
- Reviewing and discussing our financial statements and our financial reporting process with the executive officers, the Board and the independent auditor; and
- Approving or ratifying any related person transaction (as defined in our Related Person Transaction Policy) in accordance with our Related Person Transaction Policy.

The Audit and Risk Committee meets as often as one or more members of the Audit and Risk Committee deem necessary, but in any event meets at least four times per year. The Audit and Risk Committee meets at least once per year with our independent auditor, without our senior management being present.

Remuneration Committee
The Remuneration Committee, which from April 1, 2021 consists of Dr. Deepa Pakianathan, Dr. Brian Schwartz and Dr. Anders Ekblom, assists the Board in determining senior management compensation. Dr. Pakianathan serves as Chairman of the committee. Under SEC and Nasdaq rules, there are heightened independence standards for members of the Remuneration Committee, including a prohibition against the receipt of any compensation from the Company other than standard board member fees. However, foreign private issuers are not required to meet this heightened standard. Nonetheless, our Board has determined that Dr. Deepa Pakianathan, Dr. Brian Schwartz and Dr. Anders Ekblom meet this heightened standard. The Remuneration Committee is governed by a charter that complies with Nasdaq rules.

The Remuneration Committee's responsibilities include:

- Identifying, reviewing, and proposing policies relevant to senior management compensation;
- Evaluating each member of senior management's performance in light of such policies and reporting to the Board;
- Analyzing the possible outcomes of the variable compensation components and how they may affect the compensation of senior management;
- Recommending any equity long-term incentive component of each member of senior management's compensation in line with any compensation policy and reviewing our senior management compensation and benefits policies generally; and
- Reviewing and assessing risks arising from our compensation policies and practices.

Following the Company's listing on the Nasdaq Global Market, it is required to publish a Directors' Remuneration Report, because the Company meets the definition of a "quoted company" as defined in Section 385 of the Companies Act 2006. The Directors' Remuneration Report for the financial year ended December 31, 2020, is presented on pages 39 to 61.

Nomination and Corporate Governance Committee
The Nomination and Corporate Governance Committee, which from April 1, 2021 consists of Dr. Peter Fellner, Dr Jeremy Bender, Kunal Kashyap, Michael Wyzga, and Dr. Anders Ekblom, assists our Board in identifying individuals qualified to become members of our board and senior management consistent with criteria established by our Board and in developing our corporate governance principles. Dr. Peter Fellner serves as Chairman of the Nomination and Corporate Governance Committee. The Nomination and Corporate Governance Committee is governed by a charter that complies with Nasdaq rules.

The Nomination and Corporate Governance Committee's responsibilities include:

- Drawing up selection criteria and appointment procedures for board members;
- Reviewing and evaluating the size and composition of our Board and making a proposal for a composition profile of the Board at least annually;
- Recommending nominees for election to our Board and its corresponding committees;
- Assessing the functioning of individual members of the Board and senior management and reporting the results of such assessment to the Board; and
- Developing and recommending to the Board rules governing the Board, reviewing and reassessing the adequacy of such rules governing the Board, and recommending any proposed changes to the Board.

Research and Development Committee
The Research and Development Committee, which consists of Dr. Anders Ekblom, Peter Bains, Dr Brian Schwartz and Dr. Deepa Pakianathan, assists our senior management with oversight and guidance related to strategic research and development matters and provides guidance and makes recommendations to our Board regarding strategic research and development matters. Dr. Anders Ekblom serves as Chairman of the Research and Development Committee.

The Research and Development Committee's responsibilities include oversight of:

- Our strategic development plans for product candidates, taking into account any regulatory feedback; and
- The acquisition of new product candidates.

In addition, the Research and Development Committee is tasked with keeping the Board informed of strategic issues and commercial changes affecting our development programs and potential product acquisitions.

ESG responsibility
The Board recognizes the importance of environmental, social and governance matters and it endeavors to consider the differing interests of the Group's stakeholders, including its investors, employees, suppliers and business partners, when operating its business.

General Data Protection Regulation ("GDPR")
Prior to the adoption of GDPR in 2018 we updated our data protection guidelines, training and processes. Throughout the year we have continued to maintain and update these guidelines, training and processes, including targeted awareness sessions delivered to our employees.

Risk management and internal control
The Board is responsible for ensuring systems of internal control are appropriate and hold ultimate responsibility for reviewing their effectiveness. The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. The Board reviews the effectiveness of these systems annually by considering the risks potentially affecting the Group.

Following the listing on the Nasdaq Global Market in April 2019, the Group is required for the year ended December 31, 2020, to adhere to Section 404(a) of the Sarbanes-Oxley Act of 2002 as amended (the "Sarbanes-Oxley Act") which requires management to assess and report annually on internal control over financial reporting. The Group's annual report on Form 20-F for the year-ended December 31, 2020 filed with the U.S. Securities and Exchange Commission on March 31, 2021 included that required management assessment and report. As an Emerging Growth Company ("EGC"), as defined in the Jumpstart Our Business Start-Ups Act of 2012, our independent external auditor is not required to provide a report on and attestation to management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act. This exemption will be lost either when the Group fails to qualify as an EGC, or at the conclusion of the financial year ended December 31, 2024, whichever occurs earlier.

Details of our principal risks are set out on pages 19 to 27.

Financial reporting
The Board is responsible for reviewing and approving the Annual Report and Accounts and the interim financial information and for ensuring that these reports present a fair and balanced assessment of the Group's position. Drafts of these reports are provided to the Board in a timely manner and Directors' feedback is discussed and incorporated, where appropriate, prior to publication.

In addition, the Board ensures that controls over the financial reporting process and preparation of the consolidated accounts include extensive reviews by qualified and experienced individuals to ensure that all elements of the financial statements and appropriate disclosures are considered and accurately stated.

With respect to the financial year ended December 31, 2020, the Board acknowledges the steps taken by management and the Audit and Risk Committee to ensure appropriate actions are taken with respect to the requirement to provide attestation over Section 404(a) of the Sarbanes-Oxley Act of 2002.

Inside Information
U.S. federal securities laws prohibit the purchase or sale of securities by persons who are aware of material non-public information about a company, as well as the disclosure of material, non-public information about a company to others who then trade in the company's securities. These transactions are commonly known as "insider trading." Insider trading violations are heavily pursued by the U.S. Securities and Exchange Commission and other U.S. regulatory authorities. While the regulatory authorities concentrate their efforts on individuals who trade, or who provide inside information to others who trade, the U.S. federal securities laws also impose potential liability on companies and other "controlling persons" if they fail to take reasonable steps to prevent insider trading by company personnel.

The Board has adopted an insider trading policy (the "Policy") both to satisfy the Company's obligation to prevent insider trading and to help personnel avoid the consequences associated with violations of the insider trading laws. A copy of this Policy is delivered and/or made available to all current and new employees and consultants upon the commencement of their relationships with the Company. The Policy also assists the Company in controlling inside information and includes procedures for identifying inside information, ensuring the appropriate disclosure of inside information, and for maintaining effective controls to keep any inside information confidential.

Whistleblowing
The Group operates a whistleblowing policy which allows all employees to raise concerns to senior management in strict confidence about any unethical business practices, fraud, misconduct or wrongdoing. The Company has implemented a whistleblowing hotline through which employees can raise questions and concerns anonymously. Any concerns with the whistleblowing policy are reviewed by the Audit and Risk Committee.

Relations with stakeholders and shareholders
The Board recognizes the importance of communication with its shareholders to ensure that its strategy and performance are understood and that it remains accountable to shareholders and we therefore maintain a regular dialog with our institutional investors.

Executive officers of the Company also engage with stakeholders and receive feedback from a range of such stakeholders including the Company's employees which is then shared with the Board. The Board recognizes that the Company's employees are a valuable asset and a key driver of the Company's success. The Board and the Board's committees, including the R&D Committee, also receive regular feedback directly from key advisers and third-party experts.

Our website, www.mereobiopharma.com, has a dedicated investor section and provides useful information for our shareholders including the latest announcements, press releases, published financial information, details of our products and our current development pipeline and other information about the Company. The Board as a whole is responsible for ensuring that a satisfactory dialog with shareholders takes place, while the Chief Executive Officer and I, as Chairman, ensure that the views of the shareholders are communicated to the Board as a whole. The Board ensures that our strategic plans have been carefully reviewed in terms of their ability to deliver long-term shareholder value.

Annual General Meeting ("AGM")
This year's AGM of the Company will be held on May 27, 2021. The notice of AGM, which will include all proposed resolutions, will be posted to ordinary shareholders and be available on the Group's website www.mereobiopharma.com. All ordinary shareholders will have at least 21 days' notice of the AGM.

Due to COVID-19 measures set out by the UK Government *inter alia* prohibiting indoor gatherings, the Company's AGM is expected to be a closed meeting. This means that ordinary shareholders will not be allowed to attend the AGM in person and any ordinary shareholder seeking to attend the AGM in person will be refused entry.

Our employees
The Group's future success depends on the ability to recruit and retain key employees. Our employee base includes key people in strategic areas including in corporate development, patient access and commercial planning, as we move our rare disease programs forward and seek to partner our speciality products. We have been fortunate to attract and retain highly experienced individuals in clinical development, clinical operations, regulatory, finance, legal, manufacturing, intellectual property and quality assurance, supporting them with strong leadership at the executive and Board level.

Our internal expertise is leveraged with external organisations, including contract research organisations ("CROs") and contract manufacturing organisations ("CMOs") as well as bespoke consulting agreements. This combination has allowed the Group to initiate international clinical trial studies within a relatively short period of time since acquiring products from large pharma, whilst also maintaining a lean internal infrastructure.

Across the U.K. and the U.S., we have approximately 42 employees as of the date of this annual report. Mereo seeks to appoint employees with appropriate skills, knowledge and experience for the roles they undertake and thereafter to develop, incentivize and retain staff. The Board recognizes its legal responsibility to ensure the well-being, safety and welfare of the Group's employees and maintain a safe and healthy working environment for them and for our visitors. If an employee has a concern about unsafe conditions or tasks, they are encouraged to report their concerns immediately to their manager or the General Counsel. Employees may also contact a dedicated whistleblowing hotline, independent of the Group, if anonymity is sought.

The Group is fully committed to the elimination of unlawful and unfair discrimination and values the differences that a diverse workforce brings to the organization. The Group endeavors to not discriminate because of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (which includes colour, nationality and ethnic or national origins), religion or belief, sex or sexual orientation. This is captured in our Employee Handbook, which all employees are required to read and acknowledge on an at least annual basis. The Group will undertake an annual review of its policies and procedures to establish its position about compliance and best practice and monitor and promote a healthy corporate culture.

A breakdown of employment statistics by gender as at December 31, 2020 is as follows:

Position	Female	Male	Total
Directors of the Company (CEO, CFO and Non-Executive)	2	7	9
Executive officers	1	4	5
Employees	18	13	31
Total	21	24	45

Executive officers consist of senior managers who have responsibility for planning, director or controlling the activities of the Group. As at December 31, 2020, this includes the Chief Portfolio Management and Pipeline Strategy, General Counsel and Company Secretary, Chief Business Officer, Chief Patient Access and Commercial Planning, Chief Scientific Officer and, as of January 4, 2021 the Chief Financial Officer, following the appointment of Christine Fox.

Our Directors have significant operational experience in leadership positions in large and small pharmaceutical and biotechnology companies. They provide valuable strategic input into our corporate

development programs and our corporate and financing strategies. We welcomed two new Non-Executive Directors from OncoMed, bringing additional skills and diversity to the Mereo Board.

Biographies for our team of highly experienced directors and executive officers can be found below:

Executive and Non-Executive Directors

Dr. Denise Scots-Knight (CEO and Executive Director)

Dr. Scots-Knight has served as our Chief Executive Officer since July 2015 and as a member of our Board since our formation. From 2010 until joining us, Dr. Scots-Knight was the Managing Partner of Phase4 Partners Ltd. ("Phase4"), a global life science venture capital firm. Dr. Scots-Knight is currently a board member of Elanco Animal Health Incorporated (NYSE: ELAN. Dr. Scots-Knight previously served as a member of the board of directors of Idenix Pharmaceuticals, Nabriva, Albireo and OncoMed. Dr. Scots-Knight holds a B.Sc. (Hons.) and a Ph.D. from Birmingham University.

Dr. Peter Fellner (Chairman)

Dr. Fellner has been Chairman of our Board since July 2015. He served as Chairman of the board of directors of Consort Medical plc from May 2009 until April 2019 and was Chairman of the board of directors of Ablynx NV from November 2013 until January 2018 and Vernalis plc until October 2018. Dr. Fellner was previously Chairman of the board of directors of Acambis plc from 2006 until its acquisition by Sanofi Pasteur and Optos plc from 2000 until its acquisition by Nikon Corporation, and Vice Chairman of Astex Pharmaceuticals Inc. until its acquisition by Otsuka Pharmaceutical Company. He also served as a Director of UCB S.A. and was CEO and then Chairman of Celltech Group plc. Dr. Fellner holds a B.Sc. (Hons.) from the University of Sheffield and a Ph.D. from the University of Cambridge.

Dr. Fellner serves as Chair of the Nomination and Corporate Governance Committee.

Peter Bains

Mr. Bains has served on our Board since July 2015. Mr. Bains was a Representative Executive Officer and Chief Executive Officer of Sosei Group Corporation, a Japanese listed biotechnology company until December 31, 2018. Previously, he was Chief Executive Officer and Executive Director of Syngene International Ltd, a BSE listed contract research organization, where he served as a Non-Executive Director until 2016. Mr. Bains also served as Non-Executive Chairman of Fermenta Biotech Ltd, an Indian speciality manufacturing company until April 2018. Mr. Bains currently serves as a Non-Executive Director for MiNA Therapeutics Ltd and Apterna Ltd, both privately held UK biotechnology companies, and Indivior PLC, a FTSE listed speciality pharmaceuticals company. Mr. Bains holds a B.Sc. (Hons.) from Sheffield University. Mr. Bains serves as a member of the R&D Committee.

Dr. Jeremy Bender

Dr. Bender has served on our Board since October 2020. Jeremy is a senior biopharma leader with broad experience driving strategic decisions and transactions. He was recently appointed Chief Executive Officer of DayOne Biopharmaceuticals, Inc., focused on oncology. Previously Dr. Bender served as Vice President of Corporate Development at Gilead Sciences, Inc., where he was responsible for development and negotiation of partnerships, alliances, joint ventures, equity investments, licensing agreements and M&A transactions including Gilead's $4.9 billion acquisition of Forty Seven, Inc., and the establishment of a 10-year partnership with Arcus Biosciences Inc., to advance next-generation cancer immunotherapies. Dr. Bender joined Gilead from Tizona Therapeutics, Inc., where he was Chief Operating Officer. Prior to Tizona, he was Chief Business Officer of Sutro Biopharma, Inc. During his time at Sutro, he successfully completed partnering transactions with Celgene Corporation and EMD Serono. Dr. Bender received his undergraduate degree in Biological Sciences from Stanford University and his Ph.D.in Microbiology & Immunology from the University of Colorado, where he worked on peripheral T-cell selection in the labs of Philippa Marrack and John Kappler. He also holds an M.B.A. from the MIT Sloan School of Management. Dr. Bender serves as a member of the Audit and Risk Committee and the Nomination and Corporate Governance Committee.

Dr. Anders Ekblom

Dr. Ekblom has served on our Board since July 2015. Dr. Ekblom has held a number of executive positions at AstraZeneca, including Executive Vice President Global Drug Development, Executive Vice President Global Medicines Development, Global Head Clinical Development, and Chief Executive Officer of AstraZeneca AB Sweden. He currently serves as Chairman of the Board of Elypta AB, as Vice Chairman of the Board of LEO

Pharma A/S, and on the boards of directors of Alligator Bioscience AB and AnaMar AB. Dr. Ekblom is a board-certified medical doctor and an Associate Professor at the Karolinska Institutet. Dr. Ekblom holds a M.D., Ph.D. and a D.D.S from Karolinska Institutet. Dr. Ekblom serves as Chair of the R&D Committee and is a member of the Remuneration Committee and Nomination and Corporate Governance Committee.

Kunal Kashyap

Mr. Kashyap has served on our Board since July 2015. Mr. Kashyap is Chairman and Managing Director of Allegro Capital Advisors. He had also served as an Independent Director of GlaxoSmithKline Consumer Healthcare Ltd until June 2019. Mr. Kashyap was a partner with Arthur Andersen responsible for establishing and managing their operations in South India. Mr. Kashyap is also the Founder and was the Executive Director of Celstream Technologies Private Limited. Mr. Kashyap is a Chartered Accountant from the Institute of Chartered Accountants of India. Mr. Kashyap is a member of the Audit and Risk Committee and the Nomination and Corporate Governance Committee.

Dr. Deepa Pakianathan

Dr. Pakianathan has served on our Board since April 2019 following completion of the Merger and served as a director of OncoMed since December 2008 until the closing of the Merger. Since 2001, Dr. Pakianathan has been a Managing Member at Delphi Ventures, a venture capital firm focused on biotechnology and medical device investments. Dr. Pakianathan serves on the boards of directors of Karyopharm Therapeutics, Inc., Theravance Biopharma, Inc., Foresite Development Corporation II and Calithera Biosciences, Inc. Dr. Pakianathan previously served on the boards of directors of Alexza Pharmaceuticals, Inc., Alder Biopharmaceuticals, Inc., PTC Therapeutics, Inc. and Relypsa, Inc. Dr. Pakianathan received a B.Sc. from the University of Bombay, India, a M.Sc. from The Cancer Research Institute at the University of Bombay, India, and an M.S. and Ph.D. from Wake Forest University. Dr. Pakianathan serves as Chair of the Remuneration Committee and a member of the R&D Committee.

Dr. Brian Schwartz

Dr. Schwartz has served on our Board since October 2020. During the past decade, Dr. Schwartz has served as Senior Vice President, Head of Research & Development and Chief Medical Officer of ArQule Inc. Dr. Schwartz was Chief Medical Officer at Ziopharm, having previously held several senior leadership roles at Bayer and LEO Pharma. Dr. Schwartz is a Board Member of Cyclacel Pharmaceuticals and Enlivex Therapeutics, an advisor for the California Institute of Regenerative Medicine and acts as an independent consultant for numerous biotech companies. He received his medical degree from the University of Pretoria, South Africa, completed a fellowship at the University of Toronto, Canada and practised medicine prior to his career in the biopharmaceutical industry. Dr. Schwartz serves as a member of the Remuneration Committee and the R&D Committee.

Michael Wyzga (Deputy Chairman)

Mr. Wyzga has served on our Board since April 2019 following completion of the Merger and had served as a director of OncoMed since October 2013 until the closing of the Merger. On May 14, 2020, we entered into the Consulting and Interim Chief Financial Officer Agreement with MSW Consulting Inc. and Michael Wyzga by which Mr. Wyzga will serve as Interim Chief Financial Officer from August 1, 2020 to January 4, 2021, following the departure of Mr. Jones. Mr. Wyzga is currently the President of MSW Consulting Inc., a strategic consulting group focused in the life sciences area. From December 2011 until November 2013, Mr. Wyzga served as President and Chief Executive Officer and a member of the board of directors of Radius Health, Inc. Prior to that, Mr. Wyzga served in various senior management positions at Genzyme Corporation, including as Chief Financial Officer from July 1999 until November 2011. Mr. Wyzga is a member of the boards of directors of Exact Sciences Corporation and LogicBio, and is Chairman of the board of directors of GenSight Biologics S.A. and of X4 Biologics. Mr. Wyzga previously served as a member of the boards of directors of Idenix Pharmaceuticals, Inc. and Altus Pharmaceuticals, Inc., and as a member of the supervisory board of Prosensa Holding B.V. He received an M.B.A. from Providence College and a B.S. from Suffolk University. Mr. Wyzga serves as Chair of the Audit and Risk Committee and a member of the Nomination and Corporate Governance Committee.

Executive Officers

Christine Fox (Chief Financial Officer)

Ms. Fox joined as our Chief Financial Officer in January 2021. From 2015 until joining us, Ms. Fox was the Vice President Finance, External Reporting and most recently Group Financial Controller and Treasurer of Travelport, and prior to that served more than 10 years at KPMG in the U.S. and Switzerland. Ms. Fox is a Certified Public Accountant (CPA) and holds a B.S. in Accounting from Butler University.

Dr. John Lewicki (Chief Scientific Officer)

Dr. Lewicki has served as our Chief Scientific Officer since July 2020. He has over 35 years of experience in the biotechnology industry. Dr. Lewicki was President, CEO and a board member of OncoMed Pharmaceuticals Inc. from March 2018 to April 2019. He joined as Senior Vice President of Research and Development in 2004 before assuming additional leadership roles. Previously, Dr. Lewicki served as Vice President of Research, at Scios Inc where he co-discovered human B-type natriuretic peptide (BNP). Dr.Lewicki contributed to development of BNP into an FDA-approved treatment (Natrecor) for acute congestive heart failure. Dr. Lewicki received his PhD from the University of California, San Diego. He has co-authored over 80 papers and is co-inventor on over 30 issued US patents.

Dr. Alastair Mackinnon (Chief Portfolio Management and Pipeline Strategy)

Dr. MacKinnon has served as our Chief Portfolio Management and Pipeline Strategy since January 2020 and was previously our Chief Medical Officer since July 2015. From 2010 until joining us, Dr. MacKinnon was a Partner of Phase4. Dr. MacKinnon holds a B.Sc. and a MBBS from King's College London and is a Member of the Royal College of Surgeons in Edinburgh.

John Richard (Chief Business Officer)

Mr. Richard has served as our Chief Business Officer, previously titled Head of Corporate Development, since July 2015.

Prior to joining us, he was a consultant for Nomura, a global investment bank, and Phase4, and previously served as the head of business development for Sequus Pharmaceuticals Inc., VIVUS Inc. and Genome Therapeutics Corporation. Mr. Richard serves on the boards of QUE Oncology, and previously served on the boards of Catalyst Biosciences, Vaxart, Inc., Aviragen Therapeutics, Inc., and Targacept, Inc. Mr. Richard holds a B.S. from Stanford University and an MBA from Harvard Business School.

Charles Sermon (General Counsel and Company Secretary)

Mr. Sermon has served as our General Counsel and Company Secretary since July 2015. From 2010 until joining us, Mr. Sermon was a Partner of Phase4, where he currently serves as a member of the board of directors. Mr. Sermon trained and qualified as a lawyer with Freshfields after completing the Law Society's Final Examination. Mr. Sermon holds an LL.B. (Hons.) from Hull University.

Wills Hughes-Wilson (Chief Patient Access and Commercial Planning)

Ms. Hughes-Wilson has served as our Chief Patient Access and Commercial Planning, previously titled Head of Patient Access and Commercial Planning, since March 2018. Prior to joining us, Ms. Hughes-Wilson was Senior Vice President, Chief Patient Access Officer at Swedish Orphan Biovitrum (publ.) AB, a biotechnology company, from 2012 to 2018, and prior to that served as Vice President Health & Market Access Policy EMEA at Genzyme (now Sanofi Genzyme), a biotechnology company. Ms. Hughes-Wilson holds a bachelor's degree in Law and Politics (Hons.) from the University of Durham, U.K.

Dr. Peter Fellner
Chairman

April 16, 2021

Dear Shareholder,

Introduction

As Chair of the Remuneration Committee (the "Committee"), I am pleased to present, on behalf of the Board of Directors of Mereo BioPharma Group plc (the "Company") the Directors' Remuneration Report for the year ended December 31, 2020 (the "Report"). We are required to prepare this Report due to the Company's listing in the U.S. on the Nasdaq Global Market and our UK incorporation.

This Report includes my Annual Statement, a revised Directors' Remuneration Policy and the Annual Report on Remuneration for the financial year ended December 31, 2020. The Directors' Remuneration Report excluding the Policy (i.e. the Annual Statement together with the Annual Report on Remuneration) will be subject to an advisory shareholder vote at the 2021 Annual General Meeting. The proposed Directors' Remuneration Policy ("Policy") will be subject to a binding vote at the same meeting. This new Policy, subject to approval by shareholders, will last for three years from the forthcoming 2021 AGM or until another Policy is approved in a general meeting in the interim.

Remuneration policy review

During the course of 2020 we sought binding approval for the first time for the Directors' Remuneration Policy. We were pleased to receive a high level of support for the Policy at the General Meeting on September 28, 2020 (over 90% of votes cast were in favour).

However, in light of the cancellation of the Company's AIM listing in December 2020 and the Company continuing forward solely with its Nasdaq Global Market listing, we took the opportunity during 2020 to further review our Policy to ensure it remained optimized and fully aligned with our strategy. The Remuneration Committee concluded that the current overarching remuneration framework continues to be effective and that no significant changes to the structure are required at this stage. As a reminder, we operate a simple and transparent structure comprising salary, benefits and pension and, subject to stretch performance conditions, an annual bonus. In addition, we regularly make awards of equity incentives to encourage longer-term commitment and sustainable performance. The Committee considers that the Policy provides a fair basis for the remuneration of Executive Directors, rewarding performance against short-term objectives which provide the foundations for the achievement of longer-term corporate goals, and making the enhancement of shareholder value a critical success factor, both in the short and the long term.

Within this structure, however, we are taking the opportunity to propose two changes to how the Policy will operate. Both are aimed, primarily at bringing our Policy into line with typical U.S. practice. Firstly, we are proposing to rebalance the Chief Executive Officer's short- and long-term incentive arrangements such that the maximum cash bonus potential will reduce and be offset by larger awards of longer-term equity incentives which vest over a four-year period. This change will more closely link incentives with the long-term strategy as well as increasing alignment between the Chief Executive Officer and shareholders. Secondly, we are proposing to amend our policy on payment for loss of office in the event of a change of control. This change will ensure we have the appropriate flexibility to build in provisions typically found in U.S. service contracts and to ensure we are limiting any potential adverse impact on the motivation, dedication and objectivity of our Chief Executive Officer in the event of a potential and/or actual change of control. In order to accommodate these two changes, we will be seeking shareholder approval for a revised Policy at the 2021 AGM. Further details can be found in the Directors' Remuneration Policy on page 42.

Achievements

During the 2020 performance period, the performance of our Executive Directors and employees was initially evaluated against the criteria set at the start of the financial year, which outlined the relevant objectives to be met. Following the equity financing in June 2020 and the reprioritization of the Company's development pipeline as a result, a set of amended corporate objectives were agreed. The Committee considers that the Company has made substantial progress and delivered on many operational objectives during the performance period, including outside the agreed corporate goals reflective of the dedication, hard work and support provided by the Company's employees.

Key achievements during the 2020 performance period include:

- Successful PIPE financing of $70 million with a number of high quality US investors
- Successful closing of a global licensing transaction with Ultragenyx Pharmaceutical for setrusumab for the treatment of adults and children with OI
- On Setrusumab, successful Type B end of Phase 2 meeting with the FDA for the design of a pediatric Phase 2/3 study in children with OI
- On etigilimab, successful initiation of the Phase 1b/2 study in a range of tumor types
- On alvelestat, successful progression to the high dose in the ongoing Phase 2 study in AATD although completion of enrolment was not achieved due to COVID-19
- In manufacturing, successful scale-up of setrusumab for the pediatric study and production of sufficient drug product for the Phase 1b/2 study for etigilimab
- Successful achievement of milestones on Intellectual property

In addition, the Committee took into account the following achievements which were not incorporated into the corporate objectives:

- On setrusumab, successful application for rare pediatric disease designation in OI
- On alvelestat, initiation of a Phase 1b/2 study in COVID-19 infected patients
- Appointment of new senior executive team members including a clinical immune-oncologist, CFO and two new board members
- Successful de-listing of the company from the AIM Market of the London Stock Exchange.

With consideration for the achievement of objectives during the performance period and the achievements not incorporated into the objectives, the Committee decided to award the Chief Executive Officer a bonus for 2020 which will pay out at the maximum of 100% of annual base salary.

As the bonus is now approved, the amount is included as a liability within consolidated financial statements for the year ending December 31, 2020. The level of pay out achieved is the result of strong performance against the short-term objectives, which were considered, reviewed and approved by the Committee at the start of the 2020 performance period and revised in-line with the revised priorities in June 2020. Further details are discussed within this Report.

During the 2020 performance period no long-term incentives with performance conditions vested to Executive Directors.

Remuneration in 2021

Our Chief Executive Officer will not receive an increase in base salary in 2021. The Company awarded an overall increase of 3% across the Company, however, this was focused on a limited number of employees, the majority due to promotions.

The framework for operating our annual bonus in 2021 will be broadly consistent with our approach in 2020. However, following a review of the components of compensation of base salary, bonus and long-term equity incentives, we have decided to decrease the short-term cash incentives and align compensation with longer term equity incentives. Accordingly, the 2021 bonus will pay out at 60% of salary for our Chief Executive Officer for meeting all the objectives set and up to a maximum of 74.25% of salary for significant outperformance (a reduction from the previous 100% of salary maximum). As for 2020, the 2021 bonus will be based on measures relating to clinical development, corporate development, commercial planning, finance, manufacturing and intellectual property/legal. In addition, in line with the Policy, the Committee has issued market value options to the CEO during 2021 (subject to continued employment only).

Changes to the Board
In March 2020 we announced that Richard Jones (Chief Financial Officer) had informed the Board of his intention to leave the Company to pursue other opportunities. Richard subsequently stepped down from the Board in June 2020 and left the Company in July 2020.

In light of Richard's contribution to the Company, the Committee exercised its discretion to award him a reduced bonus payment for the 2019 financial year which was contingent on the fulfillment of certain conditions related to an orderly handover of responsibilities prior to his departure in 2020. These conditions were fulfilled satisfactorily and the bonus was paid in full to Richard. The Committee also exercised its discretion to allow Richard the opportunity to exercise share options held under the Mereo BioPharma Group plc Share Option Plan, and the 2019 EIP for a period of two years following his departure, in light of his contribution to the Company over the last three years including over his notice period. Richard's award under the 2018 DBSP remains exercisable until the award lapses on January 31, 2022. All other unvested long-term incentives lapsed in July 2020.

Full details of Richard's leaving arrangements can be found on page 55.

Subsequent to Richard stepping down from the Board, Michael Wyzga (one of our Non-Executive Directors) was appointed Interim CFO on August 1, 2020. He relinquished this role on January 4, 2021 and returned to his position as a Non-Executive Director. .

In addition, we were delighted to welcome two new Non-Executive Directors to the Board in October 2020, Dr. Brian Schwartz and Dr. Jeremy Bender, while Paul Blackburn stepped down from the Board at the same time. The new Non-Executive Directors will receive remuneration in line with the Policy including having received market value options under the NED EIP.

Shareholder views and voting outcomes
The Committee was pleased with the level of support received for the advisory vote on the Remuneration Report and the binding vote on the Policy at the 2020 General Meeting, with over 90% of votes cast in favour for both resolutions. I hope we will again receive your support for the resolutions relating to remuneration at the forthcoming AGM.

Conclusion
The Committee remains committed to a responsible approach to executive pay, as I trust this Directors' Remuneration Report and the new Policy demonstrates. We continue to believe that the Policy provides a remuneration philosophy that encourages both Executive and Non-Executive Directors to serve in the best interests of the Company and to support the delivery of value to shareholders in the future in a sustainable way.

As always, I am happy to meet or speak with shareholders if there are any questions or feedback on our approach to executive remuneration.

Yours sincerely,

Dr. Deepa Pakianathan
Chair of the Remuneration Committee,

April 16, 2021

This part of the Directors' Remuneration Report sets out the Directors' Remuneration Policy for the Company. The current Directors' Remuneration Policy was approved by shareholders at the General Meeting on 28 September 2020. However, as set out in the Annual Statement on pages 52 to 61, following a review of our remuneration arrangements in light of the cancellation of the Company's AIM listing in December 2020, we are seeking approval for a new policy at the AGM in 2021. The policy in this report will therefore be put to a binding shareholder vote at the AGM on May 27, 2021 and will take formal effect from that date, subject to shareholder approval. The policy will formally apply for three years beginning on the date of approval unless a new policy is presented to shareholders in the interim. Following approval, all payments to Directors will be consistent with the approved policy.

The Directors' Remuneration Policy set out herewith applies to Executive Directors and Non-Executive Directors appointed to the Board of Directors. Currently, our Chief Executive Officer is the only Executive Director on the Board. All other Board Directors are Non-Executive Directors.

1.1 Considerations when determining remuneration policy

The Remuneration Committee undertook a review of the current Directors' Remuneration Policy during the year in anticipation of, and subsequently following, the cancellation of the Company's listing from AIM in December 2020. The review was intended to ensure, primarily, that the Policy continues to:

- Support the strategy and promote the long-term sustainable success of the Company;
- Align executive remuneration with company culture, purpose and values and clearly provide linkage to the successful delivery of the Company's long-term strategy;
- Be clear and simple, taking into account the linkage between pay and performance by both rewarding effective management and by making the enhancement of shareholder value a critical success factor in the design of packages, both in the short- and the long-term;
- Provide competitive (but not excessive) packages when compared with other international companies of a similar size and complexity, sufficient to attract, retain and motivate outstanding individuals who have the potential to support the growth of the Company and to attract and retain Non-Executive Directors who can substantially contribute to our success;
- Tie short- and long-term cash and equity incentives to the achievement of measurable corporate objectives;
- Consider practices for comparable companies, primarily in the U.K. and U.S.; and
- Have regard to the expectations of shareholders and other stakeholders and conform to high standards of corporate governance.

Further details of the role of the Remuneration Committee and its decision-making process can be found in the Annual Report on Remuneration on page 60.

1.2 Changes to remuneration policy

Following the review of the Policy, the Committee concluded that the current overarching framework continues to be effective and that no significant changes to the structure are required at this stage. However, within the current framework, the following amendments have been proposed, primarily aimed at bringing our Policy into line with typical practice in the U.S. and ensuring our remuneration arrangements are appropriately aligned with the medium- to long-term strategy and with shareholders:

- **Remuneration rebalanced towards the longer term** – We are proposing to rebalance the Chief Executive Officer's short- and long-term incentive arrangements in part through a reduction in the maximum annual bonus potential from 100% of salary to 60% of salary (which for 2021 can be increased with stretch goals to 74.25%) and in part through higher awards of long-term equity incentives. As part of this proposal the Deferred Bonus Plan will cease to operate and all of the bonus will be delivered in cash and the share-based element of remuneration will come through an increased focus on awards under our long-term Executive Incentive Plan.
- **More flexibility in our payment for loss of office policy** – We are proposing to incorporate additional flexibility to allow for certain additional payments on a change of control. The change will allow for payments up to a maximum of the sum of 18 month's annual salary, contractual benefits and a target level of bonus. This change will ensure we have the appropriate flexibility to build in provisions typically found in U.S. service contracts and to ensure we are limiting any potential adverse impact on the

motivation, dedication and objectivity of our Chief Executive Officer in the event of a potential and/or actual change of control.

1.3 Remuneration policy table – Chief Executive Officer

The total remuneration for the Chief Executive Officer is made up of the following elements:

- Base salary;
- Benefits;
- Pension;
- Annual bonus (short-term incentive);
- Equity incentives (long-term incentive).

The following section of this report describes the formal remuneration policy applying to the Company's Executive Directors:

Base salary	
Purpose and link to strategy	Provides a core level of reward for the completion of duties. Set at a level to attract and retain employees of a sufficient calibre to drive the Company's success, taking into account the global nature of the business and the key talent markets (including the U.K. and U.S.) in which we must compete.
Maximum opportunity	There is no maximum salary limit. When considering salary levels, the Committee will consider the specific nature and responsibilities of the role, the capabilities and experience of the individual, as well as pay levels in the wider market including Peer Group Companies.
Operation	Salaries are typically reviewed annually, with any increases normally taking effect from 1 January. When awarding salary increases, the Committee will consider the level of increase proposed for the wider workforce, as well as employee pay conditions more broadly and inflation. Where there has been a change in the role, or if the individual is new to the role, increases could be higher. The Committee retains discretion to retrospectively increase salaries.
Performance framework	A broad assessment of individual and corporate performance is considered as part of the annual review process.
Benefits	
Purpose and link to strategy	Provides market-competitive and cost-effective employment benefits.
Maximum opportunity	There is no formal maximum limit as the value of insured benefits will vary from year-to-year based on the cost quoted by third party providers.
Operation	Includes private medical insurance and life insurance. Other employment benefits may be provided from time to time on similar terms as those of other employees. A relocation allowance and/or reasonable associated expenses may be payable where relocation is required. Any reasonable business-related expenses can be reimbursed, including tax thereon.
Performance framework	Not applicable.

Pension	
Purpose and link to strategy	Provides employees with long-term savings for their future.
Maximum opportunity	The Company operates a defined contribution pension plan and has a policy of encouraging all employees to plan responsibly for their retirement. The policy also complies with the provisions of auto-enrolment. The Company makes payments of up to 15% of basic salary into any pension scheme or similar arrangement as the individual may reasonably request (or a payment in lieu). Such payments are not counted for the purposes of determining bonuses.
Operation	Payments are made directly to a nominated pension scheme or, where payments are made in cash, delivered monthly through payroll. Only base salary is pensionable.
Performance framework	Not applicable.
Annual bonus (short-term incentive)	
Purpose and link to strategy	To focus attention on the achievement of short-term corporate objectives and incentivize successful delivery of the Company's strategic goals. Further, the annual bonus creates a tangible link between annual performance and individual pay opportunity.
Maximum opportunity	The annual bonus is 60% of base salary payable for a target level of performance which can be increased with stretch goals up to a maximum of 75%. In 2021, the maximum bonus is 74.25% of base salary. The Committee will determine an appropriate award size each year within this parameter based on achievement against annual performance.
Operation	Annual performance is measured through short-term corporate objectives which are set at the start of each year and reflect the key milestones and other objectives for that year that make progress towards the Company's strategic goals. The target annual cash bonus is based on a percentage of salary and is payable in cash after the award has been approved by the Committee, usually at the end of the financial year.
Performance framework	Short-term corporate objectives are set annually and approved by the Committee. In any given year they typically include targets relating to clinical development, corporate development, finance, manufacturing and intellectual property / legal. Once set, short-term corporate objectives can be revised during the performance period but require pre-approval by the Committee. In accordance with the regulations, any changes would be disclosed in the relevant year's report and accounts. At the end of the performance period (typically the end of a financial year) short-term corporate objectives are reviewed and their achievement is evaluated by the Committee. Short-term corporate objectives can be fully achieved, partially achieved or lapse under poor performance. Once the evaluation is complete, an overall proposal of bonus payment (against a maximum annual bonus of 75% of base salary per annum) is approved by the Committee. The minimum potential level of bonus opportunity is 0% of the maximum.

Equity incentives (long-term incentive)	
Purpose and link to strategy	Historically, equity incentive awards have been granted under The Mereo 2015 Plan (the "2015 Plan"), the Mereo BioPharma Group plc Share Option Plan (the "Share Option Plan") and, following the IPO on the AIM Market of the London Stock Exchange ("AIM"), a long-term incentive plan (the "LTIP"). Following the implementation of the 2019 Equity Incentive Plan (the "2019 EIP"), equity incentive awards from the start of 2019 are granted under the 2019 EIP. The Committee envisages further grants under the 2019 EIP to motivate and reward employees, including the Chief Executive Officer, to perform at the highest level and to further the best interest of the Company and its shareholders. In addition, the 2019 EIP is designed to align the interests of participants with those of shareholders and also encourage retention, as the benefits accrue over a period of years. The Committee does not anticipate further issuances of other types of equity incentive awards but reserves the right to make such awards.
Maximum opportunity	There is no maximum opportunity under the 2019 EIP. However, the Committee will generally work within the benchmarking guidelines provided by our external compensation consultants.
Operation	The 2019 EIP provides for the grant of market value options, share appreciation rights, restricted stock unit awards, performance awards (subject to performance conditions) and other share-based awards. Further, subject to the terms of the award agreement, awards can be granted in respect of ordinary shares, American Depository Shares ("ADSs"), cash or a combination thereof. Awards vest in accordance with the vesting schedule set for the relevant award in its award agreement. The Committee maintains discretion over the type and terms of equity awards granted. Accelerated vesting applies in a change of control. The 2019 EIP is administered by the Committee. The Board may also choose to administer the 2019 EIP itself.
Performance framework	In the determination of the award agreement, the Committee will select the most appropriate form of award to be granted. Rights, payments and benefits which accrue under the 2019 EIP are subject to repayment or to recoupment ("clawback") by the Company in accordance with policies and procedures that the Committee or Board may adopt from time to time.

1.4 Remuneration policy table – Non-Executive Directors

The total remuneration for Non-Executive Directors is made up of the following elements:

- Fees; and
- Equity incentives (long-term benefit).

The following section of this report describes the formal remuneration policy applying to the Company's Non-Executive Directors:

Fees	
Purpose and link to strategy	Supports the recruitment and retention of Non-Executive Directors with the required skills and experience to support the growth of the Company.
Maximum opportunity	Aggregate fees are subject to the amount per the letter of appointment with the Non-Executive Director, subject to periodic review by the Board of Directors. Non-Executive Directors are excluded from any discussions relating to their own fees.
Operation	Non-Executive Directors receive a base fee for performance of their duties. The Company may also pay additional fees in recognition of any additional responsibilities. Fees paid to Non-Executive Directors are reviewed on a regular basis with reference to pay levels in relevant markets, taking into account the specific roles and responsibilities, as well as expected time commitment. The Company reserves the right to pay additional fees in any given year to reflect a material, but temporary, increase in time commitment during the period. Any reasonable business-related expenses may be reimbursed, including any taxes payable thereon if determined to be a taxable benefit. Business-related expenses are only reimbursable where they relate to the Non-Executive Directors' discharge of responsibilities in relation to the Company.
Performance framework	Not applicable.
Equity incentives (long-term benefit)	
Purpose and link to strategy	Historically, equity incentive awards have been granted to Non-Executive Directors under The Mereo 2015 Plan (the "2015 Plan"). Following the implementation of the 2019 Non-Executive Director Equity Incentive Plan (the "2019 NED EIP"), equity incentive awards from the start of 2019 are granted to Non-Executive Directors under the 2019 NED EIP. The Committee envisages further grants under the 2019 NED EIP to facilitate share ownership by Non-Executive Directors in the Company.
Maximum opportunity	There is no maximum opportunity under the 2019 NED EIP. However, the Committee will generally work within the benchmarking guidelines provided by our external compensation consultants.
Operation	The 2019 NED EIP provides for the grant of market value options, share appreciation rights, restricted stock unit awards, performance awards (subject to performance conditions) and other share-based awards. Further, subject to the terms of the award agreement, awards can be granted in respect of ordinary shares, ADSs, cash or a combination thereof. However,

	performance awards (subject to performance conditions) are not intended to be issued to Non-Executive Directors. Awards vest in accordance with the vesting schedule set for the relevant award in its award agreement. The Committee maintains discretion over the type and terms of equity awards granted. Accelerated vesting applies in a change of control. The 2019 NED EIP is administered by the Committee. The Board may also choose to administer the 2019 NED EIP itself.
Performance framework	In the determination of the award agreement, the Committee will select the most appropriate form of award to be granted. Rights, payments and benefits which accrue to Non-Executive Directors under the 2019 NED EIP are subject to repayment or to recoupment ("clawback") by the Company in accordance with policies and procedures that the Committee or Board may adopt from time to time.

Notes to the Remuneration Policy tables

Legacy arrangements

For the duration of this Remuneration Policy, the Company will honour any commitments made in respect of current or former Directors before the date on which either: (i) the Remuneration Policy becomes effective; or (ii) an individual becomes a Director, even where not consistent with the Remuneration Policy set out in this report or prevailing at the time such commitment is fulfilled. Through approval of this Remuneration Policy, approval is given to the Company to honour any such commitments.

Details of any legacy arrangements made outside this Policy will be disclosed in future Directors' Remuneration Reports as and when they arise.

Performance conditions

The Committee's discretion over the determination, review and appraisal of short-term objectives linked to the annual bonus reflects the Committee's belief that any incentive-based remuneration should be appropriately challenging and tied to the delivery of key financial and strategic targets intended to ensure that the Chief Executive Officer is incentivized to deliver across a range of objectives for which they are accountable. The Committee has retained some flexibility on the specific measures that will be used to ensure that any measures are fully aligned with the strategic imperatives prevailing at the time they are set.

The targets for the bonus scheme for the forthcoming year will be set out in general terms, subject to limitations with regards to commercial sensitivity. Short-term corporate objectives in any given year typically include targets relating to clinical development, corporate development, commercial planning, finance, manufacturing and intellectual property / legal.

Awards under the EIP are not currently subject to performance conditions.

1.5 Committee discretion in operation of variable pay schemes

The Committee operates under the powers it has been delegated by the Board. In addition, it complies with rules that are either subject to shareholder approval or by approval from the Board. These rules provide the Committee with certain discretions which serve to ensure that the implementation of the Policy is fair and in the interests of shareholders.

To ensure the efficient administration of the variable pay schemes outlined above, the Committee will apply certain operational discretions.

These operational discretions include the following:

i. The eligibility of participants to participate in variable pay schemes operated by the Company;

ii. The timing of grant of awards and relevant payments made relating to variable pay schemes;

iii. The size of awards and payments (subject to maximum limits set out in the respective plan rules);

iv. The determination of whether any performance conditions have been met relating to variable pay schemes with a performance condition;

v. Discretion to override formulaic outcomes of incentive schemes where the payment would otherwise be inappropriate;

vi. Determination of whether an employee is to be considered a 'good' or 'bad' leaver for the purposes of exit payments made under this Policy and the relevant terms of any variable pay schemes;

vii. Whether recovery and / or withholding shall be applied to any award and, if so, the extent to which they shall apply;

viii. Adjustments required in certain capital events such as rights issues, corporate restructuring, other events and special dividends; and

ix. The setting and annual review of short-term corporate objectives.

The Committee also retains the ability to adjust the targets (up or down) and / or set different measures and alter weightings for the annual bonus plan and to adjust targets for the bonus if events occur (e.g., material divestment of a Group business or events relating to the Company's issued share capital) which cause it to determine that the conditions are no longer appropriate in the circumstances and the amendment is required so that the conditions achieve their original purpose and are not, in the opinion of the Committee, materially more or less challenging to satisfy in the circumstances.

1.6 Consideration of shareholder views

The Board is committed to dialogue with shareholders. The Committee will consider shareholder feedback received following the Annual General Meeting, as well as any additional feedback and guidance received from time to time. This feedback will be considered by the Committee as it develops the Company's remuneration framework and practices going forward.

1.7 Consideration of employment conditions elsewhere in the Company

While employees are not formally consulted on the design of the Directors' Remuneration Policy, the Committee monitors the pay and conditions of the wider workforce and the design of the Directors' Remuneration Policy is informed by the policy for employees across the Group.

1.8 Differences in pay policy for the Chief Executive Officer compared to employees more generally

The Company operates a coherent approach to remuneration across the organisation. Annual bonuses for the Chief Executive Officer are subject to the same performance criteria as all employees in the bonus scheme, with additional personal objectives set for other participants where relevant. Employees are also eligible to participate in the equity incentive awards, to encourage broad employee share ownership and alignment with the Company's success.

1.9 Service agreement and payments for loss of office

The Chief Executive Officer is employed under a rolling service agreement with a notice period of up to twelve months from either party. A copy of the Chief Executive Officer's contract may be viewed at the Company's head office or may be requested from the Company Secretary at the AGM. The Chief Executive Officer retires from their position upon the third AGM following the AGM at which they were elected or last re-elected. They are eligible for re-election at the AGM at which they retire.

1.10 Non-Executive Directors' letters of appointment

Each of the Non-Executive Directors is engaged under a Non-Executive Director letter of appointment. A copy of these letters of appointment may be viewed at the Company's head office or may be requested from the Company Secretary at the AGM. Non-Executive Directors retire from their position upon the third AGM following the AGM at which they were elected or last re-elected. They are eligible for re-election at the AGM at which they retire.

Each Non-Executive Director appointment is terminable by either party on not less than three months' written notice. Non-Executive Directors are only entitled to fees accrued to the date of termination.

1.11 Policy on payment for loss of office

The Company shall be entitled at its sole and absolute discretion lawfully to terminate the employment of the Chief Executive Officer at any time and with immediate effect by written notification to and pay, within one month following the date of such termination, a payment in lieu of notice.

In the event of a breach of service agreement or other summary termination of employment, no such payments will be made.

Generally, in the event of termination, the service contract may provide for payment of basic salary and contractual benefits over the notice period. The Company may elect to make a payment in lieu of notice equivalent in value to basic salary and contractual benefits for any unexpired portion of the notice period.

The Committee's approach to payments in the event that employment is terminated is to take account of the individual circumstances, including the reason for termination, individual performance, contractual obligations and the terms of any remaining or outstanding equity awards.

The default treatment of outstanding incentive awards on termination of employment is described in the relevant plan rules and related policy documents, but the Committee retains the discretion to adopt any treatment that it determines fair and appropriate given the circumstances applicable to individual leavers.

Annual bonus (short-term incentives)

A pro-rated bonus may be payable, subject to performance, for the period of active service only.

Equity awards (long-term incentives)

Whether any equity awards, which are long-term incentives, would vest and be exercisable upon loss of office would be subject to the relevant plan rules. These allow for vesting and exercise of awards in the event of death, retirement, ill-health, injury, redundancy and any other reason at the discretion of the Committee.

The Committee retains discretion to determine the extent to which the award will vest, taking into consideration the circumstances. Unvested awards will normally lapse, although the Committee retains the power to determine, in accordance with the 'good leaver' provisions of the relevant plan rules, what proportion of unvested awards will be retained and what proportion will lapse and whether to impose or vary any conditions on vesting or exercise. In determining this, the Committee will give consideration to the reason for leaving, the extent of achievement of performance objectives at the date of leaving and may decide to time pro-rate awards.

Change of control

If, within 12 months of a change of control the Company gives the Chief Executive Officer notice of termination other than for cause, or the Chief Executive Officer gives notice in certain contractually defined circumstances, a payment not exceeding the sum of 18 months' basic salary, contractual benefits and a target level of bonus of 60% basic salary may be payable (in addition to any accrued but unpaid salary, benefits, holiday and expense reimbursements).

Outstanding but unvested equity awards not subject to performance conditions shall automatically vest and, if applicable, become exercisable.

Additional payments

The Committee reserves the right to make payments it considers reasonable under a compromise or settlement agreement, including payment or reimbursement of reasonable legal and professional fees, accrued holiday and any payment in respect of statutory rights under employment law in the U.K. and other jurisdictions.

1.12 Remuneration on recruitment

The remuneration package for any new Executive Director will be determined by the Remuneration Committee in accordance with the terms of the Policy at the time of appointment (including salary, benefits, annual

bonus, long-term incentive awards and pension). It is recognized that in order to attract and recruit talented individuals the Policy needs to allow for sufficient flexibility with respect to remuneration on recruitment. The following policies apply to the remuneration of recruitment of new Executive Directors:

Salary

Base salary levels will be set in accordance with our remuneration policy, taking into account the experience and calibre of the individual and the relevant market rates at the time of appointment. Where it is appropriate to offer a lower salary initially, progressive increases may be offered to achieve the desired salary positioning over the following years subject to individual performance and continued development in the role.

Pension

Pension contributions or a cash supplement up to the maximum level indicated in the policy table may be provided, although the Committee retains discretion to structure any arrangements as necessary to comply with the relevant legislation and market practice if an overseas Executive Director is appointed.

Benefits

Benefits will be provided in line with those offered to other employees, with relocation expenses and other arrangements provided for if necessary. Should it be appropriate to recruit an Executive Director from overseas, flexibility is retained to provide benefits that take account of those typically provided in their country of residence (e.g., it may be appropriate to provide benefits that are tailored to the unique circumstances of such an appointment).

Annual bonus (short-term incentives)

In the year of appointment, the annual bonus opportunity will be the same as offered to any existing Executive Directors, pro-rated for the period of service. The Committee retains the discretion to set different performance measures in the year of appointment, taking into account the responsibilities of the individual, and the point in the financial year that they joined the Company.

For internal appointments, annual bonuses awarded in respect of the prior role will be allowed to pay out according to their existing terms. In addition, any other contractual remuneration obligations existing prior to appointment may continue.

Equity awards (long-term incentives)

Equity awards will be granted to new Executive Directors in line with the policy outlined for existing Executive Directors. An award may be made shortly following an appointment. The Committee maintains discretion over the type and terms of equity awards granted to new Executive Directors, as well as the timing of grant.

For internal appointments, existing equity awards will continue on their original terms.

Buy-out awards

The Committee may offer additional cash and/or share-based elements to compensate an individual for remuneration forfeited on leaving a former employer, in connection with an executive joining the company following merger and acquisition activity or for any other reason at the discretion of the Committee, if it considers these to be in the best interests of the company and its shareholders. Depending on individual circumstances at the time, the Committee has the discretion to determine the type of award (i.e., cash, shares, options, vesting and holding periods and whether or not performance conditions would apply). When exercising its discretion, the Committee will carefully consider the balance between the need to secure an individual in the best interests of the company against the concern of shareholders about the quantum of remuneration. Any use of discretion would be disclosed to shareholders if considered appropriate.

Non-Executive Directors

On the appointment of a new Non-Executive Director, the fees will be set taking into account the experience and calibre of the individual and the expected time commitment of the role.

Equity awards will be granted to new Non-Executive Directors in line with the policy outlined for existing Non-Executive Directors.

1.13 Policy on external appointments

The Chief Executive Officer may, subject to approval from the Board of Directors, accept appropriate external Non- Executive Director appointments, so long as this commitment is not thought to interfere with the business of the Company or the individual's ability to carry out their duties. Any fees payable for such appointments may be retained by the individual.

1.14 Illustration of application of the policy

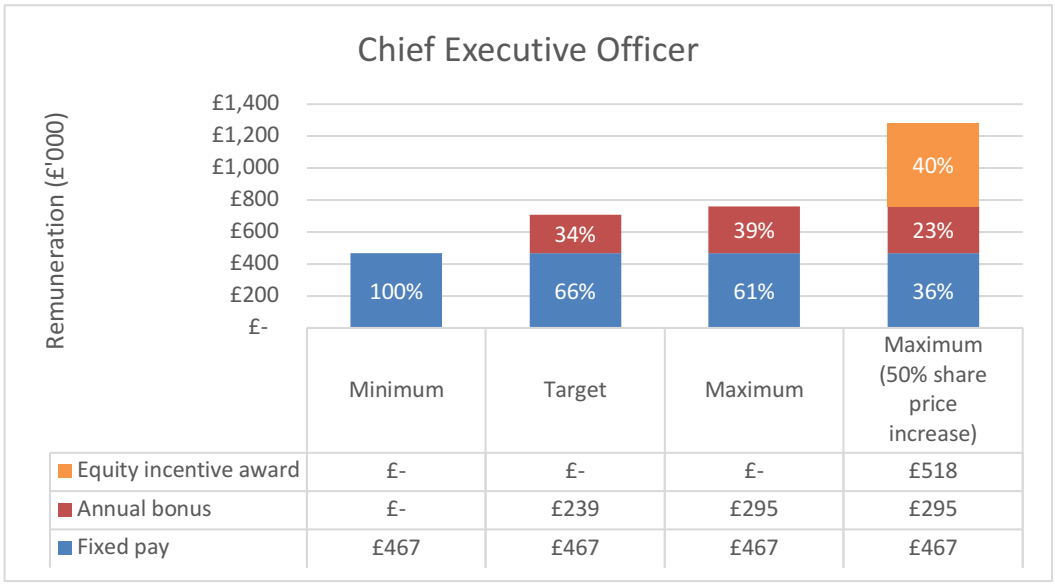
The charts set out for illustrative purposes only, what the annual remuneration the Company expects the Chief Executive Officer will obtain if performance levels are below threshold (minimum), meet expectations (target) or exceed the maximum targets (maximum) in 2021.

The assumptions used in the calculations are set out below:

- Minimum: fixed pay;
- Target: fixed pay plus annual bonus at target level (60% of annual base salary)[1];
- Maximum: fixed pay plus annual bonus at maximum pay out (74.25% of base salary);
- Maximum plus 50%[1] share price growth scenario:fixed pay plus annual bonus at maximum pay out (74.25% of annual base salary) and value of equity incentive awards granted in 2021 assuming share price growth of 50%.

Fixed pay comprises:

- Salaries: salary effective as at January 1, 2021;
- Benefits: value of all benefits received in the 2020 financial year;
- Pension: 15% of salary.



	Minimum	Target	Maximum	Maximum (50% share price increase)
Equity incentive award	£-	£-	£-	£518
Annual bonus	£-	£239	£295	£295
Fixed pay	£467	£467	£467	£467

The minimum, target and maximum scenarios in the chart do not include any values for equity-based award remuneration. We do not believe it is possible to reasonably quantify the value that might result from awards of market value options in these scenarios.

1 There is no guided minimum or maximum level of equity incentive awards issuable under the Policy. Therefore, for the purposes of this illustrative disclosure, the equity incentive awards granted in 2021 has been used.

2.1 Single total figure of remuneration of each Director (audited)

The Directors proportion of fixed and variable remuneration is shown in the below table for the years ended December 31, 2020 and 2019. Fixed remuneration is the sum of salary, taxable benefits and pension (columns a, b and e of the single total figure table). Variable remuneration is the sum of any annual bonus, share options or other types of remuneration (columns c, d and other of the single total figure table).

Year Ended December 31, 2020	(a) Salary/fees	(b) Benefits (i)	(c) Bonus	(d) Share options (iv)	(e) Pensions	Other (ii)/(iii)	2020 Total	Fixed remuneration (a, b and e)	Variable remuneration (c, d and other)
					(in £)				
Executive									
Dr. Denise Scots-Knight[1]	398,808	8,784	398,808	–	61,488	175,596	1,043,484	469,080	574,404
Richard Jones[2]	230,513	4,839	–	–	–	147,790	383,142	235,352	147,790
Michael Wyzga[3]	113,424	–	76,929	–	–	–	190,353	113,424	76,929
Non-Executive									
Dr. Peter Fellner	100,000	–	–	–	–	11,037	111,037	100,000	11,037
Dr. Anders Ekblom	48,000	–	–	–	–	11,037	59,037	48,000	11,037
Peter Bains	48,000	—	–	–	–	11,037	59,037	48,000	11,037
Kunal Kashyap	40,000	–	–	–	–	11,037	51,037	40,000	11,037
Paul Blackburn[5]	48,000	–	–	–	–	11,037	59,037	48,000	11,037
Michael Wyzga[3]	23,333	–	–	–	–	11,037	34,307	23,333	11,037
Dr. Deepa Pakianathan	44,000	–	–	–	–	11,037	55,037	44,000	11,037
Dr. Jeremy Bender[4]	10,000	–	–	–	–	–	10,000	10,000	–
Dr. Brian Schwartz[4]	10,000	–	–	–	–	–	10,000	10,000	–

(1) Pension figure included in the table above for Dr. Denise Scots-Knight includes payments in lieu of pension of £55,988.
(2) Richard Jones resigned on June 29, 2020. Per the Settlement Agreement, £37,500 representing the first instalment of the bonus is included within "Salary/fees" and remaining £62,500 representing the second and third instalments of the bonus is included within "Other". Refer to Payments for loss of office on page 55.
(3) Michael Wyzga was appointed interim Chief Financial Officer on August 1, 2020. Remuneration shown above is for the period August 1, 2020 to December 31, 2020 in his Executive capacity, and for the period January 1, 2020 to July 31, 2020 in his Non-Executive capacity.
(4) Dr. Jeremy Bender and Dr. Brian Schwartz were appointed on October 1, 2020
(5) Paul Blackburn resigned on October 1, 2020. Refer to Payments for loss of office on page 55.

Year Ended December 31, 2019	(a) Salary/fees	(b) Benefits (i)	(c) Bonus	(d) Share options (iv)	(e) Pensions	Other (ii)/(iii)	2019 Total	Fixed remuneration (a, b and e)	Variable remuneration (c, d and other)
					(in £)				
Executive									
Dr. Denise Scots-Knight	390,988	8,497	293,241	–	58,648	424,813	1,176,187	458,133	718,054
Richard Jones	291,200	8,168	–	–	29,120	133,513	462,001	328,488	133,513
Non-Executive									
Dr. Peter Fellner	100,000	–	–	–	–	26,703	126,703	100,000	26,703
Dr. Anders Ekblom	48,000	–	–	–	–	26,703	74,703	48,000	26,703
Peter Bains	46,667	—	–	–	–	26,703	73,370	46,667	26,703
Kunal Kashyap	40,000	–	–	–	–	26,703	66,703	40,000	26,703
Paul Blackburn	48,000	–	–	–	–	26,703	74,703	48,000	26,703
Michael Wyzga[1]	27,590	–	–	–	–	26,703	54,293	27,590	26,703
Dr. Deepa Pakianathan[1]	30,349	–	–	–	–	26,703	57,052	30,349	26,703
Dr. Frank Armstrong[2]	19,959	–	–	–	–	–	19,959	19,959	–

(1) Michael Wyzga and Dr. Deepa Pakianathan were appointed on April 23, 2019
(2) Dr. Frank Armstrong resigned on February 8, 2019

(i) Benefits represent private medical insurance during the years ended December 31, 2020 and 2019.
(ii) During the year ended December 31, 2020, market value options were granted as an equity incentive award to the CEO and CFO. The market value options do not have performance conditions and are therefore presented as other variable remuneration. The value of the market value options granted to both Executive Directors included in the single figure table is the grant date fair value as computed in accordance with IFRS 2 (Share Based Payments) using a Black-Scholes option pricing model. No outstanding equity incentive awards with performance conditions vested during the year ended December 31, 2020.
(iii) During the year ended December 31, 2020, other share-based awards were granted as an equity incentive award to Non-Executive Directors. The other share-based awards do not have performance conditions and are therefore presented as other variable remuneration. The value of the other share-based awards granted to Non-Executive Directors included in the single figure table is the grant date fair value as computed in accordance with IFRS 2 (Share Based Payments) using a Black-Scholes option pricing model.
(iv) During the years ended December 31, 2020 and 2019, no equity incentive awards with performance conditions or measures were granted or vested.

Annual performance bonus

The Company has a discretionary bonus scheme for all employees and the Executive Directors. Bonus payments for employees are a percentage of base salary based on performance-based measures against personal and Company-wide target objectives. Bonus payments for Executive Directors are a percentage of base salary, based on performance-based measures against Company-wide target objectives.

For the 2020 performance period, the CEO was entitled to an annual performance bonus of 100% of base salary. The agreed Company-wide target objectives were met at 100% of maximum, meaning the bonus pay-out for the 2020 performance period is 100% of the base salary for the CEO.

Specific details of the actual Company-wide target objectives are considered commercially sensitive and therefore not disclosed in detail. However, the objectives used to measure the performance of the Chief Executive Officer for 2020 included the following:

- Successful PIPE financing of $70 million
- Successful closing of a global licensing transaction with Ultragenyx Pharmaceutical for setrusumab for the treatment of adults and children with OI
- On setrusumab, successful Type B end of Phase 2 meeting with the FDA for the design of a pediatric Phase 2/3 study in children with OI
- On etigilimab, successful initiation of the Phase 1b/2 study in a range of tumor types
- On alvelestat, successful progression to the high dose in the ongoing Phase 2 study in AATD
- In manufacturing, successful scale-up of setrusumab for the pediatric study and production of sufficient drug product for the Phase 1b/2 study for etigilimab
- Successful achievement of milestones on Intellectual property

In addition the Committee took into account the following achievements which were not incorporated into the corporate objectives:

- On setrusumab, successful application for rare pediatric disease designation in OI
- On alvelestat, initiation of a Phase 1b/2 study in COVID-19 infected patients
- Appointment of new senior executive team members and board members
- Successful de-listing of the company from the AIM Market of the London Stock Exchange.

As a result of his departure, Richard Jones was not eligible for a bonus in respect of 2020. However, in light of Richard's contribution to the Company, the Committee exercised its discretion to award him a reduced bonus payment for the 2019 financial year which was subsequently contingent on the fulfillment of certain conditions related to an orderly handover of responsibilities prior to his departure in 2020. These conditions were fulfilled satisfactorily and the bonus was paid in full to Richard. This has been included as remuneration for 2020 in the single total figure of remuneration table above.

Long-term incentive awards granted during the financial year (audited)

Directors may be granted long-term incentive awards at the discretion of the Committee. During the year ended December 31, 2020:

– The CEO was awarded options under the Company's 2019 Equity Incentive Plan ("EIP") to subscribe for market value options over a four-year vesting period. The awards vest 25% after one year and in 36 equal monthly instalments thereafter. The options awarded under the EIP were in respect of ADSs and do not have performance conditions.

– All Non-Executive Directors were awarded options under the Company's 2019 Non-Executive Director Equity Incentive Plan ("NED EIP") to subscribe for share based awards over a one-year vesting period. The awards vest monthly over an annual period from the grant date. The share-based awards granted under the NED EIP were in respect of ADSs and do not have performance conditions.

All awards granted under the EIP and NED EIP during the year ended December 31, 2020, are subject to a service condition and may be exercised at any time between the relevant vesting date and the tenth anniversary of the date of grant. Awards which do not vest at the end of the vesting period will lapse permanently.

Director	Grant date	ADSs Underlying Grant	Exercise Price per ADS ($)	Face value ($)	Expiration Date
Dr. Denise Scots-Knight	February 20, 2020	175,000	1.84	322,000	February 20, 2030
Richard Jones	February 20, 2020	85,000	1.84	156,400	February 20, 2030
Dr. Peter Fellner	February 20, 2020	11,000	1.84	20,240	February 20, 2030
Peter Bains	February 20, 2020	11,000	1.84	20,240	February 20, 2030
Paul Blackburn	February 20, 2020	11,000	1.84	20,240	February 20, 2030
Dr. Anders Ekblom	February 20, 2020	11,000	1.84	20,240	February 20, 2030
Kunal Kashyap	February 20, 2020	11,000	1.84	20,240	February 20, 2030
Dr. Deepa Pakianathan	February 20, 2020	11,000	1.84	20,240	February 20, 2030
Michael Wyzga	February 20, 2020	11,000	1.84	20,240	February 20, 2030

The exercise price of all options granted during the year under the 2019 EIP and 2019 NED EIP was the market value of the shares upon closing on the day before the grant.

Awards lapsed during the year to December 31, 2020 (audited)

During the year to December 31, 2020, certain awards previously made to Dr. Denise Scots-Knight under the LTIP were eligible to vest, however they lapsed as they did not meet the relevant vesting criteria (a share price performance condition).

The LTIP awards vest over a five-year period with 75% of the total award based upon the achievement of share price targets and 25% of the total award based upon the achievement of strategic targets.

Director	Form of award	Grant date	Options outstanding (December 31, 2019)	Options lapsed	Options outstanding (December 31, 2020)
Dr. Denise Scots-Knight	LTIP	June 9, 2016	346,154	(115,384)	230,770

There were no LTIP awards granted during the year to December 31, 2020.

No other awards lapsed during the year to December 31, 2020.

2.2 Payments to past Directors (audited)

There were no payments to past Directors made during the financial year ending December 31, 2020 other than to Richard Jones for the period between him stepping down from the Board and leaving the Company (see Payments for loss of office section below).

2.3 Payments for loss of office (audited)

In March 2020 we announced that Richard Jones had informed the Board of his intention to leave the Company to pursue other opportunities. Richard stepped down from the Board and ceased to be a Director of the Company on June 29, 2020 and left the Company on July 31, 2020. In accordance with his contract and the terms agreed for his departure, Richard received the following remuneration in 2020:

- Salary, benefits and pension up to the termination date (total of £197,852);
- Payment of a bonus of £100,000, paid in three instalments on: (i) May 15, 2020; (ii) June 12, 2020; and (iii) June 25, 2020. In light of his departure, the Committee determined that Richard was not required to purchase shares using the proceeds of the bonus;
- Vested options granted under the Share Option Plan (650,000 options), DBSP (22,058 options) and 2019 EIP plan (14,894 ADSs options representing 74,470 share options) will be allowed to be exercised for a period of two years following termination in light of Richard's contribution to the Company over the last three years including over his notice period. Richard's vested options under the DBSP (22,058) remain exercisable until lapsing on January 31, 2022. Richard's other unvested share awards lapsed on cessation; and
- A contribution towards legal fees of £1,500.

Richard Jones is not entitled to any further payments other than those described here.

Paul Blackburn stepped down from the Board and ceased to be a Director on October 1, 2020. In accordance with his letter of appointment and the terms agreed for his departure, Paul received the following in 2020:

- Fees up to the termination date (total of £48,000);
- For the purposes of his outstanding Share Option Plan and 2019 EIP awards Paul will be treated as a 'good leaver' within the meaning of the scheme rules. As a result he was allowed to retain 236,974 outstanding Share Option Plan awards and 17,416 outstanding 2019 EIP awards. He will be entitled to exercise these options for a period up to the tenth anniversary of the grant date for each.

2.4 Directors' service contracts and letters of appointment

Dr. Denise Scots-Knight joined the Company as an employee on 29 July 2015 and her current service contract is dated 29 July 2015. She has a rolling service agreement with a notice period of twelve months from either party.

The dates of appointment of each of the Non-Executive Directors serving at December 31, 2020, are summarized in the table below:

Non-Executive Director	Date of appointment
Dr. Peter Fellner	July 29, 2015
Dr. Anders Ekblom	July 29, 2015
Peter Bains	July 29, 2015
Kunal Kashyap	July 29, 2015
Michael Wyzga	April 23, 2019
Dr. Deepa Pakianathan	April 23, 2019
Dr. Brian Schwartz	October 1, 2020
Dr. Jeremy Bender	October 1, 2020

2.5 Statement of Directors' Shareholding and Share Interests (audited)

The table below sets out, as at December 31, 2020, the beneficial interest in the Company's shares of the Directors (together with interests held by his or her connected persons). In addition, the table below also sets out the total number of shares held by Directors which are unvested, the total number of options held by Directors which are vested but not yet exercised and the total number of options held by Directors which are unvested.

The total number of shares which are unvested are disclosed by those with and without performance conditions. The table below is presented in ADS equivalent when the underlying interest is in ordinary shares.

	Shares Vested	Shares Unvested		Awards Vested		Awards Unvested
Director	Beneficially owned ADS[1]	DBSP (Unvested, without performance conditions) (ADS equivalent)	LTIP (Unvested, with performance conditions) (ADS equivalent)	2015 Plan/ Share Option Plan (equivalent ADS vested but not yet exercised)	2019 EIP/NED EIP (ADSs, vested but not yet exercised)	2015 Plan (ordinary shares[1], unvested)	2019 EIP/NED EIP (ADSs, unvested)
Executive							
Dr. Denise Scots-Knight	187,200	6,441	46,154	308,948	65,624	–	284,376
Richard Jones	25,126	4,411	–	130,000	14,894	–	–
Non-Executive							
Dr. Peter Fellner	13,100	–	–	338,534	20,166	–	1,834
Dr. Anders Ekblom	37,940	–	–	43,252	20,166	–	1,834
Peter Bains	41,359	–	–	142,117	20,166	–	1,834
Kunal Kashyap	299,547	–	–	43,252	20,166	–	1,834
Paul Blackburn	4,544	–	–	47,394	17,416	–	–
Dr. Deepa Pakianathan	256,734[2]	–	–	–	20,166	–	1,834
Michael Wyzga	–	–	–	–	20,166	–	1,834

(1) Each ADS represents five ordinary shares; ordinary shares held have been converted into equivalent ADSs.
(2) Delphi Ventures VIII, L.P. ("Delphi VIII") directly holds 254,327 ADSs. Delphi Bio Investments VIII, L.P. ("DBI VIII") directly holds 2,407 ADSs. Delphi Management Partners VIII, L.L.C. ("DMP VIII") is the general partner of Delphi VIII and DBI VIII (together, the "Delphi VIII Funds"), and may be deemed to have sole voting and dispositive power over the ADSs held by the Delphi VIII Funds. DMP VIII and each of James J. Bochnowski, David L. Douglass, Douglas A. Roeder and Deepika R. Pakianathan, Ph.D., the Managing Members of DMP VIII who may be deemed to share voting and dispositive power over the reported securities, disclaim beneficial ownership of the reported securities held by the Delphi VIII Funds except to the extent of any pecuniary interest therein.

The Company does not have a formal policy on Executive or Non-Executive Director shareholdings.

As at December 31, 2020, no unvested equity incentive awards are subject to performance conditions. The table below shows the interests of the Directors in the Company's share options as at December 31, 2020. The underlying grants for the 2015 Plan, LTIP and DBSP are in ordinary shares and have been presented here in equivalent ADS, which represents five ordinary shares.

Director	Equity Award Plan	Ordinary Shares (equivalent ADS) Underlying Grant	Exercise Price Per ADS ($)	ADSs Underlying Grant	Exercise Price Per ADS ($)	Grant Date	Expiration Date
Executive							
Dr. Denise	2015 Plan	308,948	8.63	–	–	September 25, 2015	September 25, 2025
Scots-Knight	LTIP	46,154	nil	–	–	June 9, 2016	June 9, 2026
	DBSP	6,441	nil	–	–	April 4, 2017	April 4, 2021
	DBSP	5,063	nil	–	–	April 26, 2018	January 31, 2022
	2019 EIP	–	–	87,500	5.40	May 20, 2019	May 20, 2029
	2019 EIP	–	–	87,500	3.00	July 23, 2019	July 23, 2029
	2019 EIP	–	–	175,000	1.84	February 20, 2020	February 20, 2030
Non-Executive							
Dr. Peter Fellner	2015 Plan	338,534	8.63	–	–	September 29, 2015	September 29, 2025
	2019 NED EIP	–	–	5,500	5.40	May 20, 2019	May 20, 2029
	2019 NED EIP	–	–	5,500	3.00	July 23, 2019	July 23, 2029
	2019 NED EIP	–	–	11,000	1.84	February 20, 2020	February 20, 2030
Peter Bains	2015 Plan	142,117	8.63	–	–	September 29, 2015	September 29, 2025
	2019 NED EIP	–	–	5,500	5.40	May 20, 2019	May 20, 2029
	2019 NED EIP	–	–	5,500	3.00	July 23, 2019	July 23, 2029
	2019 NED EIP	–	–	11,000	1.84	February 20, 2020	February 20, 2030
Dr. Anders	2015 Plan	43,252	8.63	–	–	September 29, 2015	September 29, 2025
Ekblom	2019 NED EIP	–	–	5,500	5.40	May 20, 2019	May 20, 2029
	2019 NED EIP	–	–	5,500	3.00	July 23, 2019	July 23, 2029
	2019 NED EIP	–	–	11,000	1.84	February 20, 2020	February 20, 2030
Kunal Kashyap	2015 Plan	43,252	8.63	–	–	September 29, 2015	September 29, 2025
	2019 NED EIP	–	–	5,500	5.40	May 20, 2019	May 20, 2029
	2019 NED EIP	–	–	5,500	3.00	July 23, 2019	July 23, 2029
	2019 NED EIP	–	–	11,000	1.84	February 20, 2020	February 20, 2030
Dr. Deepa	2019 NED EIP	–	–	5,500	5.40	May 20, 2019	May 20, 2029
Pakianathan	2019 NED EIP	–	–	5,500	3.00	July 23, 2019	July 23, 2029
	2019 NED EIP	–	–	11,000	1.84	February 20, 2020	February 20, 2030
Michael Wyzga	2019 NED EIP	–	–	5,500	5.40	May 20, 2019	May 20, 2029
	2019 NED EIP	–	–	5,500	3.00	July 23, 2019	July 23, 2029
	2019 NED EIP	–	–	11,000	1.84	February 20, 2020	February 20, 2030

Executive Directors

– Under the 2019 EIP, we have granted market value options to our Executive Directors. These market value options vest over four years with 25% vesting 12 months after the grant date and the balance vesting equally over the next 36 months. There are no performance conditions attached to share options granted under the 2019 EIP. Subject to the terms of the grant, awards under the 2019 EIP can be granted in respect of ordinary shares, ADSs, cash or a combination thereof. All grants to Executive Directors during the 2019 performance period were in respect of ADSs.

– Under the 2015 Plan, we have granted market value options to our Executive Directors. These market value options vest over four years with 25% vesting 12 months after the grant date and the balance vesting equally over the next 36 months. There are no performance conditions attached to share options granted under the 2015 Plan.

– Under the Share Option Plan, we have granted share options to our Executive Directors. These share options vest over three years. There are no performance conditions attached to share options granted under the Share Option Plan.

– Under the DBSP, we have granted share awards to our Chief Executive Officer and Richard Jones. These share awards vest three years from grant date and are exercisable within one year of vesting. There are no performance conditions, nor any service conditions attached to share options granted under the DBSP.

– Under the LTIP, we have granted share awards to our Executive Directors. 75% of these share awards have specific performance conditions and vest depending on achieving share price appreciation relative to the share price on specified future dates against the share price at admission to the AIM Market of the London Stock Exchange ("AIM") (75% of the grant) and the achievement of strategic operational targets (25% of the total grant).

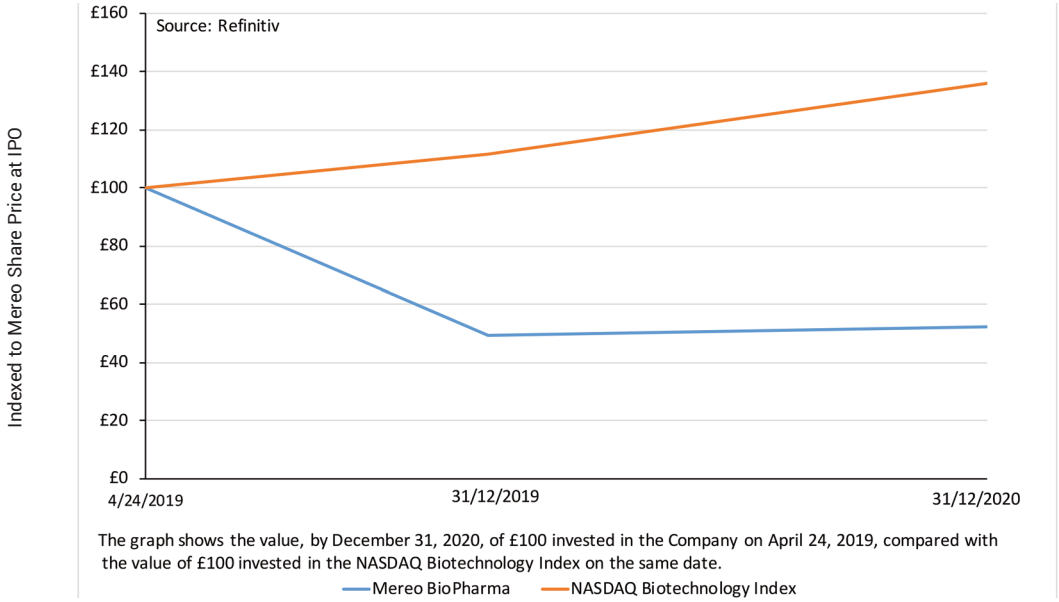
Non-Executive Directors

– Under the 2015 Plan, we have granted share options to our Non-Executive Directors. These share options vested over three years from grant date in three equal annual instalments. There are no performance conditions attached to share options granted under the 2015 Plan.

– Under the 2019 NED EIP, we have granted other share-based awards to our Non-Executive Directors. These other share-based awards vest in equal monthly instalments over the one-year period following their grant date. There are no performance conditions attached to the other share-based awards granted under the 2019 NED EIP. Subject to the terms of the grant, awards under the 2019 NED EIP can be granted in respect of ordinary shares, ADSs, cash or a combination thereof. All grants to Non-Executive Directors during the 2019 performance period were in respect of ADSs, however the award may be cash settled at the Company's sole discretion.

2.6 Performance Graph and Table

The graph below shows the Company's performance, measured by total shareholder return, relative to the Nasdaq Biotechnology Index. The Nasdaq Biotechnology Index has been selected for this comparison because the Company has been trading on this exchange since the date it became a quoted company for the purposes of the U.K. remuneration reporting regulations (in April 2019) and is therefore considered to be the most suitable comparator index.



Chief Executive Officer Total Remuneration History

The Chief Executive Officer's remuneration over the period since the Company's listing on Nasdaq in April 2019 is set out below. This will eventually build up to cover a rolling ten-year remuneration history.

	2019	2020
Total CEO remuneration	£1,176,187	£1,043,484
CEO bonus (as a % of maximum available)	75%	100%
CEO LTIP(1) vesting (as a % of maximum available)	100%	100%

(1) Awards of market value options were granted as an equity incentive award to the CEO in 2020 and 2019. As the options granted in 2020 and 2019 are not subject to performance conditions the vesting percentage has been recorded as 100%.

2.7 Percentage Change in Remuneration of Directors and Employees

The following table shows the percentage change in each Executive and Non-Executive Directors' remuneration compared with the average change for all employees of the Company for the year ended December 31, 2020. Going forward, this disclosure will build up over time to cover a rolling five-year period.

	Salary/fee (%)	Benefits (%)	Annual bonus (%)
Dr Denise Scots-Knight	2.0	3.4	36
Richard Jones[1]	0	1.6	N/A
Dr. Peter Fellner	0	N/A	N/A
Dr. Anders Ekblom	0	N/A	N/A
Peter Bains	2.9	N/A	N/A
Michael Wyzga	0[3]	N/A	N/A
Dr Deepa Pakianathan	0	N/A	N/A
Paul Blackburn[1]	0	N/A	N/A
Dr Brian Schwartz[2]	N/A	N/A	N/A
Dr Jeremy Bender[2]	N/A	N/A	N/A
Average of all employees (other than Directors)	2	6.0	(19.7)

(1) Stepped down from the Board during the year – figures have been annualized.
(2) Joined the Board during the year – no prior year comparison available.
(3) Michael Wyzga was appointed interim CFO effective from August 1, 2020 until January 4, 2021. His remuneration during this period included in the single figure table above. There was no change to the fees paid to Mr. Wyzga in his role as a non-executive director.

2.8 Relative Importance of Spend on Pay

The Remuneration Committee considers the Company's research and development ("R&D") expenditure relative to salary expenditure for all employees, to be the most appropriate metric for assessing overall spend on pay due to the nature and stage of the Company's business. Dividend distribution and share buy-back comparators have not been included because the Company has no history of such transactions. The table below illustrates the gross pay to all employees, per year, as compared to R&D expenditure and illustrates the year-on-year change.

	2020 (£'000)	2019 (£'000)	% change
Gross pay to all employees	£10,669	£8,007	33.2%
R&D expenditure	£16,347	£23,608	(30.8)%

2.9 External appointments

Dr. Denise Scots-Knight (CEO) is currently a Non-Executive Director of Elanco Animal Health Incorporated ("Elanco") (NYSE: ELAN).

2.10 Membership of the Remuneration Committee and its Advisors

The Remuneration Committee currently comprises of three independent Non-Executive Directors: Dr. Deepa Pakianathan (Chair), Dr. Anders Ekblom and Dr. Brian Schwartz (from April 1, 2021). Peter Bains was also a member of the Remuneration Committee during 2020 until April 1, 2021. The Chief Executive Officer, Chief Financial Officer and General Counsel, as well as others, are invited to attend Remuneration Committee meetings as required to provide advice and assistance. The terms of reference of the Committee can be found on our website at www.mereobiopharma.com.

During the year, the Committee was assisted in its work by FIT Remuneration Consultants LLP ("FIT"). FIT was appointed in 2020 and has provided advice in relation to general remuneration matters. Fees paid to FIT in relation to advice provided to the Committee during the year to December 31, 2020 were £23,668 (excluding VAT), charged on a time/cost basis. FIT did not provide any other services to the Company. FIT is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the U.K. The Committee is satisfied that the advice they received from FIT was objective and independent. The Remuneration Committee also sought advice from Radford (part of Aon plc) in relation to the review of the Directors' Remuneration Policy in light of the cancellation of the Company's AIM listing in December 2020 and the Company continuing forward solely with its Nasdaq Global Market listing. Fees paid to Aon in relation to this advice during the year to December 31, 2020 were £56,400 (excluding VAT).

The Committee met 9 times during the year and addressed the following main topics:

– Review of the Directors' Remuneration Policy in light of the Company's Nasdaq listing in 2019 and subsequent AIM delisting in 2020;

– Preparation of a new Policy to be put to shareholders for binding approval at the AGM in 2021;

– Reviewed and approved the remuneration package of our Chief Executive Officer;

– Approved the annual bonus payments to the Executive Directors in 2020 and the annual bonus plan for the 2020 financial year;

– Reviewed and confirmed the vesting of equity incentive awards and reviewed and approved the terms of the 2020 awards.

2.11 Statement of Voting at a general meeting of the Company

The shareholder votes on the non-binding approval of the Directors' Remuneration Report and the binding approval of the Directors' Remuneration Policy at the General Meeting which took place on September 28, 2020 was as follows:

Resolution	Votes for	% for	Votes against (excluding withheld)	% against	Total (excluding withheld)	Withheld
Approval of the Directors' Remuneration Report	125,187,297	90.40%	13,290,680	9.60%	138,477,977	211,050
Approval of the Directors' Remuneration Policy	124,695,799	90.42%	13,216,200	9.58%	137,911,999	777,028

2.12 Statement of Implementation of Remuneration Policy for the Year Ending December 31, 2021

Annual salary

In June 2020 the Chief Executive Officer was granted a 2% increase in annual salary in-line with the other employees. The Chief Executive Officer's annual salary has not been increased for 2021.

Benefits and pension

The CEO will continue to receive pension contributions (or cash payments in lieu) to the value of 15% of basic salary. No changes will be made to the provision of other benefits.

Bonus

In line with our proposed new Policy, the CEO will be eligible for an annual bonus of 60% of basic salary for achievement of target level or 74.25% of basic salary for achievement of stretch goals for the 2021 financial year.

The bonus will be subject to the achievement of short-term corporate objectives which have been set by the Committee with respect to the FY2021 performance period. The short-term objectives cover key objectives that relate to the achievement of the Group's wider strategic goals including, for 2021, measures relating to clinical development, corporate development, commercial planning, finance, manufacturing and intellectual property/legal.

The amount of bonus payable is at the discretion of the Committee subject to review of performance against the short-term corporate objectives at the end of the performance period (which is aligned with the financial year).

The Committee has chosen not to disclose, in advance, the detailed performance targets for the forthcoming year as these include matters which the Committee considers commercially sensitive. Retrospective disclosure of the performance against the corporate objectives will be made in next year's Annual Report on Remuneration to the extent any such disclosure is considered not to be commercially sensitive at that time.

Long-term incentive plan

In line with the Policy, the Committee has issued market value options to the CEO during 2021.

On February 1, 2021, equity incentive awards were granted to the Chief Executive Officer under the 2019 EIP. These equity incentive awards were market value options over ADSs, and the vesting period is four years; 25% of the award vesting on the first anniversary of the grant date and the balance vesting in equal monthly instalments over the following three years. No performance conditions were attached to the awards.

	ADS options granted February 1, 2021	Exercise Price per ADS ($)	Face value ($)
Dr. Denise Scots-Knight	520,000	$2.72	1,414,400

Non-Executive Directors' fees

During the 2021 financial year, in line with the new Policy and increased focus on awards under our long-term Non-Executive Incentive Plan, fees paid to Non-Executive Directors changed with effect from April 1, 2021. The base fees paid to Non-Executive Directors will decrease to £30,726 (2020: £40,000). Incremental fees paid to the Chair of the Audit and Risk Committee and the Chair of the Remuneration Committee will increase to £15,000 and £9,000 respectively (2020: £8,000). Incremental fees paid to the members of the Audit and Risk Committee and the Remuneration Committee will increase to £6,000 and £4,500, respectively (2020: £4,000). There are no other changes to the incremental fees paid to members or Chairs of other Board Committees. No changes are proposed to the fees paid to the Chairman of the Board.

In addition to fees paid, market value options have been issued to Non-Executive Directors during 2021.

In January and February 2021, equity incentive awards were granted to Non-Executive Directors in line with the 2019 EIP. These equity incentive awards were market value options over ADSs, and the vesting period is one year; vesting in equal monthly instalments over the one-year period following grant date. No performance conditions were attached to the awards.

	ADS options granted	Exercise Price per ADS ($)	Face value ($)
Granted on January 19, 2021:			
Dr. Jeremy Bender	22,000	3.32	73,040
Dr. Brian Schwartz	22,000	3.32	73,040
Granted on February 1, 2021:			
Dr. Peter Fellner	31,500	2.72	85,680
Dr. Anders Ekblom	31,500	2.72	85,680
Peter Bains	31,500	2.72	85,680
Kunal Kashyap	31,500	2.72	85,680
Dr. Deepa Pakianathan	31,500	2.72	85,680
Michael Wyzga	31,500	2.72	85,680
Dr. Jeremy Bender	31,500	2.72	85,680
Dr. Brian Schwartz	31,500	2.72	85,680

This directors' remuneration report has been approved by the Board and signed on behalf of the Board,

Dr. Deepa Pakianathan
Director

April 16, 2020

The Directors present their report together with the audited financial statements for the year ended December 31, 2020.

Principal activities
The Strategic Report on pages 4 to 27 describes the Group's principal development activities, strategy and future developments.

We are a biopharmaceutical company focused on the development and commercialization of innovative therapeutics that aim to improve outcomes for oncology and rare diseases. On December 18, 2020 we delisted from the AIM market of the London Stock Exchange retaining our now sole listing of American Depositary Shares ("ADSs") on the Nasdaq Global Market.

Results and dividends
The Group recorded a total comprehensive loss for the year attributable to equity holders of the parent of £163.3 million (2019: £35.3 million). Further details are given in the Strategic Report and in the consolidated financial statements.

The Directors do not recommend payment of a dividend.

Research and development
For the financial year ended December 31, 2020, we spent £16.3 million (2019: £23.6 million) on research and development activity.

Research and development spend primarily reflects the underlying activity on clinical trials for our products as well as the manufacturing of drug product together with the internal costs, including payroll directly attributable to these activities. Further details of our product programs and research and development spend can be found within the Strategic Report.

Statement of corporate governance arrangements
The Board of Directors of the Company recognises the importance of corporate governance and, since 2019, following the listing of the Company's ADSs on the Nasdaq Global Market we are required to comply with certain U.S. securities laws and Nasdaq rules that are relevant to us an Emerging Growth Company ("EGC") (as defined under US securities laws) and as a non-U.S. company with foreign private issuer status (as defined under US securities laws). As an EGC, we are subject to reduced public company disclosure requirements and, as a non-U.S. company with foreign private issuer status, we are exempted from certain corporate governance provisions of U.S. securities laws and Nasdaq rules that are generally applicable to U.S. domestic public companies.

Information on environmental matters
The Company is required to measure and report its greenhouse gas emissions.

As this is the first year of reporting, 2020 is reported as the baseline year against which future performance will be measured.

Energy and Carbon Reporting

Quantification and reporting methodology

This report was compiled by Management. The 2019 UK Government Environmental Reporting Guidelines and the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) were followed to ensure the Streamlined Energy and Carbon Reporting ("SECR") requirements were met.

The energy data was collated using existing reporting mechanisms. These methodologies provided continuous record of electricity use.

The energy data was converted to carbon emissions using the 2020 UK Government GHG Conversion Factors for Company Reporting. The associated emissions are divided into the combustion of fuels and the operation of facilities (scope 1), purchased electricity, heating and cooling (scope 2) and in-direct emissions that occur as a consequence of company activities (scope 3). During the year the Group only had emissions relating to Scope 2.

Estimations

The electricity use was compiled from invoices and meter readings.

	2020
Energy used by the company (in KWH)	95,507
Emissions associated with the reported energy use (tCO_2e)	22

Intensity Ratio

The chosen primary intensity ratio is total gross emissions in metric tonnes CO_2e (mandatory emissions) per employee.

	2020
Tonnes of CO_2e per employee	0.73

Energy efficiency action during current financial year

The management of resources and the need to embed sustainability is an important issue for the Group and the following actions related to reducing energy use were implemented within the current reporting period.

Energy consumption is expected to be reduced this year as the lockdown resulted in the temporary closure of the office.

A result of COVID-19 restrictions, there has been an increase in the use of video conferencing for external meetings and board meetings, reducing the need for travel. The emission saving resulting from these activities has not been quantified, but this practice has resulted in behaviour changes that are expected to continue for the foreseeable future.

Post-balance sheet events

Further information on post-balance sheet events is provided in Note 30 within the consolidated financial statements contained within this report.

- On December 17, 2020, the Company announced a license and collaboration agreement with Ultragenyx for setrusumab, a monoclonal antibody in clinical development for OI. The agreement was subject to Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR) review and the satisfaction of other customary closing conditions. Completion occurred on January 25, 2021. Under the terms of the collaboration, Ultragenyx will lead future global development of setrusumab in both pediatric and adult patients. The Company granted Ultragenyx an exclusive license to develop and commercialize setrusumab in the U.S. and rest of the world, excluding Europe where the Company will retain commercial rights. Under the terms of the agreement, Ultragenyx made an upfront payment of $50 million in January 2021. Ultragenyx will also fund global development of the program until approval, and has agreed to pay a total of up to $254 million in contingent payments upon achievement of certain clinical, regulatory, and commercial milestones. Ultragenyx will pay tiered double digit percentage royalties to Mereo on net sales outside of Europe and Mereo will pay a fixed double digit percentage

royalty to Ultragenyx on net sales in Europe. As the license and collaboration agreement become effective in January 2021, no revenue was recognized in the year ended December 31, 2020.

As a consequence of the license and collaboration agreement with Ultragenyx and in accordance with terms of the agreement with Novartis as set out in Note 25.3, the Company made a payment to Novartis of approximately £7.3 million ($10 million). As the agreement was not effective until January 2021, a provision for this payment was not recognized in the year ended December 31, 2020.

- On February 12, 2021 the Company announced the closing of its previously announced underwritten public offering of 39,675,000 ADSs, at a public offering price of $2.90 per ADS. Each ADS represents five ordinary shares of Mereo. The aggregate gross proceeds from the offering, before deducting underwriting discounts and commissions and offering expenses was $115.1 million. The net proceeds, after transaction costs were $108.2 million (£78.3 million).

Going concern

The going concern basis has been applied in these consolidated financial statements.

The Group expects to incur significant operating losses for the foreseeable future as it continues its research and development efforts, seeks to obtain regulatory approval of its product candidates and pursues any future product candidates the Group may develop.

Until such time as Group can generate significant revenue from product sales, or other commercialization revenues, if ever, in respect of the oncology or rare disease product candidates or through partnering and/or out-licensing deals for the non-core disease product candidates, the Group will need to raise financing to support its continued operations. The Group will seek to finance its operations through a combination of public or private equity or debt financings or other sources.

In January 2021, the Group received an upfront payment of £36.5 million ($50 million) under the terms of our license and collaboration agreement with Ultragenyx for setrusumab. In February 2021, the Group completed a public offering of American Depository Shares ("ADSs") and raised gross proceeds of $115.1 million (Note 27).

The Directors have prepared detailed cash flow forecasts for the period from approval of these accounts to June 30, 2022. The Directors have considered the impact of COVID-19, the continuing economic uncertainty, as well as unprecedented burden on health systems in impacted countries around the world on these forecasts. Clinical centers have diverted resources away from the performance of clinical trials and because of that and the vulnerability of patients in the Group's Phase 2 alvelestat program for patients with severe alpha-1 antitrypsin deficiency (AATD), the Group's clinical activities will face some delays. The Group may also face delays in enrolment in the recently initiated Phase 1b/2 study with etigilimab in a range of tumor types.

The cash inflow from our global licensing and collaboration agreement with Ultragenyx and funding secured from the February 2021 public offering, together with the Group's existing funds, provides the Group with sufficient cash resources to meet its liabilities as they fall due and for the period to June 30, 2022. Therefore, although the Group continues to make losses the Directors consider that there is headroom between the forecast expenditure and cash resources, such that the likelihood of the headroom being exhausted is considered to be remote and that it is appropriate to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Directors
The directors of the Company who held office during the year and up to the date of this report, unless otherwise noted, were:

Executive directors

Dr. Denise Scots-Knight – Chief Executive Officer	
Richard Jones – Chief Financial Officer	resigned June 29, 2020

Non-executive directors

Dr. Peter Fellner	
Peter Bains	
Paul Blackburn	resigned October 1, 2020
Dr. Anders Ekblom	
Kunal Kashyap	
Michael Wyzga**	appointed April 23, 2019
Dr. Deepa Pakianathan	appointed April 23, 2019
Dr. Brian Schwartz	appointed October 1, 2020
Dr. Jeremy Bender	appointed October 1, 2020

** Michael Wyzga served as Interim Chief Financial Officer from August 1, 2020 until January 4, 2021 on the appointment of Christine Fox as the Company's Chief Financial Officer.

Brief biographical details of the current directors of the Company are provided within the Corporate Governance report on pages 36 to 37.

As at the date of this report, the Directors held shares representing 0.77% of the equity of the Company. Details of the Directors' shareholdings and their options over shares in the Company are disclosed in the Directors' Remuneration Report on pages 39 to 61.

Financial risk management objectives and policies (including information on exposure to price risk, credit risk, liquidity risk and cash flow risk)
Refer to Note 23 of the financial statements for further details on our financial risk management objectives and policies.

Health and safety
The Directors are committed to ensuring the highest standards of health and safety, both for their employees and for the communities within which the Group operates.

Political contributions
Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the years ended December 31, 2020 and December 31, 2019.

Share capital
As at the date of this report, the Company had total issued and fully paid up share capital of £1,623,678.92 representing 541,226,308 ordinary shares of £0.003, all of which rank pari passu. Since December 18, 2020 the Company's ordinary shares are no longer admitted to trading on the AIM Market of the London Stock Exchange. Each share carries the right to one vote at general meetings of the Company. No shareholder holds shares carrying special rights with regard to control of the Company.

ADSs are traded on the Nasdaq Global Market under the symbol "MREO" . Each ADS represents five ordinary shares.

Purchases of own shares during the year

The Company's Employee Benefit Trust ("EBT") was established for the purpose of holding ordinary shares (subsequently ADSs) to satisfy the exercise of options under the Company's share-based incentive schemes. There were no loans made to the EBT by the Company during the year ended December 31, 2020 (2019: £1.0 million). During the year ended December 31, 2020, 7 ordinary shares were purchased by the EBT (2019: 1,074,274). In December 2020, the EBT converted its ordinary shares into 247,456 ADSs, which it holds along with a cash balance of £21,762 as of December 31, 2020.

Branches outside the U.K.

As at December 31, 2020, the Group consists of certain subsidiaries which are incorporated outside the United Kingdom. Further information can be found in Note 4 of the financial statements.

Substantial interests

The percentage of the Company's ordinary shares beneficially owned as of February 28, 2021 is computed on the basis of 541,226,308 fully subscribed and paid up ordinary shares, including those represented by ADSs. As of February 28, 2021, the number of shares beneficially owned is based on the best information available to the Company, derived from the information contained in Statements on Schedule 13G filed by the shareholders with the SEC in February 2021, the details of the Fundraising and includes the ordinary shares that a person has the right to acquire within 60 days of February 28, 2021, which are deemed outstanding for purposes of computing the percentage ownership of the person holding such rights, but are not deemed outstanding for purposes of computing the percentage ownership for any other person. On this basis, the following investors are currently believed to have beneficial interests of 5 per cent. or more of the issued share capital of the Company:

Name and address of beneficial owner	Number of Ordinary Shares Beneficially Owned as of February 28, 2021	Percentage of Ordinary Shares Beneficially Owned
5% or Greater Shareholders:		
OrbiMed Funds	68,658,145	12.69%
Tavistock Group	56,347,731	9.99%
Baker Brothers	56,340,289	9.99%
Vivo Funds	56,685,103	9.83%
Point72 Asset Management LP	34,498,345	6.37%
Citadel Advisors LLC	33,980,386	6.28%
Suvretta Capital Management, LLC	31,827,500	5.88%

Website publication

The Directors are responsible for ensuring that the annual report, including the financial statements, are made available on our website.

Annual general meeting ("AGM")

The AGM of the Company will be held on May 27, 2021. The notice of the meeting, together with an explanation of the business to be dealt with including proposed resolutions, will be prepared as a separate document and distributed to shareholders and posted on our website.

Disclosure of information to the Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the Group's Auditor is unaware; and
- The director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's Auditor is aware of that information.

Independent auditors
The auditors, Ernst and Young LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the forthcoming AGM.

Directors' and officers' liability insurance
The Company has, as permitted by the Companies Act 2006, purchased and maintained throughout the financial year suitable insurance cover on behalf of the directors, indemnifying them against certain liabilities which may be incurred by them in relation to the Group. We have also entered into a deed of indemnity with each of our directors as permitted by the Companies Act 2006 and with each of our executive officers.

Effective date
This report was approved by the Board of Directors on April 14, 2021 and signed on its behalf by:

Peter Fellner	**Charles Sermon**
Chairman	General Counsel and Company Secretary
April 16, 2021	April 16, 2021

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. For the financial year ended December 31, 2020, we have chosen to prepare our Group and Company accounts in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006" (International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (as it stands at the end of the transition period)).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period.

In preparing each of the Group and parent company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRS as issued by the IASB; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and the Group and to enable them to ensure that its financial statements and Directors' Remuneration Report comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the U.K. governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- So far as the director is aware there is no relevant audit information of which the Group and parent company's Auditor is unaware; and
- They have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group and parent company's Auditor is aware of that information.

On behalf of the Board:
Charles Sermon

General Counsel and Company Secretary

April 16, 2021

Opinion
In our opinion:

- Mereo BioPharma Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Mereo BioPharma Group plc's (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise:

Group	Parent company
Consolidated statement of comprehensive loss for the year then ended	Company balance sheet as at 31 December 2020
Consolidated balance sheet as at 31 December 2020	Company statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Related notes 1 to 13 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Related notes 1 to 27 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of management's going concern assessment process and engaged with management to ensure all key factors were considered in their assessment;
- We obtained management's going concern assessment, including the detailed cashflow forecast for the period ending 30 June 2022. Management did not perform a plausible downside scenario sensitivity due to the fact that the Group has sufficient funds to continue on the current spend profile for 3 years and that the forecast expenditure is predictable.
- We have tested the factors and assumptions included in the cash flow forecast, including the level of forecast research and development (R&D) costs and general and administrative expenditure and corroborated to supporting evidence, including third party cost estimates. We verified that the cash flow model accurately reflects the impact of the fundraising and the partnering deal by agreeing proceeds to bank statements and reviewing the executed deal documents. We considered the appropriateness of the methods used to calculate the cash forecast and determined through inspection and testing of the methodology and calculations that the methods utilised were appropriately sophisticated to be able to make an assessment for the entity.
- We performed a sensitivity analysis removing all future cash inflows from the model and considered the impact of that on the projected cash balance at 30 June 2022.
- We have modelled a reverse stress test to understand the level of acceleration of cash spend required for the Group to no longer be a going concern and concluded that the likelihood of such events occurring is remote.
- We reviewed the Group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

The activities of the Group have not been significantly impacted by the Covid-19 pandemic and are not expected to be significantly impacted by Covid-19 in the going concern assessment period. At 31 December 2020 the Group had total cash resources (being cash and short-term deposits) of £23.5 million. The Group increased its cash resources since the year end through receipt of an upfront payment in January 2021 of £36.5 million ($50 million) under the terms of their license and collaboration agreement with Ultragenyx for setrusumab. Further, in February 2021, the Group completed a public offering of American Depository Shares ("ADSs") and raised gross proceeds of $115.1 million.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for the period to 30 June 2022, which is at least 12 months from the date of approval of the financial statements and from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of five components and audit procedures on specific balances for a further one component. • The components where we performed full or specific audit procedures accounted for 100% of group operating costs and 100% of total assets.
Key audit matters	• Private investment in public equity (PIPE) transaction • Assessment of carrying value of intangible assets • Impairment of carrying value of investments in subsidiaries (parent company)
Materiality	• Overall group materiality of £0.7m which represents 2% of operating costs excluding share based payment expense.

An overview of the scope of the parent and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group, changes in the business environment and other factors such as local statutory reporting requirements when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the six reporting components of the Group, we selected six components covering entities within the United Kingdom and United States and America, which represent the principal business units within the Group.

Of the six components selected, we performed an audit of the complete financial information of five components ("full scope components") which were selected based on their size or risk characteristics. For the remaining one component ("specific scope component"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2019: 100%) of the Group's Operating Costs (adjusted for share based payments as defined in 'Our application of materiality' section of this report) and 100% (2019: 100%) of the Group's Total Assets. For the current year, the full scope components contributed 95% (2019: 85%) of the Group's Operating Costs and 79% (2019: 58%) of the Group's Total assets. The specific scope component contributed 5% (2019: 15%) of the Group's Operating Costs and 21% (2019: 42%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group.

Changes from the prior year

Our scoping is comparable with the prior year.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Private Investment in Public Equity (PIPE) transaction Refer to the Accounting policies (pages 84 to 92); and Note 17 of the Consolidated Financial Statements (page 108). There is a high level of judgement in determining the appropriate accounting principles and valuation methodology applicable to the features of the arrangement. The valuation estimate for each of the financial instruments recognised at inception was based on key assumptions such as the share price, the probability of passing of the resolution, credit spread and volatility. Following passing of the Resolutions, embedded derivative instrument was reclassified to equity at its fair value. Subsequent measurement of the warrant liability continues to be at fair value. Given the complexity of the transaction, the accounting judgements and estimates this has been identified as a key audit matter.	The principal audit procedures included: • we obtained and reviewed management's accounting paper and valuation model, addressing initial recognition and accounting treatment of financial instruments arising from PIPE transaction; • we understood management's key judgements in the identification of the financial instruments, the models used to value those financial instruments and the critical assumptions and estimates applied in those models; • we challenged management's judgements and tested the estimates used in determining the value assigned to each financial instrument, notably the embedded derivative, host debt, warrants and ordinary share value; • we obtained and reviewed contractual agreements and other legal documents supporting the transaction; • we validated the proceeds received to bank statement; • with the assistance of our specialist accounting team, we reviewed the technical accounting treatment, including the appropriate way to analyse the transaction into the separate financial instruments, the identification and classification of embedded derivatives on issue, as at 30 June 2020 (the date that key resolutions were approved) and 31 December 2020; • we engaged our EY Valuations specialist to assess the valuation model and assumptions used in accounting for the transaction, particularly the determination of the fair value assumptions for the warrants, embedded derivatives and share price on issue, on 30 June 2020, as well as subsequent fair value measurement of warrants at 31 December 2020, which resulted in a £46m increase in warrants fair value with corresponding loss recognised in the Income Statement;	We agree with the accounting principles applied on 3 June, 30 June 2020 and 31 December 2020. The valuation methodology applied to the identified financial instruments is reasonable, with the assumptions concluded to be within an acceptable range. The related disclosures included within the Annual Report and Accounts are appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	• we have audited the accounting applied to reflect partial conversion of the loan notes, following passing of the Resolutions, including the change in classification of the embedded derivative (from liability to equity) and revaluation of embedded derivative prior to reclassification, which resulted in £63.1m loss recognised in Income Statement; • We have audited the accounting treatment of the warrants exercised during the year. We have recalculated the impact of warrants' conversion into shares, including the number of shares issued and associated amounts for share capital and other reserves, based on the mechanism for cashless exercise prescribed by the signed agreement; • we reviewed management's accounting policy, the disclosures in the financial statements relating to the judgements made, estimates applied, description of the transaction and related financial information.	
Assessment of carrying value of intangible assets Refer to the Accounting policies (pages 84 to 92); and Note 13 of the Consolidated Financial Statements (pages 103 and 104) £31.6 million (2019 – £44.5 million) The Group has significant intangible assets arising from the acquisition of products in development. Recoverability of these assets is based on forecasting and discounting future cash flows, which are inherently highly judgemental.	The principal audit procedures included: • We understood the methodology applied by management in performing its impairment test and walked through the controls over the process; • We performed audit procedures to test the arithmetic accuracy and assess the integrity of the model; • We evaluated the key assumptions being used, such as the reasonableness of future revenues, development costs and cash flow projections, the probability of obtaining regulatory approvals, launch dates of products and the discount rate. We obtained draft contracts and heads of terms agreements for the products that management is expecting to partner or sell, where available, to validate the assumptions being used; • Performed sensitivity analyses over individual intangible asset models, to assess the level of sensitivity to the key assumptions and focused our work in those areas.	We have concluded that the assumptions made by management are reasonable and we concurred with management that no impairments were required at year-end. Management describes the sensitivities appropriately in the intangible assets notes to the Group financial statements in accordance with IAS 36 *Impairment of assets*.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
For products in development the key assumptions include; future revenues to be derived from either commercialization or partnering/out-licensing of products, development costs, launch dates of products, probability of successful development sales price and projections, expense and cash flow projections and weighted average cost of capital (WACC). The risk is that there may be errors in these judgments resulting in the misstatement of the carrying value of intangible assets.	• Interviewed key research and development personnel to corroborate the assumptions used; • We engaged EY valuations specialists to assess the reasonableness of the rate used by management. Their procedures included using independent data sources to assess the key assumptions including equity risk premium, size and specific Group risk premium and other assumptions within discount rate calculation, comparison with peer companies to develop an independent range of estimate for discount rate. We recalculated the discount rate to ensure management's discount rate of 12% was within an acceptable range; • Challenged management's key assumptions regarding the size of the therapeutic area market and the product's projected share of this market through comparison to external scientific literature and market research; • Analysed the historical accuracy of budget to actual results to determine whether the forecasts are reliable based on past performance and considering commentary in analyst forecasts to identify any contrary views; • Compared management's value in use calculations to the market capitalization of the group to determine if any indicator of impairment; • Assessed the adequacy of related disclosures in the Group's financial statements.	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Investment in subsidiaries (parent) Refer to the Accounting policies (pages 129 to 130); and Note 4 of the parent Financial Statements (page 131). Cost of investment £205.3 million (2019: £192.1 million) Impairment provision £20.8 million (2019: £19.2 million) The Parent Company's principal activity is to manage and support the investment in a number of subsidiaries which hold the intangible assets being progressed through clinical trials. There is judgement involved in assessing the recoverable amount of the investments which involves significant judgement over the future activities of each subsidiary. There is a risk that the investments may be impaired below their carrying value.	The principal audit procedures included: • We obtained management's analysis of the recoverable amounts for each subsidiary; • We tested the calculation of the recoverable amounts, leveraging the testing that was completed over the intangible asset value in use calculations, where appropriate; • We assessed management's conclusion that impairment was required in respect of one subsidiary; • We assessed the adequacy of related disclosures in the parent company's financial statements.	We concluded that the carrying value of the investments recognised in the parent company balance sheet is supportable, and that the additional impairment of £1.6 million recognised is appropriate. We are satisfied that the disclosures are appropriate.

In the current year, following an assessment of the risk associated with the 'PIPE transaction and subsequent accounting', our key audit matters now includes this matter.

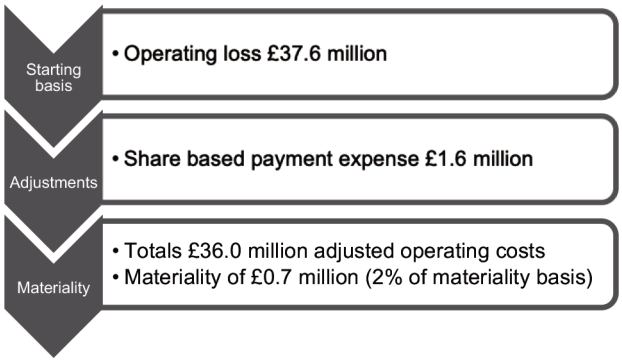
The prior year key audit matter relating to 'acquisition accounting, including purchase price allocation' is no longer considered to be a key audit matter given that there have been no acquisition accounting revisions during the current financial year. In the prior year, we included 'going concern assessment and the impact of COVID-19' as a key audit matter given the downturn in the global economy as a result of the pandemic, however, following the Group's fundraising during the year and subsequent to the year-end we do not assess this as a key audit matter for the current year. Additionally, the impact of COVID-19 on the Group have been limited and therefore does not meet the key audit matter definition.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £0.7 million (2019: £0.8 million), which is 2% (2019: 2%) of operating costs excluding share-based payment expense. We believe that operating costs provides us with an appropriate basis upon which to set materiality, since the Group is in the development stage of its life cycle and is investing in research and development, with no operating income to date.

We determined materiality for the Parent Company to be £3.0 million (2019: £4.6 million), which is 3% (2019: 3%) of Equity. Materiality for the Parent Company is higher than for Group, due to the underlying basis on which it is calculated. The Parent Company's purpose is to raise funds to finance the Group's operations, and therefore we believe Equity is the most suitable basis on which to calculate materiality.



During the course of our audit, we reassessed initial materiality and the only change in final materiality was to reflect the actual reported performance of the Group in the year.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £0.33 million (2019: £0.38 million). We have set performance materiality at this percentage due to the rate of change in the business.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.07m to £0.23m (2019: £0.08 million to £0.23 million).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £33 thousands (2019: £38 thousands), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the annual report set out on pages 1 to 68 other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 68 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks that are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 101, and the Companies Act 2006), the relevant tax compliance regulations in the jurisdictions in which the Group operates and the EU General Data Protection Regulations (GDPR).

- We understood how Mereo BioPharma Group plc is complying with those frameworks by making enquires of management, those responsible for legal and compliance procedures and the Company Secretary. We observed that there is a culture of honesty and ethical behaviour and whether a strong emphasis is placed on fraud prevention. We corroborated our enquires through our review of Board minutes and papers provided to the Audit Committee.

- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence e orts made by management to manage earnings or influence the perceptions of analysts. Where the risk was considered higher, we performed audit procedures including testing of manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud and error.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries of Group management and those charged with governance, legal counsel; and journal entry testing with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the Group.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Hales (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading

16 April 2021

Notes:

1. The maintenance and integrity of the Mereo BioPharma Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

for the years ended December 31, 2020, 2019 and 2018

	Notes	Year ended December 31, 2020 £'000s	2019 £'000s	2018 £'000s
Research and development expenses		(16,347)	(23,608)	(22,703)
Administrative expenses		(21,222)	(15,909)	(11,775)
Operating loss		(37,569)	(39,517)	(34,478)
Net income recognized on acquisition of subsidiary		—	1,035	—
Finance income	8	44	377	307
Finance costs	8	(6,383)	(2,621)	(3,807)
Changes in the fair value of financial instruments	8	(109,849)	(875)	716
Loss on disposal of intangible assets	12	(10,872)	–	–
Net foreign exchange (loss)/gain		(1,821)	483	(44)
Loss before tax	6	(166,450)	(41,118)	(37,306)
Taxation	9	2,822	6,274	5,277
Loss attributable to equity holders of the parent		(163,628)	(34,844)	(32,029)
Other comprehensive loss – items that may be reclassified to profit or loss				
Exchange differences on translation of foreign operations		349	(499)	–
Other comprehensive loss, net of tax		349	(499)	–
Total comprehensive loss attributable to equity holders of the parent		(163,279)	(35,343)	(32,029)
Basic and diluted loss per share	10	(0.48)	(0.39)	(0.45)

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

as at December 31, 2020 and 2019

	Notes	Year Ended December 31, 2020 £'000s	2019 £'000s
Assets			
Non-current assets			
Property, plant and equipment	11	1,573	11,558
Intangible assets	12	31,648	44,456
		33,221	56,014
Current assets			
Prepayments		1,619	2,111
R&D tax credits	9	2,818	10,426
Other taxes recoverable	9	804	979
Other receivables	14	1,016	572
Cash and short-term deposits	15	23,469	16,347
		29,726	30,435
Total assets		62,947	86,449
Equity and liabilities			
Non-current liabilities			
Provisions	19	1,216	1,449
Interest-bearing loans and borrowings	18	16,142	5,373
Warrant liability	20	50,775	131
Other liabilities		62	44
Lease liability	11	1,158	9,318
		69,353	16,315
Current liabilities			
Trade and other payables	21	3,333	6,352
Accruals		4,178	5,138
Provisions	19	418	309
Interest-bearing loans and borrowings	18	–	15,139
Contingent consideration liability	22	–	354
Lease liability	11	636	2,586
		8,565	29,878
Total liabilities		77,918	46,193
Net (liabilities)/assets		(14,971)	40,256
Equity			
Issued capital	16	1,017	294
Share premium	16	161,785	121,684
Other capital reserves	16	128,374	59,147
Employee Benefit Trust shares	26	(1,305)	(1,305)
Other reserves	16	5,001	7,000
Accumulated loss	16	(309,693)	(146,065)
Translation reserve	16	(150)	(499)
Total equity		(14,971)	40,256

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

Approved by the Board on April 14, 2021 and signed on its behalf by:

Dr. Denise Scots-Knight
Director and Chief Executive Officer, April 16, 2021

Company number: 09481161 (England and Wales)

for the years ended December 31, 2020, 2019 and 2018

	Notes	Year ended December 31, 2020 £'000s	2019 £'000s	2018 £'000s
Operating activities				
Loss before tax		(166,450)	(41,118)	(37,306)
Adjustments to reconcile loss before tax to net cash flows:				
Depreciation of property, plant and equipment	11	1,599	1,577	39
Share-based payments expense	24	1,558	1,636	2,190
Net foreign exchange loss/(gain)		1,821	(483)	44
Increase/(decrease) in provisions	19	162	(517)	(1,003)
Finance income	8	(44)	(377)	(307)
Finance costs	8	6,226	4,606	2,632
Modification (gain)/loss on bank loan		–	(456)	730
Gain on bargain purchase		–	(3,681)	—
Gain on lease modification	6	(957)	–	–
Fair value remeasurement on contingent consideration	23	–	354	–
Fair value remeasurement on warrants	8	109,849	(875)	(716)
Loss on disposal of intangible assets	12	10,871	–	–
Working capital adjustments:				
(Increase)/decrease in trade and other receivables		141	(936)	804
Increase/(decrease) in trade and other payables		(3,551)	(6,730)	1,602
Tax credits received	9	10,433	1,069	8,152
Net cash flows (used in) operating activities		(28,341)	(45,931)	(23,139)
Investing activities				
Acquisition of subsidiary		(354)	10,074	–
Purchase)/disposal of property, plant and equipment	11	(16)	(21)	(34)
Disposal of intangible assets (net of transaction costs)	12	1,821	–	–
Proceeds from sale of short-term investments		–	32,865	–
Interest earned		44	377	286
Net cash flows from investing activities		1,495	43,295	252
Financing activities				
Proceeds from issuance of ordinary shares,	16	20,136	–	273
Transaction costs on issuance of shares	16	(1,307)	(761)	(8)
Proceeds from issuance of convertible loan,	18	44,375	–	–
Transaction costs issuance of convertible loan		(3,598)	–	–
Repayment of bank loans	18	(19,802)	–	–
Proceeds from loans and borrowings	18	–	–	455
Transaction costs related to loans and borrowings		(81)	–	(921)
Interest paid on bank loan	8	(2,900)	(1,739)	(1,645)
Other financing proceeds		–	–	78
Purchase of treasury shares	26	–	(998)	(307)
Payment of lease liabilities	11	(2,086)	(2,212)	–
Net cash flows from/(used in) financing activities		34,737	(5,710)	(2,075)
Net increase/(decrease) in cash and cash equivalents		7,891	(8,346)	(24,962)
Cash and cash equivalents at January 1		16,347	25,042	50,045
Effect of exchange rate changes		(769)	(349)	(41)
Cash and cash equivalents at December 31	15	23,469	16,347	25,042

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

for the years ended December 31, 2020, 2019 and 2018

	Issued capital £'000s	Share premium £'000s	Other capital reserves £'000s	Employee Benefit Trust £'000s	Other reserves £'000s	Accum-ulated losses £'000s	Translation reserve £'000s	Total equity £'000s
At December 31, 2017	213	118,227	16,359	–	7,000	(79,316)	–	62,483
Loss for the year to December 31, 2018	–	–	–	–	–	(32,029)	–	(32,029)
Adoption of IFRS 9	–	–	–	–	–	124	–	124
Share-based payments – share options (Note 24)	–	–	1,871	–	–	–	–	1,871
Share-based payments – LTIPs (Note 24)	–	–	319	–	–	–	–	319
Issuance of share capital on June 1, 2018 (Note 16)	–	150	–	–	–	–	–	150
Issuance of share capital on August 3, 2018 on exercise of options (Note 16)	–	13	–	–	–	–	–	13
Issue of share capital on October 22, 2018 on exercise of options (Note 16)	1	110	–	–	–	–	–	111
Issuance of warrants (Note 16)	–	–	44	–	–	–	–	44
Transaction costs on issuance of share capital (Note 16)	–	(8)	–	–	–	–	–	(8)
Purchase of treasury shares (Note 26)	–	–	–	(307)	–	–	–	(307)
At December 31, 2018	214	118,492	18,593	(307)	7,000	(111,221)	–	32,771
Loss for the year to December 31, 2019	–	–	–	–	–	(34,844)	–	(34,844)
Currency translation of foreign operations	–	–	–	–	–	–	(499)	(499)
Share-based payments – share options (Note 24)	–	–	1,543	–	–	–	–	1,543
Share-based payments – LTIPs (Note 24)	–	–	93	–	–	–	–	93
Issuance of share capital on April 23, 2019 (Note 16)	74	–	40,818	–	–	–	–	40,892
Transaction costs related to issuance of share capital on April 23, 2019 (Note 16)	–	(761)	–	–	–	–	–	(761)
Issuance of share capital on conversion of loan note (Note 16)	3	2,366	–	–	–	–	–	2,369
Issuance of share capital on Novartis bonus shares (Note 16)	3	1,587	(1,590)	–	–	–	–	–
Equity element of convertible loan note (Note 16)	–	–	(310)	–	–	–	–	(310)
Purchase of treasury shares (Note 26)	–	–	–	(998)	–	–	–	(998)
At December 31, 2019	294	121,684	59,147	(1,305)	7,000	(146,065)	(499)	40,256

£'000s	Issued capital £'000s	Share premium £'000s	Other capital reserves £'000s	Employee Benefit Trust £'000s	Other reserves £'000s	Accum-ulated losses £'000s	Translation reserve £'000s	Total equity
Loss for the year to December 31, 2020	–	–	–	–	–	(163,628)	–	(163,628)
Other comprehensive income	–	–	–	–	–	–	349	349
Share-based payments (Note 24)	–	–	1,558	–	–	–	–	1,558
Issuance of share capital, net (Note 16)	347	18,715	–	–	(2,125)	–	–	16,937
Issuance of share capital on conversion of loan notes (Note 16)	375	21,386	33,104	–	–	–	–	54,865
Issuance of share capital on conversion of loan notes and warrants (Note 16)	–	–	1,084	–	–	–	–	1,084
Reclassification of loan notes embedded derivative (Note 17)	–	–	33,481	–	–	–	–	33,481
Conversion of warrants	1	–	–	–	126	–	–	127
At December 31, 2020	1,017	161,785	128,374	(1,305)	5,001	(309,693)	(150)	(14,971)

1. Corporate information

Mereo BioPharma Group plc (the "Company") is a clinical-stage, United Kingdom ("UK") based biopharmaceutical company focused on oncology and rare diseases.

The Company is a public limited company incorporated and domiciled in the UK, and registered in England, with shares publicly traded on the Nasdaq Global Market via American Depositary Shares ("ADSs") under the ticker symbol MREO. The Company's ordinary shares were previously admitted to trading on the Alternative Investment Market of the London Stock Exchange with admission cancelled with effect on December 18, 2020. The Company's registered office is located at Fourth Floor, 1 Cavendish Place, London, W1G 0QF, United Kingdom.

The consolidated financial statements of Mereo BioPharma Group plc and its subsidiaries (collectively, the "Group") for the year ended December 31, 2020 were authorized for issue in accordance with a resolution of the Directors on April 14, 2021. The principal activities of the Group are the development and commercialization of innovative therapeutic pharmaceutical products.

2. Significant accounting policies

2.1 Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 (International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (as it stands at the end of the transition period)).

The consolidated financial statements are presented in pound sterling ("£"), which is the presentational currency of the Group. The functional currencies of consolidated subsidiaries are pound sterling and US dollars ("$"). All amounts disclosed in the consolidated financial statements and notes have been rounded to the nearest thousand, unless otherwise stated.

2.2 Basis of consolidation

The consolidated financial information comprises the financial statements of Mereo BioPharma Group plc and its subsidiaries as at December 31, 2020. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated in preparing the consolidated financial statements. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

The Company has an employee share trust to facilitate share transactions pursuant to employee share schemes. Although the trust is a separate legal entity from the Group, it is consolidated into the Group's results in accordance with the IFRS 10 rules on special purpose vehicles. The Company is deemed to control the trust principally because the trust cannot operate without the funding the Group provides.

2.3 Segmental information

The Group has one operating segment. The Chief Operating Decision Maker ("CODM") is the Chief Executive Officer. The Group has a single portfolio of product candidates, with only direct research and development expenses monitored at a product candidate level. The CODM makes decisions over resource allocation at an overall portfolio level and the Group's financing is managed and monitored on a consolidated basis.

Following the acquisition of Mereo BioPharma 5, Inc. (formerly OncoMed Pharmaceuticals, Inc. or "OncoMed") in 2019, non-current assets held by the Group are located in the United Kingdom and United States. As at December 31, 2020, approximately £0.5 million (2019: £22.4 million) of non-current assets are located in the United States.

2.4 Going concern

The going concern basis has been applied in these consolidated financial statements.

The Group expects to incur significant operating losses for the foreseeable future as it continues its research and development efforts, seeks to obtain regulatory approval of its product candidates and pursues any future product candidates the Group may develop.

Until such time as Group can generate significant revenue from product sales, or other commercialization revenues, if ever, in respect of the oncology or rare disease product candidates or through partnering and/or out-licensing deals for the non-core disease product candidates, the Group will need to raise financing to support its continued operations. The Group will seek to finance its operations through a combination of public or private equity or debt financings or other sources.

In January 2021, the Group received an upfront payment of £36.5 million ($50 million) under the terms of our license and collaboration agreement with Ultragenyx for setrusumab. In February 2021, the Group completed a public offering of American Depository Shares ("ADSs") and raised gross proceeds of $115.1 million (Note 27).

The Directors have prepared detailed cash flow forecasts for the period from approval of these accounts to June 30, 2022. The Directors have considered the impact of COVID-19, the continuing economic uncertainty, as well as unprecedented burden on health systems in impacted countries around the world on these forecasts. Clinical centers have diverted resources away from the performance of clinical trials and because of that and the vulnerability of patients in the Group's Phase 2 alvelestat program for patients with severe alpha-1 antitrypsin deficiency (AATD), the Group's clinical activities will face some delays. The Group may also face delays in enrolment in the recently initiated Phase 1b/2 study with etigilimab in a range of tumor types.

The cash inflow from our global licensing and collaboration agreement with Ultragenyx and funding secured from the February 2021 public offering, together with the Group's existing funds, provides the Group with sufficient cash resources to meet its liabilities as they fall due and for the period to June 30, 2022. Therefore, although the Group continues to make losses the Directors consider that there is headroom between the forecast expenditure and cash resources, such that the likelihood of the headroom being exhausted is considered to be remote and that it is appropriate to adopt the going concern basis of accounting in preparing these consolidated financial statements.

2.5 Summary of significant accounting policies

a) Research and development (R&D) costs

Expenditure on product development is capitalized as an intangible asset and amortized over the expected useful economic life of the product candidate concerned. Capitalization commences from the point at which technical feasibility and commercial viability of the product candidate can be demonstrated and the Group is satisfied that it is probable that future economic benefits will result from the product candidate once completed. Capitalization ceases when the product candidate receives regulatory approval for launch. No such costs have been capitalized to date.

Expenditure on R&D activities that do not meet the above criteria, including ongoing costs associated with acquired intellectual property rights and intellectual property rights generated internally by the Group, is recognized in the consolidated statement of comprehensive loss as incurred. Intellectual property and in-process R&D from asset acquisitions are recognized as intangible assets at cost.

b) Taxation

Tax expense recognized in the consolidated statement of comprehensive income comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period in the jurisdictions in which the Group operates.

Amounts receivable in respect of research and development tax credits are recognized in the consolidated financial statements provided there is sufficient evidence that the amounts are recoverable. These credits are recognized within income tax in the consolidated statement of comprehensive loss.

A provision is recognized for matters in which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. Where applicable, the assessment is based on management judgment supported by previous experience in respect of such activities and independent tax advice.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply in the year when the asset or liability is realized, based on tax rates (and tax laws) enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

c) Foreign currencies

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in pound sterling ("£"), which is the presentational currency of the Group. The functional currencies of consolidated subsidiaries are pound sterling and US dollars ("$").

Transactions in foreign currencies are initially recorded by the Group's entities at the rate prevailing on the date the transaction first qualifies for recognition. Differences arising on settlement or translation of monetary items as well as gains or losses on the retranslation of foreign currency balances at the period-end are recognized in the consolidated statement of comprehensive loss.

The results and financial position of Group entities that have a functional currency different from the presentational currency of the Group are translated into the presentational currency (pound sterling). The assets and liabilities of such entities are translated into pound sterling at the rate of exchange prevailing at the balance sheet date. Income and expenses are translated at the average rate for the period. Fair value adjustments arising on acquisition of such entities are treated as assets and liabilities of the relevant entity and translated into pound sterling at the closing rate. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

d) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment if the recognition criteria are met. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Useful lives of various property, plant and equipment are as follows:

- Leasehold improvements shorter of lease term or ten years

- Office equipment five years
- IT equipment three years

Property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive loss when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed annually and adjusted prospectively, if appropriate.

e) Business combinations

Business combinations are accounted for using the acquisition method of accounting. At the date of the acquisition, the Group initially recognizes the fair value of the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business.

The consideration transferred is measured at fair value at the date acquisition. The excess of the consideration transferred over the fair value of net identifiable assets of the business acquired is recorded as goodwill, unless the amount of consideration transferred is less than the fair value of net identifiable assets of the business acquired in which case the difference is recognized directly in the consolidated statement of comprehensive loss as a bargain purchase. A valuation is performed of assets and liabilities assumed on each acquisition accounted for as a business combination based on our best estimate of fair value.

Where the settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value. Contingent consideration is classified either as equity or a financial liability and is recognized at fair value on the acquisition date. Amounts classified as a financial liability are subsequently remeasured to fair value in accordance with IFRS 9 (Financial Instruments), with changes in fair value recognized in the consolidated statement of comprehensive loss as an administrative expense.

Directly attributable acquisition-related costs are expensed as incurred within the consolidated statement of comprehensive loss.

f) Leases

Effective January 1, 2019, the Group adopted IFRS 16 (Leases) using the modified retrospective approach.

The Group assesses whether a contract is, or contains, a lease at inception of the contract. The Group recognizes a right-of-use asset and a corresponding liability with respect to all lease arrangements in which it is a lessee.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise of fixed lease payments, less any lease incentives receivable.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever there is a significant change in lease term, lease payments or if the lease contract is modified and the lease modification is not accounted for as a separate lease.

The right-of-use assets comprise the initial measurement of the corresponding lease liability and lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use assets are presented within property, plant and equipment. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset:

- Right-of-use asset (building) six to nine years
- Right-of-use asset (equipment) one to two years

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

g) Intangible assets

Intangible assets are initially recorded at cost which has been determined as the fair value of the consideration paid and payable. Assets that have been acquired through a business combination are initially recorded at fair value. The fair value of consideration is regularly reviewed based on the probability of achieving contractual milestones.

Where the consideration paid or payable is in shares, the cost is measured in accordance with IFRS 2 (Share Based Payments).

Intangible assets that are not yet available for use are reviewed for impairment at each reporting date by allocating the assets to the cash-generating units to which they relate. The estimated useful life is the lower of the legal duration and economic useful life. The estimated useful lives of intangible assets are reviewed at least annually.

Intangible assets are amortized from the date they are available for commercial use. No amortization has been recognized to date.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

h) Financial instruments

Financial assets and liabilities are recognized in the consolidated balance sheet only when the Group becomes party to the contractual provisions of the instrument.

Financial assets

On initial recognition, a financial asset is classified into one of three primary measurement categories:

- Amortized cost;
- Fair value through other comprehensive income ("FVOCI"); or
- Fair value through profit or loss ("FVTPL").

The initial classification into a primary measurement category depends on the nature and purpose of the financial asset.

For each reporting period covered herein, the Group's financial assets included only financial assets held at FVOCI. The Group's financial assets include short-term investments which are not classified as cash and short-term deposits and are held in a business model whose objective is achieved by both collecting contractual cash flows and selling the short-term investment on maturity.

For short-term investments, interest income and impairment gains or losses are recognized directly in the consolidated statement of comprehensive loss. The difference between cumulative fair value gains or losses and the cumulative amounts recognized in the consolidated statement of comprehensive loss is recognized in other comprehensive income until derecognition, when the amounts in other comprehensive income are reclassified to the consolidated statement of comprehensive loss.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Compound instruments

Convertible loan notes are regarded as compound instruments consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using a discount rate for an equivalent liability without the conversion feature. The difference between the proceeds from the issue of the convertible loan note and the fair value assigned to the liability component is included in equity.

Financial liabilities

Borrowings (including interest-bearing loans) are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Under the effective interest method, amortization is included as a finance cost in the consolidated statement of comprehensive loss.

Non-substantial modifications to financial liabilities measured at amortized cost with the associated gain or loss recognized in the consolidated statement of comprehensive loss. The gain or loss is computed as the difference between the original contractual cash flows and the modified cash flows, discounted at the original effective interest rate. For substantial modifications, the existing financial liability is derecognized and a new financial liability is established.

Borrowings are derecognized from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

The warrant instruments are recorded at fair value, with changes in the fair value recognized in the consolidated statement of comprehensive loss, where the terms of the warrant instruments allow for cashless exercise.

i) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

- Level 3 — valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

j) Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Disclosures for significant assumptions Note 3
- Property, plant and equipment Note 11
- Intangible assets not yet available for use Notes 12 and 13

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses are recognized in the consolidated statement of comprehensive loss in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

k) Cash and short-term deposits

Cash and short-term deposits in the balance sheet comprise cash at banks and on hand along with short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

l) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of comprehensive loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Where contingent payments relate to future use of the in-licensed IP, no liability or provision is recognized for variable amounts to be paid to the vendors based on future events unless such arrangements are onerous. The liability (and corresponding expense in the income statement) to the vendors is recognized as an obligation arises.

m) Provision for deferred cash consideration

Provision for deferred cash consideration consists of future payments which are contractually committed but not yet certain. In respect of products which are not yet approved, such deferred cash consideration excludes potential milestones, royalties or other payments that are deemed to be so uncertain as to be unquantifiable. Deferred cash consideration is recognized as a liability with the amounts calculated as the risk adjusted net present value of anticipated deferred payments.

The provision is reviewed at each balance sheet date and adjusted based on the likelihood of contractual milestones being achieved and therefore the deferred payment being settled. Increases in the provision relating to changes in the probability are recognized as an intangible asset. Increases in the provision relating to the unwinding of the time value of money are recognized as a finance expense.

n) Share-based payments

Employees (including executives) and non-executive directors of the Group receive remuneration in the form of share-based payments, whereby employees and non-executive directors render services as consideration for equity instruments (equity settled transactions).

Incentives in the form of shares are provided to employees under various plans (Note 24). Executive officers also have outstanding shares under a deferred bonus share plan ("DBSP Plan") and a long-term incentive plan ("LTIP Plan").

In accordance with IFRS 2 Share-based Payments ("IFRS 2"), charges for these incentives are expensed through the consolidated statement of comprehensive loss on a straight-line basis over their vesting period, based on the Group's estimate of shares that will eventually vest. The total amount to be expensed is determined by reference to the fair value of the options or awards at the date they were granted. For LTIP shares, the fair value on grant date excludes the impact of any non-market vesting conditions, which are taken into account by adjusting the number of equity instruments included in the measurement of the share-based payment transaction and are adjusted each period until such time as the equity instruments vest.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

In accordance with IFRS 2, the cancellation of share options is accounted for as an acceleration of the vesting period and therefore any amount unrecognized that would otherwise have been charged in future accounting periods is recognized immediately. When options are forfeited, the accounting expense for any unvested awards is reversed.

o) Costs of issuing capital

Incremental costs incurred and directly attributable to the offering of equity securities are deducted from the related proceeds of the offering. The net amount is recorded as share premium in the period when such shares are issued. Where such expenses are incurred prior to the offering they are recorded in prepayments until the offering completes. Other costs incurred in such offerings are expensed as incurred and included in general and administrative expenses.

p) Employee Benefit Trust

The Group operates an Employee Benefit Trust ("EBT"), the Mereo BioPharma Group plc Employee Benefit Trust.

The EBT holds ADS's to satisfy the exercise of options under the Company's share-based incentive schemes (Note 24). The EBT is a Jersey-based trust which was initially funded by a loan from the Company, which it utilized to purchase shares in sufficient quantity to fulfil the envisaged awards. The Company will issue ordinary shares to a custodian for conversion by a depositary bank to ADS's and delivery to the EBT. These ordinary shares will be deducted from the shareholders' funds on the consolidated balance sheet at their nominal value.

Shares held by the EBT are included in the consolidated balance sheet as a reduction in equity.

3. Significant judgments, estimates and assumptions

The preparation of these consolidated financial statements requires the management of the Group to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The Group bases its estimates and judgments on historical experience and on various other assumptions that it considers to be reasonable. Actual results may differ from these estimates under different assumptions or conditions.

3.1 Judgments

a) Share-based compensation

Incentives in the form of shares are provided to employees under certain equity award plans (which consist of both share awards and option grants). The fair value of the employee services received in exchange for equity award plans is recognized as an expense. The expense is based upon a number of assumptions disclosed in Note 24. The selection of different assumptions in the measurement of fair value of the equity award plans could affect the results of the Group.

b) Impairment of intangible assets and property, plant and equipment

An assessment was made in respect of indicators of impairment in the carrying value of the Group's intangible assets (see Note 13), right-of-use assets, leasehold improvements, office equipment and IT equipment as at December 31, 2020.

If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is recognized as an impairment in the consolidated statement of comprehensive income. The assessment of intangible assets involves a number of significant judgments regarding the likelihood of successful product approval, the costs of attaining approval, the estimated useful life of intangible assets following commercialization and the subsequent commercial profitability of the product once approved.

c) Incremental borrowing rate and lease modification

Future lease payments are discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the incremental borrowing rate. IFRS 16 (Leases) defines the incremental borrowing rate as the rate of interest a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use assets in a similar economic environment.

For the year ended December 31, 2020, the determination of an appropriate discount rate has a significant effect on the lease liabilities recognized. For the current lease portfolio, the incremental borrowing rate was determined based on relevant and available information as the interest rate implicit in the lease arrangements cannot be readily determined.

In addition to the determination of an appropriate discount rate, the Group was also required to assess the lease term for qualifying leases. The determination of the lease term is judgmental as for certain qualifying leases held by the Group, the contract includes an extension option beyond the non-cancellable period for which the Group has the right to use the underlying asset. In applying this judgment, the Group considered the period over which it was reasonably certain to make use of the extension option.

In August 2020, a lease for office space was modified to reduce the size of the office space leased. At the time of this lease modification, judgment was applied in determining the new lease term and remeasuring the lease liability by discounting the revised lease payments using a revised incremental borrowing rate.

d) Identification and classification of financial instruments

On June 3, 2020, the Company completed a private placement transaction (Note 17) which comprised the issue of ordinary shares, Loan Notes and Warrants. Judgment is applied under IAS 32 (Financial instruments: Presentation) in determining the features of the identified financial instruments on both the transaction date and the date of the general meeting at which Resolutions relating to the private placement were voted on by the Shareholders, to determine the appropriate recognition in accordance with IAS 32. In applying this judgment, management considered the probability of passing the Resolutions at the general meeting and the likelihood of a change of control prior to the passing of the Resolutions, which impact the settlement terms of the financial instruments, and the classification of the financial instruments as liabilities or equity. Management concluded that a change of control event is uncertain and outside of the Company's control, and therefore the conversion feature on the Loan Notes at the transaction date represented a financial liability with an embedded derivative for the conversion option. On the passing of the Resolutions, judgment was applied to determine that the effective terms of the Loans Notes changed and the embedded derivative financial liability representing the conversion option was reclassified to equity at its fair value, with no associated gain or loss recognized in profit or loss.

e) Business combination

On April 23, 2019, the Group obtained a 100% controlling interest in Mereo BioPharma 5, Inc. (formerly OncoMed), a Company based in the United States ("US"). The value of the net identifiable assets acquired was £44.6 million. Total consideration paid, being the fair value of 24.8 million ordinary shares of the Company, was £40.9 million. As the Group acquired Mereo BioPharma 5, Inc. for an amount less than the fair market value of the net assets acquired, a gain on bargain purchase of £3.7 million was recognized.

Judgment is applied under IFRS 3 (Business Combinations) in determining whether a transaction meets the definition of a business combination, and so accounted for in accordance with its requirements. In applying this judgement, management has considered the underlying economic substance of the transaction in addition to the contractual terms. Our assessment is that Mereo BioPharma 5, Inc. meets the definition of a 'business' and the transaction has therefore been accounted for as a business combination.

3.2 Estimates and assumptions

a) Deferred consideration

Deferred consideration in the form of cash is recognized as a provision at each balance sheet date, to the extent its amount is quantifiable at the inception of the arrangement (see Note 19). The amount provided is based on estimates regarding the timing and progress of the related research and development activities.

Deferred consideration in the form of shares is recognized as a share-based payment when it is probable that shares will be transferred.

b) Fair value of financial instruments

As part of the private placement transaction (Note 17), the Group performed a valuation of the fair value of the identified financial instruments including the embedded derivative and the warrants on the transaction date and the general meeting date. For qualifying financial instruments, the fair value is reassessed at each balance sheet date. Specific consideration was applied to the estimation of implied share price on the transaction date, the volatility, credit spread and discount rate.

c) Fair value of intangible assets acquired in business combination

The Group performed a valuation of the fair value of assets acquired and liabilities assumed following the acquisition of Mereo BioPharma 5, Inc.

Based on the assets acquired and liabilities assumed, specific consideration was applied to the valuation of the intangible asset acquired which required an estimation of the expected useful life and future cash flows of the intangible asset alongside the determination of an appropriate discount rate. The intangible asset acquired was valued using a risk adjusted net present value model.

In January 2020, the Group entered into a license agreement with OncXerna Therapeutics, Inc. ("OncXerna") under which an exclusive worldwide license was granted in respect of intellectual property rights for the development and commercialization of navicixizumab and the associated intangible asset was derecognized (Note 12).

d) Contingent consideration

The Group makes a provision for the estimated fair value of amounts payable to the former shareholders of Mereo BioPharma 5, Inc. under the Contingent Value Rights Agreement ("CVR"), which is accounted for as a contingent consideration liability.

At December 31, 2020, the Group estimates the fair value of the contingent consideration liability to be £nil (2019: £0.4 million ($0.5 million)). The decrease in the fair value of the contingent consideration liability reflects the terms subsequently agreed with OncXerna. Total potential payments under the CVR on a gross, undiscounted basis, are approximately £58.6 million ($80.0 million).

The estimated contingent consideration payable is based on a risk-adjusted, probability-based scenario. Under this approach the likelihood of future payments being made to the former shareholders of Mereo BioPharma 5, Inc. under the CVR is considered. The estimate could materially change over time in line with the development plan and potential subsequent commercialization of the product.

4. Changes in accounting policies

a) New standards, interpretations and amendments adopted from January 1, 2020

In the current year, the Group has applied the below amendments to IFRS issued by the IASB that are effective for an annual period that begins on or after January 1, 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8 – Definition of "material"
- Amendments to IFRS 3 – Definition of a "business"
- Amendments to IFRS 7 and IFRS 9 – Interest Rate Benchmark Reform
- Amendment to IFRS 16 – COVID-19 Related Rent Concessions

b) New standards, interpretations and amendments not yet effective

At the date of authorization of these consolidated financial statements, the Group has not applied the following new and revised IFRS that have been issued but are not yet effective:

Effective January 1, 2021

- Amendments to IFRS 4 Insurance Contracts
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform – Phase 2

Effective January 1, 2022

- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)
- Amendments to IAS 16 – Proceeds before Intended Use
- Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract

Effective January 1, 2023

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current
- Amendments to IFRS 17 – Insurance Contracts

The Group does not expect the adoption of the IFRS listed above will have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

5. Group information

Information about subsidiaries

The consolidated financial statements of the Group include:

Name	Principal activities	Country of incorporation	% Equity interest December 31, 2020	% Equity interest December 31, 2019
Mereo BioPharma 1 Limited	Pharmaceutical R&D	UK	100	100
Mereo BioPharma 2 Limited	Pharmaceutical R&D	UK	100	100
Mereo BioPharma 3 Limited	Pharmaceutical R&D	UK	100	100
Mereo BioPharma 4 Limited	Pharmaceutical R&D	UK	100	100
Mereo BioPharma Ireland Limited	Pharmaceutical R&D	Ireland	100	100
Mereo BioPharma 5, Inc.	Pharmaceutical R&D	U.S.	100	100
Navi Subsidiary, Inc.	Pharmaceutical R&D	U.S.	100	100
Mereo US Holdings Inc.	Holding company	U.S.	100	100
Mereo BioPharma Group plc Employee Benefit Trust	Employee share scheme	Jersey	–	–

The registered office of Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited, Mereo BioPharma 3 Limited and Mereo BioPharma 4 Limited is located at Fourth Floor, 1 Cavendish Place, London W1G 0QF. The registered office of Mereo BioPharma Ireland Limited is Rocktwist House, Block 1, Western Business Park, Shannon, County Clare, V14 FW97, Republic of Ireland.

Mereo US Holdings Inc. was incorporated on December 3, 2018 for the sole purpose of effecting the business combination with Mereo BioPharma 5, Inc. (formerly OncoMed Pharmaceuticals, Inc.) on April 23, 2019. The registered office of Mereo US Holdings Inc., Mereo BioPharma 5, Inc. and its wholly owned subsidiary, Navi Subsidiary, Inc., is 251 Little Falls Drive, City of Wilmington, County of New Castle, Delaware 19808, US.

6. Loss before taxation

Loss before tax is stated after charging:

	Year ended December 31,		
	2020 £'000s	2019 £'000s	2018 £'000s
Fees payable to the Company's Auditor for the audit of Group accounts	449	514	323
Fees payable to the Company's Auditor for other services:			
Audit of subsidiary accounts	49	45	30
Audit-related assurance services	125	193	23
Non-audit services	193	118	148
Accounting advisory services	–	–	10
Legal and professional fees, including patent costs	4,619	2,413	936
Gain on modification of lease	(957)	–	–
Income from sub-lease	(646)	(855)	–
Operating lease expense (IAS 17)	–	–	293
Depreciation of right-of-use assets (IFRS 16)	1,531	1,505	–
Depreciation (excluding right-of-use assets)	68	52	40

Gain on modification of lease, sub lease income and transaction costs associated with lease modification are included within administrative expenses within the consolidated statement of comprehensive loss.

7. Employees

The average monthly number of persons employed by the Group during the year was:

	Year ended December 31,		
	2020	2019	2018
By activity			
Administrative	22	28	24
Research and development	17	18	12
Total	39	46	36

Total compensation costs for persons employed by the Group (including Directors) during the year was:

	Year ended December 31,		
	2020 £'000s	2019 £'000s	2018 £'000s
Included in research and development expenses:			
Salaries	3,046	2,824	1,792
Social security costs	397	110	(30)
Pension contributions	66	62	73
Share-based payment expenses	446	152	526
Included in administrative expenses:			
Salaries	4,832	3,384	2,903
Social security costs	681	(124)	(828)
Pension contributions	89	114	99
Share-based payment expenses	1,112	1,485	1,663
Total employee benefit expenses	10,669	8,007	6,198

Total compensation costs for Directors during the year was:

	Year ended December 31,		
	2020 £'000s	2019 £'000s	2018 £'000s
Salaries and fees	1,114	1,106	1,047
Benefits in kind	14	17	15
Pension contributions	61	25	11
Bonus	538	294	512
Total	1,666	1,442	1,585

During 2020, one Director was a member of a defined contribution pension scheme (period ended December 31, 2019: two).

Further details concerning the remuneration of Key Management Personnel can be found in Note 26.

8. Other income/expenses and adjustments

8.1 Finance income

	Year ended December 31,		
	2020 £'000s	2019 £'000s	2018 £'000s
Bank interest earned	5	42	307
Interest earned on short-term investments	–	141	–
Gain on short-term investments	39	194	–
Total finance income	44	377	307

8.2 Finance costs

	Year ended December 31,		
	2020 £'000s	2019 £'000s	2018 £'000s
Interest on convertible loan notes	(2,241)	(20)	(185)
Other interest	–	(10)	–
Interest on bank loan	(2,900)	(1,739)	(1,645)
Interest on lease liabilities	(1,085)	(1,314)	–
Accreted interest on bank loan	–	(1,523)	(782)
Modification gain/(loss) on bank loan	–	456	(730)
Loss on short-term deposits	–	–	(22)
Discounting of provision for deferred cash consideration	(157)	(221)	(443)
Total finance costs	(6,383)	(4,371)	(3,807)

8.3 Changes in the fair value of financial instruments

	Year ended December 31,		
	2020 £'000s	2019 £'000s	2018 £'000s
Changes in the fair value of warrants – private placement (Note 20)	(45,977)	–	–
Changes in the fair value of warrants – bank loan (Note 20)	(714)	875	716
Changes in the fair value of embedded derivative (Note 18)	(63,158)	–	–
Total	(109,849)	875	716

In 2019 and 2018, changes in the fair value of financial instruments were included within finance costs. The 2019 and 2018 comparative balances have been reclassified accordingly.

9. Taxation

	Year ended December 31,		
	2020 £'000s	2019 £'000s	2018 £'000s
UK corporation tax R&D credit	2,822	5,149	5,277
Other tax income / (expense)	–	1,125	–
Taxation	2,822	6,274	5,277

UK income tax

The Group is entitled to claim tax credits in the United Kingdom (the "UK") under the UK R&D small or medium-sized enterprise ("SME") scheme, which provides additional taxation relief for qualifying expenditure on R&D activities, and includes an option to surrender a portion of tax losses arising from qualifying activities in return for a cash payment from HM Revenue & Customs ("HMRC"). The amount included in the financial statements represents the credit receivable by the Group for the year. The claims in respect of the year ended 31 December 2019 have been received by the Group.

US income tax

As at December 31, 2020, £0.8 million is receivable related to Alternative Minimum Tax ("AMT") credits, recognized as other taxes recoverable within the consolidated balance sheet. At December 31, 2020, the Group had an Uncertain Tax Position of £2.5 million being held off the Balance Sheet, in respect of the R&D tax credits in the US. The Uncertain Tax Position is calculated based upon historic US R&D claims and equates to around 20% of the outstanding US R&D claims.

Reconciliation of effective tax rate

	Year ended December 31,		
	2020 £'000s	2019 £'000s	2018 £'000s
Loss on ordinary activities before income tax	(166,450)	(41,118)	(37,306)
Loss on ordinary activities before tax at the UK's statutory income tax rate of 19% (2019: 19%)	(31,626)	7,812	7,088
Expenses not deductible for income tax purposes (permanent differences)	(13,270)	(317)	(1,070)
Income not taxable	(4)	–	–
Temporary timing differences	–	(343)	(277)
R&D relief uplift	(1,214)	2,540	2,271
Losses (unrecognized)	14,479	(4,380)	(2,804)
Deferred income from MBG loan guarantee costs	–	(54)	69
Foreign tax	184	–	–
Differences in overseas tax rates	261	340	–
Derecognition of deferred tax	(2,686)	–	–
Gain on bargain purchase	–	699	–
Other	(32)	(23)	–
Tax credit for the year	2,822	6,274	5,277

Deferred tax
The analysis of unrecognized deferred tax is set out below:

	Year ended December 31,		
	2020 £'000s	2019 £'000s	2018 £'000s
Losses	37,021	19,443	8,604
Loan relationships	421	–	–
US tax credits	9,880	10,032	–
Accruals	–	947	–
Fixed assets	414	400	–
Share options	55	–	–
Other US deferred tax	86	–	–
Other	137	202	6
Temporary differences	18	4	495
Net deferred tax asset (unrecognized)	48,032	31,028	9,105

The analysis of recognized deferred tax is set out below:

	At January 1, 2020 £'000s	Recognized in income £'000s	At December 31, 2020 £'000s
Deferred tax liabilities			
Intangible asset and right of use asset	(2,686)	2,590	(96)
Deferred tax asset			
Net operating losses	2,686	(2,590)	96
Net deferred tax asset / (liability)	–	–	–

The deferred tax liability has arisen from the recognition of separately identifiable intangible assets on the acquisition of Mereo BioPharma 5, Inc. A deferred tax asset on losses has been recognized up to the level of the deferred tax liability, resulting in a net deferred tax liability of £nil.

The remaining deferred tax assets, as set out in the table above, have not been recognized as there is uncertainty regarding when suitable future profits against which to offset the accumulated tax losses will arise.

UK deferred tax
The deferred tax assets have not been recognized as there is uncertainty regarding when suitable future profits against which to offset the accumulated tax losses will arise. There is no expiration date for the accumulated tax losses.

The standard rate of corporation tax applied to the reported loss is 19% (2019: 19%). In the UK Budget on March 11, 2020, it was announced that the reduction in the rate of UK corporation tax from 19% to 17% will now not occur and the UK corporation tax rate will instead remain at 19%. This change was substantively enacted on March 17, 2020 and the rate applicable from April 1, 2020 now remains at 19%. As the 19% corporation tax rate was substantively enacted by the balance sheet date, UK deferred tax assets and liabilities have been measured at a rate of 19%.

The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date, as a result deferred tax balances as at December 31, 2020 continue to be measured at 19%.

At December 31, 2020, the Group had UK tax losses to be carried forward of approximately £136.9 million (2019: £70.2 million).

US deferred tax
US deferred tax assets and liabilities are calculated at a blended rate of approximately 21%.

For Mereo BioPharma 5, Inc, with respect to accumulated tax losses carried forward prior to its acquisition by the Company, there is a change of control restriction which will limit the amount available in any one year.

At December 31, 2020, the Group had US federal tax losses to be carried forward of approximately £50.1 million, of which £44.0 million can be carried forward indefinitely and £6.1 million which will begin to expire in 2022. At December 31, 2020, the Group had US state tax losses to be carried forward of approximately £3.3 million which begin to expire in 2027.

10. Loss per share
Basic loss per share is calculated by dividing the loss attributable for the year to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

As the net amount attributable to ordinary equity holders of the parent was a loss for the years ended December 31, 2020, 2019 and 2018, the dilutive potential shares are anti-dilutive for the earnings per share calculation.

	December 31, 2018			December 31, 2019			December 31, 2020		
	2018 Loss £'000s	Weighted shares number	2018 Loss per share £	2019 Loss £'000s	Weighted shares number	2019 Loss per share £	2020 Loss £'000s	Weighted shares number	2020 Loss per share £
Basic and diluted	(32,029)	71,144,786	(0.45)	(34,844)	89,424,476	(0.39)	(163,628)	338,953,141	(0.48)

The Company operates share option schemes (see Note 24) which could potentially dilute basic earnings per share in the future.

As part of a license and option agreement with AstraZeneca (see Note 24) additional future payments of a maximum of 1,349,692 new ordinary shares would be payable on reaching certain clinical milestones.

Warrants totaling 162,292,274 were issued in 2020 (2019: 321,444) that could potentially dilute basic earnings per share if converted.

The equity-settled transactions were considered to be anti-dilutive as they would have decreased the loss per share and were therefore excluded from the calculation of diluted loss per share.

For transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these consolidated financial statements, see Note 27.

11. Property, plant and equipment

	Right-of-use asset (building) £'000s	Right-of-use asset (equipment) £'000s	Leasehold improve-ments £'000s	Office equipment £'000s	IT equipment £'000s	Total £'000s
Cost or valuation						
At January 1, 2020	11,877	1,024	164	71	116	13,252
Additions	–	–	–	–	16	16
Lease modification	(10,220)	149	–	–	–	(10,071)
Disposals	–	–	–	–	–	–
Currency translation effects	191	(4)	–	–	–	187
At December 31, 2020	**1,848**	**1,169**	**164**	**71**	**132**	**3,384**
Depreciation and impairment						
At January 1, 2020	(996)	(509)	(69)	(30)	(90)	(1,694)
Lease modification	1,482	–	–	–	–	1,482
Depreciation for the year	(1,017)	(514)	(16)	(35)	(17)	(1,599)
At December 31, 2020	**(531)**	**(1,023)**	**(85)**	**(65)**	**(107)**	**(1,811)**
Net book value						
At January 1, 2020	10,881	515	95	41	26	11,558
At December 31, 2020	**1,318**	**146**	**79**	**6**	**25**	**1,573**

	Right-of-use asset (building) £'000s	Right-of-use asset (equipment) £'000s	Leasehold improve-ments £'000s	Office equipment £'000	IT equipment £'000s	Total £'000s
Cost or valuation						
At January 1, 2019	–	–	164	31	71	266
Additions		–	–	–	21	21
Transition to IFRS 16 (Leases)	1,237	1,314	–	–	–	2,551
Acquisition of subsidiary	10,755	–	–	58	24	10,837
Disposals	–	–	–	(18)	–	(18)
Adjustment to carrying value	–	(290)	–	–	–	(290)
Currency translation effects	(115)	–	–	–	–	(115)
At December 31, 2019	**11,877**	**1,024**	**164**	**71**	**116**	**13,252**
Depreciation and impairment						
At January 1, 2019	–	–	(53)	(16)	(48)	(117)
Depreciation for the year	(996)	(509)	(16)	(14)	(42)	(1,577)
At December 31, 2019	**(996)**	**(509)**	**(69)**	**(30)**	**(90)**	**(1,694)**
Net book value						
At January 1, 2019	–	–	111	15	23	149
At December 31, 2019	**10,881**	**515**	**95**	**41**	**26**	**11,558**

In August 2020, the Group modified the scope of the leased office space in the US included in right-of-use asset (building). The new lease payments were allocated between lease and non-lease components, determining a new lease term, and remeasuring the lease liability using a revised discount rate. This resulted in reduction in the right of use asset of £8.7 million and a reduction in lease liability of £9.5 million with the associated gain on modification of £0.7 million recognized in the consolidated statement of comprehensive loss. Related transaction costs of £2.5 million are also recognized in the consolidated statement of comprehensive loss.

The Group leases office space and equipment for use in research and development activities. The maturity of lease liabilities are as follows:

December 31, 2020	Within 1 year £'000s	Between 1 and 3 years £'000s	Between 3 and 5 years £'000s	Over 5 years £'000s	Total £'000s
Maturity of Lease liabilities	636	753	405	–	1,794

12. Intangible assets

	Acquired development programs £'000s
Cost at January 1, 2019	33,005
Additions	12,693
Currency translation effects	(171)
Cost at December 31, 2019	45,527
Disposals	(13,386)
Currency translation	864
Cost at December 31, 2020	**33,005**
Revision to estimated value at January 1, 2019	(373)
Revisions to estimated value	(698)
Revision to estimated value at December 31, 2019	(1,071)
Revision to estimated value	(286)
Revision to estimated value at December 31, 2020	**(1,357)**
Net book value at January 1, 2019	32,632
Net book value at December 31, 2019	44,456
Net book value at December 31, 2020	**31,648**

The Group's strategy is to acquire and develop clinical-stage development programs for the treatment of oncology and rare diseases.

In October 2017, the Group acquired the exclusive license for MPH-966 and included the option to acquire certain assets from AstraZeneca AB ("AstraZeneca"). On that date the fair value of MPH-966 was measured at £7.2 million, which consisted of upfront cash and equity payments as well as deferred cash and equity consideration. The provision for deferred cash consideration is re-measured to fair value at each balance sheet date and recognized as an increase to or reduction of the intangible asset. During the year, the provision for deferred cash consideration has decreased by £0.3 million (2019: £0.7 million) due to changes in timelines and the probability of contractual milestones being achieved.

During the year the Group did not revise the value of any other intangible assets (2019: £nil). As the intangible assets remain under development, no amortization charge has been recognized (2019: £nil).

On April 23, 2019, the Group acquired an intangible asset of £12.7 million following the acquisition of Mereo BioPharma 5, Inc. The intangible asset represented the intellectual property associated with etigilimab and navicixizumab, for which the fair value at acquisition was fully attributed to navicixizumab. On January 13, 2020, the Company entered into a license agreement with OncXerna under which an exclusive worldwide license was granted in respect of intellectual property rights for the development and commercialization of navicixizumab. Under the terms of the license agreement, the Company received an upfront gross payment of £3.1 million ($4 million).

The transaction was recorded as a disposal and intellectual property with a carrying value of £13.4 million was derecognized. Consequently, the Group recognized a loss on disposal in the amount of £10.9 million (net of transaction costs) in the year ended December 31, 2020. Pursuant to the license agreement, the Company is entitled to additional payments of up to $302 million, however, no reliable estimate can currently be made of the future amounts to be received as the amounts are contingent on future events that are uncertain, accordingly these milestone payments have not been recognized in the year ended December 31, 2020.

13. Impairment testing of acquired development programs not yet available for use

Acquired development programs not yet available for use are assessed annually for impairment. The carrying amount of acquired development programs is as follows:

	As at December 31,	
	2020 £'000s	2019 £'000s
Acquired development programs		
Navicixizumab (navi)	–	12,522
BSP-804 (setrusumab)	11,616	11,616
MPH-966 (alvelestat)	5,835	6,121
BSG-649 (leflutrozole)	9,886	9,886
BCT-197 (acumapimod)	4,311	4,311
	31,648	44,456

The Group considers the future development costs, the probability of successfully progressing each program to product approval and the likely commercial returns after product approval, among other factors, when reviewing for indicators of impairment. The results of this testing did not indicate any impairment of the acquired products' rights for the year ended December 31, 2020. Management believe that the likelihood of a materially different outcome using different assumptions is remote.

The acquired development programs are assets which are not used in commercialized products. These assets have not yet begun to be amortized but have been tested for impairment by assessing their value in use. Value in use calculations for each program are utilized to calculate the recoverable amount. The calculations use pre-tax cash flow projections covering the period through product development to commercial sales up to the later of loss of patent protection or market exclusivity, which extend beyond five years from the balance sheet date. Approved products are assumed to be out-licensed such that the Group receives signature fees, milestone receipts and royalties on sales; therefore, the Group does not incur any costs of commercialization after out-licensing except when such terms are agreed.

Key assumptions for the value in use calculations are described as follows:

- Development costs to obtain regulatory approval – costs are estimated net of any contributions expected from collaborative arrangements with future partners. Management have developed cost estimates based on their previous experience and in conjunction with the expertise of their clinical development partners;
- Launch dates of products – these reflect management's expected date of launch for products based on the timeline of development programs required to obtain regulatory approval. The assumptions are based on management's and clinical development partners' prior experience;
- Probability of successful development – management estimates probabilities of success for each phase of development based on industry averages and knowledge of specific programs;

- Out-licensing signature fees, milestones and royalty rates on sales – management estimates these amounts based on prior experience and access to values from similar transactions in the industry, which are collated and accessible from specialist third-party sources;
- Sales projections – these are based on management's internal projections using external market data and market research commissioned by the Company;
- Profit margins and other operational expenses – these are based on the Company's internal projections of current product manufacturing costings, with input from manufacturing partners where applicable, and estimates of operating costs based on management's prior industry experience;
- Cash flow projections – for all assets, cash flows are assessed over an industry-standard asset life of 20 years; and
- Discount rates – the discount rate is estimated on a pre-tax basis reflecting the estimated cost of capital of the Group and is applied consistently across each of the acquired development programs. The cost of capital was calculated at 12.0% (2019: 15.3%).

Where an out-licensing agreement has been reached with a third party, including in respect of setrusumab, known and observable inputs replace management assumptions if available.

At this stage of product development, the key sensitivity for all development programs is the probability of successful completion of clinical trials in order to obtain regulatory approval necessary for commercial sales. Therefore, full impairment of a development program is expected should such clinical trials be unsuccessful.

14. Other receivables

	December 31, 2020 £'000s	2019 £'000s
Rent deposit	407	293
VAT recoverable	370	269
Other	239	10
	1,016	572

15. Cash and short-term deposits

	December 31, 2020 £'000s	2019 £'000s
Cash	22,922	15,803
Short-term deposits	547	544
	23,469	16,347

Short-term deposits are available immediately and earn fixed interest at the respective short-term deposit rates and are held in a diversified portfolio of counterparties.

16. Issued capital and reserves

Ordinary share capital	Number of Ordinary Shares	Ordinary share capital £'000s	Share premium £'000s
As at January 1 2018	71,094,974	213	118,227
Issued on June 1, 2018 for public offering	50,076	–	150
Issued on August 3, 2018 for exercise of share options	10,000	–	13
Issued on October 22, 2018 for exercise of share options	85,222	1	110
Transaction costs for issued share capital	–	–	(8)
As at December 31 2018	**71,240,272**	**214**	**118,492**
Issued on April 23, 2019 for Mereo BioPharma 5, Inc	24,783,320	74	–
Issued on June 21, 2019 for conversion of loan note	1,936,030	6	3,953
Transaction costs for issued share capital	–	–	(761)
As at December 31 2019	**97,959,622**	**294**	**121,684**
Issued on February 11, 2020 for Securities Purchase Agreement	11,432,925	34	2,287
Issued on February 11, 2020 for Securities Purchase Agreement	2,862,595	9	224
Issued on February 20, 2020 for Securities Purchase Agreement	12,252,715	37	2,267
Issued on June 4, 2020 for private placement of ordinary shares	89,144,630	267	15,244
Transaction costs for issued share capital	–	–	(1,307)
Issued on June 30, 2020 for conversion of the Loan Notes	125,061,475	375	21,386
Conversion of warrants on December 23, 2020	239,179	1	–
As at December 31 2020	**338,953,141**	**1,017**	**161,785**

Since January 1, 2018, the following alterations to the Company's share capital have been made. For each share issuance, ordinary shares of £0.003 in nominal value in the capital of the Company were issued.

- Under the public offering dated June 1, 2018, the Company issued and allotted 50,076 ordinary shares at a price of £3.00 per share to investors. Gross cash received was £0.2 million;
- On August 3, 2018 the Company issued and allotted 10,000 ordinary shares pursuant to an exercise of employee share options;
- On October 22, 2018 the Company issued and allotted 85,222 ordinary shares pursuant to an exercise of employee share options;
- On April 23, 2019, the Company issued and allotted 24,783,320 ordinary shares as consideration for the acquisition of Mereo BioPharma 5, Inc. The fair value of the ordinary shares, measured on the date of acquisition, was £1.65;
- On June 21, 2019, Novartis converted £2.4 million of loan notes dated June 3, 2016 into 1,071,042 ordinary shares at a fixed conversion price of £2.21 per share. Under the terms of the notes, Novartis also received 864,988 bonus shares.
- On February 11, 2020, the Company issued and allotted 11,432,925 ordinary shares at a price of £0.20 per share to Aspire Capital Fund, LLC ("Aspire Capital"). Gross cash received was £2.3 million. Aspire Capital has also committed to subscribe for up to an additional $25 million of ordinary shares exchangeable for ADSs from time to time during a 30-month period at the Company's request. In consideration for this, the Group paid Aspire Capital a commission satisfied through a non-cash transaction wholly by the issue of a further 2,862,595 of the Company's ordinary shares (equivalent to 572,519 ADSs) at a price of £0.08.
- On February 20, 2020, the Company issued and allotted 12,252,715 ordinary shares at a price of £0.19 per share. Gross cash received was £2.3 million;

- On June 4, 2020, the Company issued and allotted 89,144,630 ordinary shares at a price of £0.174 per share to investors. Gross cash received was £15.5 million. The ordinary shares were in substance issued at a discount to the gross cash received. The fair value of the consideration of the ordinary shares was determined to be £13.4 million and therefore the ordinary shares were in substance issued at a discount of £2.1 million, which was recorded as a reduction to other reserves (other reserves represent amounts that relate to changes to the Company's paid up equity and which are not capital reserves) in the consolidated statement of changes in equity. The incremental directly attributable transaction costs in relation to the issue of the ordinary shares were included within share premium;
- On June 30, 2020, the Company issued and allotted 125,061,475 ordinary shares at a price of £0.174 per share to investors on conversion of the Loan Notes. The legal proceeds were £21.8 million; and
- On December 23, 2020, 690,205 Warrants (equivalent to 138,041 ADSs) were exercised. This transaction was completed by way of a cashless exercise resulting in 47,835 ADSs being issued at the aggregate nominal value of the ordinary shares underlying the ADSs issued, in place of the exercise price of £0.348 per ordinary share.

Other capital reserves

	Shares to be issued £'000s	Share-based payments £'000s	Equity component of convertible loan £'000s	Other Warrants issued £'000s	Merger reserve £'000s	Other reserve £'000s	Total £'000s
At January 1, 2018	1,590	14,459	310	–	–	–	16,359
Share-based payments expense during the year	–	2,302	–	–	–	–	2,302
Share-based payments release for exercise of options	–	(112)	–	–	–	–	(112)
Issuance of warrants	–	–	–	44	–	–	44
At December 31, 2018	**1,590**	**16,649**	**310**	**44**	**–**	**–**	**18,593**
Acquisition of Mereo BioPharma 5, Inc	–	–	–	–	40,818	–	40,818
Shares issued during the year	(1,590)	–	–	–	–	–	(1,590)
Convertible loan conversion	–	–	(310)	–	–	–	(310)
Share-based payments expense during the year	–	1,636	–	–	–	–	1,636
At December 31, 2019	**–**	**18,285**	**–**	**44**	**40,818**	**–**	**59,147**
Share-based payments expense during the period	–	1,558	–	–	–	–	1,558
Novartis convertible loan instrument and warrants	–	–	1,084	–	–	–	1,084
Conversion of the Loan Notes	–	–	–	–	–	33,104	33,104
Reclassification of the embedded derivative	–	–	33,481	–	–	–	33,481
At December 31, 2020	**–**	**19,843**	**34,565**	**44**	**40,818**	**33,104**	**128,374**

Shares to be issued

At January 1, 2019, a maximum of 864,988 shares were remaining to be issued to Novartis pro-rata to their percentage shareholding as and when the Company issued further ordinary shares. The fair value of these shares was £1.84 per share.

On June 21, 2019, the remaining 864,988 shares were issued to Novartis as fully paid up bonus shares for £nil consideration. There were no movement in this reserve in 2020 and the balance on January 1, 2020 and December 31, 2020 were £nil.

Share-based payments

The Group has various share option schemes under which options to subscribe for the Group's shares have been granted to certain executives, non-executive directors ("NEDs") and employees.

The share-based payment reserve is used to recognize (i) the value of equity settled share-based payments provided to employees, including key management personnel, as part of their remuneration and (ii) deferred equity consideration. Refer to Note 24 for further details.

Equity component of convertible loan instrument

The convertible loan notes issued to Novartis are a compound instrument consisting of a liability and an equity component. The value of the equity component (cost of the conversion option) as at December 31, 2020 is £1.08 million (December 31, 2019: £nil).

On June 30, 2020, the Loan Notes in an aggregate principal amount of £21.8 million (together with accrued interest) were automatically converted into 125,061,475 ordinary shares. This resulted in £33.5 million recognized in other reserves in equity as a difference between the share capital and share premium recognized on conversion and the carrying value of the financial liability extinguished. See Note 17.

Other Warrants issued

The funding arrangements with The Alpha-1 Project are a compound instrument consisting of a liability and an equity component. The value of the equity component (consideration received for the warrants) as at December 31, 2020 and 2019 is less than £0.1 million.

Merger reserve

The consideration paid to acquire Mereo BioPharma 5, Inc was 24,783,320 ordinary shares with an acquisition date fair value of £40.9 million, based on the Group's quoted share price. The nominal value of the issued capital was £0.1 million with the excess, £40.8 million, classified within other capital reserves as a 'Merger reserve'.

Other reserves

On June 30, 2020, the Company issued and allotted 125,061,475 ordinary shares of £0.003 in nominal value in the capital of the Company at a price of £0.174 per share to investors following the partial conversion of the Loan Notes. The legal proceeds were £21.8 million. This resulted in £33.1 million recognized in other reserves as a difference between the carrying value of the financial liability extinguished and the legal proceeds.

Accumulated loss

	Year ended December 31,		
	2020	2019	2018
	£'000s	£'000s	£'000s
Other reserves	5,001	7,000	7,000
Accumulated losses	(309,693)	(146,065)	(111,221)

Other reserves represent a capital reduction undertaken in 2016 which created a reserve of £7.0 million. On June 3, 2020 the Company issued and allotted 89,144,630 ordinary shares to investors. The difference between the gross proceeds, £15.5 million, and the fair value of the consideration of the ordinary shares, £13.4 million, of £2.1 million, was recognized as a reduction to other reserves.

17. Private Placement

On June 3, 2020, the Company completed a £56 million private placement transaction which comprised of the issuance of 89,144,630 ordinary shares of £0.003 each at a price of £0.174 per share for total proceeds of £15.5 million, and the issue of Tranche 1 convertible loan notes (the "Loan Notes") for total proceeds of £40.5 million. The investors also received conditional warrants to subscribe for an additional 161,048,366 ordinary shares (the "Warrants").

The terms of the Loan Notes and Warrants, and, in particular, their ability to be converted into ordinary shares was conditional on the passing of certain resolutions (the "Resolutions") at a subsequent general meeting of shareholders held on June 30, 2020. At that date, the Resolutions were passed, and the Loan Notes became convertible into ordinary shares.

Loan Notes

The Loan Notes bear interest at a rate of 6% per annum and have an initial maturity date of June 2023. The Loan Notes are convertible into ordinary shares at the discretion of the holder and, if not converted by the initial maturity date, may be extended for an additional seven years, but will cease to bear interest from any extension date. The Loan Notes were initially recognized at their fair value of £38.6 million (debt host instrument in the amount of £26.7 million and the embedded derivative in the amount of £11.9 million, before transaction costs).

Loan Notes in an aggregate principle amount of £40.5 million were issued on June 3, 2020 and became convertible upon the passing of the Resolutions. As a result, on June 30, 2020, Loan Notes in an aggregate principal amount of £21.8 million, together with accrued interest, were automatically converted into 125,061,475 ordinary shares, and Loan Notes in an aggregate principal amount of £18.9 million remain outstanding and as of December 31, 2020. See Note 18.

Warrants

Participants in the private placement transaction received conditional warrants to subscribe for further ordinary shares in an aggregate number equal to 50 percent of both the ordinary shares purchased and the ordinary shares issuable upon conversion of the Loan Notes. A total of 161,048,366 Warrants were issued. The fair value of the warrants at inception was £4.1 million.

The Warrants have an exercise price of £0.348 per share and are exercisable at any time until their expiry in June 2023. The Warrants can be exercised for cash or on a cashless basis at the discretion of the warrant holder. Warrants outstanding at the expiry date may be converted into Tranche 2 Notes, with an expiry date of up to seven years from conversion, and do not bear interest. See Note 20.

The Loan Notes and the Warrants were recognized as separate financial instruments. Transaction costs directly attributable to the private placement transaction were apportioned across the ordinary shares, Loan Notes and Warrants.

18. Interest-bearing loans and borrowings

	Year ended December 31, 2020 £'000s	2019 £'000s
Convertible loan notes	3,196	–
Bank loan	–	20,512
Private placement – Loan Notes	12,946	–
At December 31	16,142	20,512
Current	–	15,139
Non-current	16,142	5,373

Convertible loan notes

On February 10, 2020, the Company entered into a convertible equity financing with Novartis Pharma (AG) ("Novartis") under which Novartis purchased a £3.8 million convertible loan note (the "Novartis Loan Note").

The Novartis Loan Note is convertible at the discretion of the holder, at a fixed price of £0.265 per ordinary share and bears an interest rate of 6% per annum with a maturity date of February 2025. In connection with the Novartis Loan Note, the Company issued 1,449,614 warrants which are exercisable until February 2025 at an exercise price of £0.265.

The fair value of the equity components of the Novartis Loan Note at December 31, 2020 was £1.1 million which includes the conversion feature and the warrants.

Bank loan

On December 15, 2020, the bank loan between the Company and its lenders, Silicon Valley Bank and Kreos Capital V (UK) Limited (the "Lenders"), was repaid in full. Accordingly, the total carrying value of the loan at December 31, 2020 was £nil (2019: £20.5 million). No non-cash interest was recognized in the consolidated statement of comprehensive loss in the period (2019: £1.5 million) .

The terms of the bank loan required interest-only payments up until April 30, 2019, and thereafter payments of interest and principle in 23 equal monthly instalments through maturity. The bank loan bore interest at an annual fixed rate of 8.5% and was secured by substantially all of the Group's assets, including intellectual property rights owned or controlled by the Group. Following the repayment of the bank loan, the collateral was released by the Lenders.

The bank loan was modified in both 2019 and 2018 and a modification gain of £0.5 million and a modification loss of £0.7 million, respectively, was recognized in the consolidated statement of comprehensive loss on the respective modification dates.

Private placement – convertible loan notes

The initial issuance of Loan Notes in an aggregate principle amount of £40.5 million were issued on June 3, 2020 and formed part of the private placement transaction (Note 17) were classified as a financial liability on initial recognition. Non-closely related embedded derivatives relating to the conversion feature, term-extension and change of control features were bifurcated and accounted for at FVTPL, with the debt host contract being measured at amortized cost.

The fair value of the embedded derivative liability was £11.9 million on initial recognition and the fair value of the liability component was £24.4 million (net of transaction costs). During the year, between initial recognition and the passing of the Resolutions (note 17), changes in the fair value of the embedded derivative totaling £63.2 million were recognized as an expense in the consolidated statement of changes in comprehensive income.

The Loan Notes were not convertible until certain Resolutions were passed at the Company's general meeting on June 30, 2020, following which Loan Notes in an aggregate principal amount of £21.7 million (together with accrued interest) were automatically converted into 125,061,475 ordinary shares. Accordingly, a reduction in interest bearing loans of £13.3 million together with the derecognition of the embedded derivative relating to the conversion feature (£41.6 million) was recognized; no gain or loss recognized on conversion. The remaining portion of the embedded derivative relating to the conversion feature attributable to the Loan Notes outstanding (£33.5m) was reclassified to equity to reflect the effective change in the terms of the feature following the passing of the Resolutions.

The movements in the carrying value of the liability component of the Loan Notes is included in the table below:

	Year ended December 31,	
	2020 £'000s	2019 £'000s
Liability component at date of issue (net of transaction costs)	24,417	–
Interest charged (using effective interest rate)	1,803	–
Converted to equity	(13,274)	–
Carrying amount of liability component	12,946	–

The movements in the carrying value of the embedded derivative relating to the conversion feature is included in the table below:

	Year ended December 31,	
	2020 £'000s	2019 £'000s
January 1	–	–
Arising during the year	11,913	–
Change in fair value	63,158	–
Reclassified to equity	(75,071)	–
December 31	–	–

The change in fair value of the embedded derivative liability represents an unrealized loss (recognized within fair value changes on derivative financial instruments held at FVTPL) in the consolidated statement of comprehensive loss.

The fair value of the embedded derivative was determined by comparing the fair value of the hybrid instrument and the fair value of the host debt, which excludes the conversion features, using a discounted cash flow model as well as Black-Scholes model for the hybrid contract.

Inputs into the models used to fair value the embedded derivative at inception (June 3, 2020), at conversion (June 30, 2020) and at the balance sheet date are as follows:

	December 31, 2020	June 30, 2020	June 3, 2020
Expected volatility (%)	–	61	61
Risk-free interest rate (%)	–	0.19	0.27
Credit spread %	–	1.86	2.01
Expected life of share options (years)	–	3	3
Market price of ordinary shares (£)	–	0.46	0.19
Probability of resolutions passing (%)	–	100	90
Models used	–	Discounted cash flow/ Black-Scholes model	Discounted cash flow/ Black-Scholes model

Volatility was estimated by reference to the one-month historical volatility of the share price of the Company. The credit spread was determined based on the estimate of an implied credit rating of the Group between B and C. The volatility and credit spread are key unobservable inputs that require significant judgment and, therefore, the embedded derivatives were categorized within level 3 of the fair value hierarchy.

19. Provisions

	Year ended December 31, 2020 £'000s	2019 £'000s
Social security contributions on vested share options	109	104
Provision for deferred cash consideration	1,525	1,654
At December 31	1,634	1,758
Current	418	309
Non-current	1,216	1,449

	Social security contributions on vested share options £'000s	Deferred cash consideration £'000s
At January 1, 2019	842	2,131
Arising during the year	–	–
Released	(738)	–
Increase in provision due to the unwinding of the time value of money	–	221
Decrease in provision due to a change in estimates relating to timelines and probabilities of contractual milestones being achieved (Note 12)	–	(698)
At December 31, 2019	**104**	**1,654**
Arising during the year	5	–
Increase in provision due to the unwinding of the time value of money	–	157
Decrease in provision due to a change in estimates relating to timelines and probabilities of contractual milestones being achieved (revision to intangible asset, see Note 12)	–	(286)
At December 31, 2020	**109**	**1,525**
Current	109	309
Non-current	–	1,216

The provision for social security contributions on share options is calculated based on the number of vested options outstanding at the reporting date that are expected to be exercised. The provision is based on the estimated taxable gain arising on exercise of the share options, using the best estimate of the market price at the balance sheet date. The provision has been classified as non-current as the options are expected to be held for their full contractual life of ten years (see Note 24), and has been discounted accordingly.

The deferred cash consideration is the estimate of the quantifiable but not certain future cash payment obligations due to AstraZeneca for the acquisition of certain assets (see Note 12). This provision is calculated as the risk-adjusted net present value of future cash payments to be made by the Group. The payments are dependent on reaching certain milestones based on the commencement and outcome of clinical trials. The likelihood of achieving such milestones is reviewed at the balance sheet date and increased or decreased as appropriate.

20. Warrant liability

	Year ended December 31, 2020 £'000s	2019 £'000s
January 1	131	1,006
Issued during the year	4,080	131
Settled during the year	(127)	–
Fair value changes during the year	46,691	(1,006)
At December 31	50,775	131

The change in fair value of the warrant liability disclosed above represents an unrealized loss.

Warrants – private placement

As a part of the private placement transaction on June 3, 2020, the participating investors received conditional Warrants entitling them to subscribe for an aggregate of 161,048,366 ordinary shares. The Warrants were conditional on the Resolutions being passed at the general meeting on June 30, 2020. On the passing of the Resolutions, the Warrants entitled the investors to subscribe for ordinary shares at an exercise price of £0.348 per Warrant and are exercisable until June 2023. The Warrants are classified as liabilities as the Group does not have an unconditional right to avoid redeeming the instruments for cash. The fair value of the warrant liability was £4.1 million on initial recognition and was £49.9 million as of December 31, 2020. The change in the fair value of £46.0 million was recognized as an expense in the consolidated statement of comprehensive loss.

As of December 31, 2020, 690,205 (equivalent to 138,041 ADSs) Warrants were exercised. This transaction was completed by way of a cashless exercise resulting in 47,835 ADSs being issued at the aggregate nominal value of the ordinary shares underlying the ADSs issued, in place of the exercise price of £0.348 per ordinary share.

Warrants – bank loan

Pursuant to the terms of its loan facility, the Company issued warrants to the Lenders constituted by Warrant Instruments dated August 21, 2017 and October 1, 2018 (the "Warrant Instruments"). The terms of the Warrant Instrument allow for a cashless exercise and provide for 'adjustment' of the warrants in the event that the Company takes certain corporate actions, including issuing further equity securities or effecting a consolidation/subdivision of its shares, among others.

There have been several adjustments to the Warrants Instruments to date to address issuances of shares by the Company, and in each case the prior adjustment has taken the form of an issue of additional warrants to the Lenders. At December 31, 2018, as part of the bank loan facility, the Company had issued 922,464 warrants to its lenders giving them the right to subscribe for ordinary shares at a range of exercise prices between £2.31 and £3.30. In 2019, the Company issued a further 321,444 warrants giving the counterparties the right to subscribe for ordinary shares at an exercise price of £2.95. In December 2020, the Company issued a further 1,243,908 warrants giving the Lenders the right to subscribe for ordinary shares at an exercise price of $ 0.4144.

At December 31, 2020 the fair value of the warrants was £0.8 million (2019: £0.1 million). There were no warrants exercised as at December 31, 2020.

Total outstanding warrants

At December 31, 2020, a total of 162,845,977 warrants are outstanding. The warrants outstanding are equivalent to 48% of the ordinary share capital of the Company.

The weighted average inputs to the Black-Scholes models used for the fair value of warrants granted during the year ended December 31 are as follows:

	Year ended December 31,	
	2020	2019
Expected volatility (%)	84-85	67
Risk-free interest rate (%)	0.25-(0.05)	1.26
Expected life of warrants (years)	3	10.0
Market price of ADS ($)/ordinary shares (£)	$ 3.58	£ 0.83
Model used	Black-Scholes	Black-Scholes

The contractual life of the options was used in calculating the expense for the year as there is no historical data in relation to the expected life of the warrants. Following cancellation of admission of the Company's ordinary shares to trading on the AIM market of London Stock Exchange in December 2020, the market price of ADSs that are publicly traded on the Nasdaq Global Market was used to calculate the fair value of the warrants at December 31, 2020.

Volatility was estimated by reference to the six-month historical volatility of the historical share price of the Company.

The fair value of Warrants issued as part of the private placement transaction on June 3, 2020 were measured using a Black-Scholes model and the inputs disclosed on such date in Note 18.

21. Trade and other payables

	Year ended December 31, 2020 £'000s	2019 £'000s
Trade payables	3,165	6,148
Social security and other taxes	146	183
Other payables	22	21
At December 31	3,333	6,352

Trade and other payables are non-interest bearing and have an average term of one month.

22. Changes in liabilities arising from financing activities

Carrying value	Contingent consideration £'000s	Lease liability £'000s	Bank loan £'000s	Novartis Notes £'000s	Warrant liability £'000s	Deferred cash consideration £'000s	Convertible loan notes – private placement £'000s	Other £'000s	Total £'000s
At January 1, 2019	–	–	19,446	2,038	1,005	2,131	–	34	24,654
Adoption of IFRS 16 (Leases)	–	2,534	–	–	–	–	–	–	2,534
Financing cash flows	–	(2,212)	(1,739)	–	–	–	–	–	(3,951)
Changes in foreign exchange	–	(131)	–	–	–	–	–	–	(131)
Changes in fair values	354	–	–	–	(874)	(477)	–	10	(987)
Interest expense	–	1,314	3,262	20	–	–	–	–	4,596
Gain on modification	–	–	(457)	–	–	–	–	–	(457)
Issuance of equity	–	–	–	(2,058)	–	–	–	–	(2,058)
Acquisition of subsidiary	–	10,689	–	–	–	–	–	–	10,689
Lease term reassessment	–	(290)	–	–	–	–	–	–	(290)
Carrying value at December 31, 2019	354	11,904	20,512	–	131	1,654	–	44	34,599
Settled during the year	(354)	–	(23,412)	–	(127)	–	–	–	(23,893)
Financing cash flows	–	(2,086)	–	2,758	–	–	36,330	18	37,020
Issuance of warrants	–	–	–	–	4,080	–	–	–	4,080
Interest expense	–	1,085	2,900	438	–	–	1,803	–	6,226
Lease modification	–	(9,547)	–	–	–	–	–	–	(9,547)
Changes in fair values	–	–	–	–	46,691	(129)	63,158	–	109,720
Changes in foreign exchange	–	438	–	–	–	–	–	–	438
Reclassified to equity	–	–	–	–	–	–	(88,345)	–	(88,345)
Carrying value at December 31, 2020	**–**	**1,794**	**–**	**3,196**	**50,775**	**1,525**	**12,946**	**62**	**70,298**

23. Financial and capital risk management and fair value measurement

23.1 Capital risk management

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern and ensure that sufficient capital is in place to fund the Group's R&D activities and operations. The Group's principal method of adjusting the capital available is through issuing new shares or arranging suitable debt financing, including issuance of related warrants. The Group's share capital and share premium are disclosed in Note 16. The Group's loans are disclosed in Note 18. The Group monitors the availability of capital with regards to its committed and forecasted future expenditure on an ongoing basis.

The Group has set up an Employee Benefit Trust which currently holds ADSs to satisfy exercises of options under the Company's share option schemes (see Note 26).

23.2 Financial risk management objectives and policies

The Group seeks to maintain a balance between equity capital and convertible and secured debt to provide sufficient cash resources to execute the business plan. In addition, the Group maintains a balance between cash held on deposit and short-term investments in pound sterling and other currencies to reduce its exposure to foreign exchange fluctuations in respect of its planned expenditure.

Group's principal financial instruments comprise warrants, convertible loan notes and trade payables which arise directly from its operations. The Group has various financial assets, including receivables and cash and short-term deposits.

Interest rate risk

The Group's policy in relation to interest rate risk is to monitor short and medium-term interest rates and to place cash on deposit for periods that optimize the amount of interest earned while maintaining access to sufficient funds to meet the cost of is operating activities and future research and development activities.

Prior to the repayment of the bank loan in full in December 2020, the interest payable was fixed. Consequently, there is no material exposure to interest rate risk in respect of interest payable.

Foreign currency risk

The Group currently has no revenue. The majority of operating costs are denominated in pound sterling, US dollars and Euros. Funding to date has been secured in a mixture of pound sterling and US dollars and therefore a level of natural hedging exists in respect of operating costs. Foreign exchange risk arises from R&D activities and commercial transactions, recognized assets and liabilities in foreign currencies.

Credit and liquidity risks

The Group's policy is to deposit funds with multiple highly rated banks and financial institutions and also seeks to diversify its investments where this is consistent with achieving competitive rates of return. The Group's liquid resources are invested with regard to the timing of payments to be made in the ordinary course of business. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis and may be updated throughout the year subject to approval of the Group's Audit and Risk Committee.

The Group's maximum exposure to credit risk for the components of the balance sheet at December 31, 2020 are the carrying amounts. The Group does not face a significant liquidity risk with regards to its lease liabilities. The Group monitors its funding requirements through preparation of short-term, mid-term and long-term forecasts.

23.3 Fair value hierarchy

			Fair value measurement using		
	Date of valuation	Total £'000s	Quoted prices in active markets (Level 1) £'000s	Significant observable inputs (Level 2) £'000s	Significant unobservable inputs (Level 3) £'000s
Liabilities measured at fair value					
Provision for deferred cash consideration (Note 19)	December 31, 2020	1,525	–	–	1,525
Warrant liability (Note 20)	December 31, 2020	50,775	–	845	49,930

			Fair value measurement using		
	Date of valuation	Total £'000s	Quoted prices in active markets (Level 1) £'000s	Significant observable inputs (Level 2) £'000s	Significant unobservable inputs (Level 3) £'000s
Liabilities measured at fair value					
Provision for deferred cash consideration (Note 19)	December 31, 2019	1,654	–	–	1,654
Provision for contingent consideration	December 31, 2019	354	–	–	354
Warrant liability (Note 20)	December 31, 2019	131	–	131	–
Liabilities for which fair values are disclosed					
Bank loan (Note 18)	December 31, 2019	20,512	–	20,512	–

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2020 and 2019.

The carrying values of financial assets and financial liabilities are recorded at amortized cost in the consolidated financial statements are approximately equal to their fair values.

The following table presents the changes in Level 3 items for the periods ended December 31, 2020 and December 31, 2019:

	Provision for deferred cash consideration £'000s	Provision for contingent consideration £'000s
January 1, 2019	2,131	–
Unwinding of the time value of money (recognized as a finance cost)	221	–
Change in estimate relating to probabilities (revision to intangible asset, see Note 12)	(698)	–
Change in estimate relating to probabilities (recognized as an administrative expense)	–	354
December 31, 2019	**1,654**	**354**
January 1, 2020	1,654	354
Settled during the year	–	(354)
Unwinding of the time value of money (recognized as a finance cost)	157	–
Change in estimate relating to probabilities (revision to intangible asset, see Note 12)	(286)	–
Change in estimate relating to probabilities (recognized as an administrative expense)	–	–
December 31, 2020	**1,525**	**–**

The following methods and assumptions were used to estimate the fair values:

- The warrant liability is estimated using a Black-Scholes model, taking into account appropriate amendments to inputs in respect of volatility, remaining expected life of the warrants, cost of capital, probability of success and rates of interest at each reporting date.

- The fair value of the provision for deferred cash consideration is estimated by discounting future cash flows using rates currently available for debt on similar terms and credit risk. In addition to being sensitive to a reasonably possible change in the forecast cash flows or the discount rate, the fair value of the deferred cash consideration is also sensitive to a reasonably possible change in the probability of reaching certain milestones. The valuation requires management to use unobservable inputs in the model, of which the significant unobservable inputs are disclosed in the tables below. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.

- At December 31, 2020, the Group estimates the fair value of the contingent consideration liability to be £nil. An amount of £0.4 million was paid during the year relating to the Navi milestone received. The estimated contingent consideration payable is based on a risk-adjusted, probability-based scenario. Under this approach the likelihood of future payments being made to the former shareholders of Mereo BioPharma 5, Inc. under the CVR arrangement is considered. The estimate could materially change over time as the development plan and subsequent commercialization of the Navi product progresses.

The significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at December 31, 2020 and 2019 are as follows:

	Valuation technique	Significant unobservable inputs	Input range (weighted average)	Sensitivity of the input to fair value
Provision for deferred cash consideration	DCF	WACC	2020: 12%	1% increase/decrease would result in a decrease/increase in fair value by £25,000.
		WACC	2019: 15.3%	1% increase/decrease would result in a decrease/increase in fair value by £33,000
		Probability of success	2020: 13.8%–95%	10% increase/decrease would result in an increase/decrease in fair value by £0.4 million
		Probability of success	2019: 15.8%–95%	10% increase/decrease would result in an increase/decrease in fair value by £0.3 million
Contingent consideration liability	DCF	Ongoing uncertainty in the clinical development of the Navi product. Regulatory approval and commercialisation risks.	Not applicable	Total potential payments future payments relating to the contingent consideration liability on a gross, undiscounted basis are approximately $80 million. Sensitivity of the input to fair value is primarily driven by uncertainty in the clinical development of the Navi product. Future potential payments under the CVR arrangement are contingent on i) future development milestones and ii) future sales of the Navi product, following regulatory approval and commercialization. In January 2020, the Company entered into the licence agreement as detailed in Note 13. Although pursuant to the licence agreement the Company is entitled to additional payments of up to $302 million, there is still significant uncertainty that exist in respect of any milestone and royalty payments under the licence agreement.
Warrant liability related to the private placement	Black-Scholes model	Expected volatility	2020: 85.1%	Volatility was estimated by reference to the six-month historical volatility of the historical share price of the Company. If the volatility is increased to 93.8% based on three-month historical volatility, the carrying value of the warrants as of December 31, 2020 would increase to £52.9 million

23.4 Liquidity risk

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments at December 31, 2020:

	Payments due by period				
	Up to 1 year £'000s	1–3 years £'000s	3–5 years £'000s	Over 5 years £'000s	Total £'000s
Leases	849	960	448	–	2,257
Trade and other payables (Note 21)	3,333	–	–	–	3,333
	4,182	960	448	–	5,590

The Group may incur potential payments upon achievement of clinical, regulatory and commercial milestones, as applicable, or royalty payments that may be required to be made under license agreements the Group entered into with various entities pursuant to which the Group has in-licensed certain intellectual property, including license agreements with Novartis and AstraZeneca. Due to the uncertainty of the achievement and timing of the events requiring payment under these agreements, the amounts to be paid are not fixed or determinable at this time and no such amounts are included herein.

23.5 Market risk

The functional currency of the Company and all subsidiaries is pound sterling except for Mereo BioPharma 5, Inc. whose functional currency is US dollars. The Group incurs expenditures in foreign currencies and is exposed to the risks of foreign exchange rate movements, with the impact recognized in the consolidated statement of comprehensive loss. The Group seeks to minimize this exposure by passively maintaining foreign currency cash balances at levels appropriate to meet foreseeable foreign currency expenditures. The Group does not hedge potential future cash flows or income.

The table below shows analysis of the pound sterling equivalent of period-end cash and short-term deposits balances by currency:

	Year ended December 31,	
	2020 £'000s	2019 £'000s
Cash:		
Pound sterling	17,809	2,525
US dollars	5,586	13,807
Swiss francs	9	11
Euro	65	4
	23,469	16,347

The table below shows those transactional exposures that give rise to net currency gains and losses recognized in the consolidated statement of comprehensive income. Such exposures comprise the net monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the relevant Group entity. As at December 31, these exposures were as follows:

	Year ended December 31,	
	2020 £'000s	2019 £'000s
Net foreign currency assets/(liabilities):		
US dollars	4,088	(219)
Swiss francs	9	(6)
Euro	(513)	(812)
	3,584	(1,037)

The most significant currencies in which the Group transacts, other than pound sterling, are the US dollar and the Euro. The Group also transacts in other currencies as necessary.

The following table illustrates the sensitivity to a 10% weakening or strengthening in the period-end rate in the US dollar and the Euro against pound sterling:

Year ended December 31, 2020	US dollar	Euro
Net foreign currency assets/(liabilities)	**£'000s**	**£'000s**
Loss before tax	(372)	47
Equity	(372)	47

Year ended December 31, 2019	US dollar	Euro
Net foreign currency assets/(liabilities)	**£'000s**	**£'000s**
Loss before tax	20	74
Equity	20	74

24. Share-based payments

The charge for share-based payments under IFRS 2 arises across the following schemes:

	Year ended December 31,		
	2020	2019	2018
	£'000s	£'000s	£'000s
2019 Equity Incentive Plan	922	635	–
2019 NED Equity Incentive Plan	167	160	–
2015 Plan	3	63	806
Mereo BioPharma Group plc Share Option Plan	376	685	1,064
Long Term Incentive Plan	90	93	320
Deferred Bonus Share Plan	–	–	–
	1,558	**1,636**	**2,190**

24.1 2019 Equity Incentive Plan ("EIP") and 2019 Non-Executive Director Equity Incentive Plan ("NED EIP")

The 2019 EIP and 2019 NED EIP were adopted on April 4, 2019. The 2019 EIP provides for the grant of market value options over ADSs (each ADS is represented by 5 ordinary shares) to executive directors and employees. The 2019 NED EIP provides for the grant of market value options over ADS's to non-executive directors.

During the year, market value options were granted to executive directors and employees under the 2019 EIP. Subject to the executive director or employees continued employment, one-fourth of each such market value option grant shall vest on the first anniversary of the grant date and the remainder shall vest in equal monthly installments over the three-year period following the first anniversary. No performance conditions apply to such market value options.

During the year, market value options were granted to non-executive directors ("NEDs") under the 2019 NED EIP. Subject to the NEDs holding their current office (or being otherwise employed) through each applicable vesting date, such awards shall vest in equal monthly installments over a one-year period following the grant date. No performance conditions apply to such market value options.

The fair value of share options granted were estimated at the date of grant using a Black-Scholes pricing model, taking into account the terms and conditions upon which the share options were granted. The fair value calculation does not include any allowance for dividends as the Company has no available profits for distribution.

The exercise price of the share options will be equal to the market price of the underlying shares on the date of grant. The contractual term of the share options is 10 years.

Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, options for the 2019 EIP and 2019 NED EIP during the year:

	2020 EIP		2020 NED EIP	
	Options over ADS Number	WAEP $	Options over ADS Number	WAEP $
Outstanding at January 1, 2020	798,050	4.29	77,000	4.2
Granted during the year	1,167,836	2.00	77,000	1.84
Cancelled during the year	(406)	5.4	–	–
Forfeited during the year	(397,607)	2.87	(4,584)	1.84
Exercised during the year	–	–	–	–
Outstanding at December 31	1,567,873	2.94	149,416	3.06
Exercisable at December 31, 2020	259,829	4.42	138,412	3.15

	2019 EIP		2019 NED EIP	
	Options over ADS Number	WAEP $	Options over ADS Number	WAEP $
Outstanding at January 1, 2019	–	–	–	–
Granted during the year	801,200	4.29	77,000	4.2
Cancelled during the year	(3,150)	5.4	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Outstanding at December 31	798,050	4.29	77,000	4.2
Exercisable at December 31	–	–	38,478	4.2

The weighted average remaining contractual life for the share options outstanding as at December 31, 2020 was 0.5 years (2019: 9.5 years).

The weighted average fair value of options granted during the year was $2.23 per ADS or £0.33 per ordinary share (2019: £0.49 per ordinary share).

Options outstanding at the end of the year had an exercise price of between $5.40 and $1.84.

24.2 The 2015 Plan

Under the Mereo BioPharma Group Limited Share Option Plan (the "2015 Plan"), the Group, at its discretion, granted share options to employees, including executive management and NEDs. Share options vest over four years for executive management and employees and over three years for NEDs. No further share option grants are envisaged under the 2015 Plan.

At January 1, 2020 and December 31, 2020 there were 8,923,600 (2019: 8,923,600) options outstanding with a WAEP of £1.32. There were no movements in the number of options in 2020. In 2019, 59,533 options with a WAEP of £1.29 were forfeited. All outstanding shares were exercisable at December 31, 2020 (2019: 8,901,478) with a WAEP of £1.32.

The weighted average remaining contractual life for the share options outstanding as at December 31, 2020 was 4.6 years (2019: 5.6 years).

Options outstanding at the end of the year had an exercise price of between £1.26 and £2.17.

24.3 The Mereo BioPharma Group plc Share Option Plan

The Mereo BioPharma Group plc Share Option Plan ("Share Option Plan") provides for the grant of options to acquire ordinary shares to employees, executive directors and executive officers. Options may be granted to all eligible employees on commencement of employment and may be granted on a periodic basis after that. Under the Share Option Plan, the Board of Directors may determine if the vesting of an option will be subject to the satisfaction of a performance condition. Following the introduction of the EIP and NED EIP, no further share option grants under the Share Option Plan are envisaged.

Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, options for the Option Plan during the year:

	2020		2019	
	Number	WAEP £	Number	WAEP £
Outstanding at beginning of the year	1,524,065	3.07	1,881,555	3.10
Granted during the year	–	–	–	–
Cancelled during the year	–	–	–	–
Forfeited during the year	(122,670)	3.0	(357,490)	3.21
Outstanding at December 31	1,411,395	3.14	1,524,065	3.07
Exercisable at December 31	1,210,410	3.01	40,141	3.03

The weighted average remaining contractual life for the share options outstanding as at December 31, 2020 was 6.6 years (2019: 7.6 years).

Options outstanding at the end of the year had an exercise price of between £2.71 and £3.19.

24.4 Long Term Incentive Plan

Under the Company's Long Term Incentive Plan (LTIP), initiated in 2016, the Group, at its discretion, may grant nil-cost options to acquire shares to employees. Under the LTIP rules, vesting of 75% of the options issued to employees is subject to a share price performance condition (the "Share Price Element") and vesting of 25% of the options is subject to achievement of strategic operational targets (the "Strategic Element"). Share options vest over a maximum of five years, dependent upon achievement of these targets.

The fair value of the LTIP Share Price Element is estimated at the date of grant using a Monte Carlo pricing model, taking into account the terms and conditions upon which the share options were granted. The fair value of the LTIP Strategic Element is estimated at the date of grant using a Black Scholes pricing model, taking into account the terms and conditions upon which the share options were granted, and the expense recorded is based upon the expected level of achievement of non-marked based performance measures (strategic targets).

The fair value calculations do not include any allowance for dividends as the Company has no available profits for distribution.

The contractual term of the LTIP options is five years.

The expense recognized for employee services received during the year to December 31, 2020 was £0.1 million (2019: £0.1 million).

	2020 Number	2019 Number	2018 Number
Granted during the year	–	–	–
Cancelled during the year	–	–	–
Lapsed during the year	(427,324)	(241,374)	–
Outstanding at December 31	482,748	910,072	1,151,446
Exercisable at December 31	–	–	–

The weighted average remaining contractual life for the LTIP options outstanding as at December 31, 2020 was 0.5 years (2019: 0.9 years).

The weighted average fair value of LTIP options granted during the year to December 31, 2020 was £nil (2019: £nil).

No LTIP options were granted during the years ended December 31, 2019 and 2020.

24.5 Deferred Bonus Share Plan

Under the previous terms of the Company's Deferred Bonus Share Plan (DBSP), 30% of the annual bonus for 2017 for the senior management team was payable in deferred shares, which are governed by the DBSP plan rules. At the date of grant of the awards, the monetary bonus amount was divided by the closing share price to give the number of shares issued to the employee under the DBSP. The number of shares is fixed and not subject to adjustment between the issue date and vesting date. Under the DBSP, awards vest after three years from the date of the award.

There are no further performance conditions attached to the award, nor any service conditions (including no requirement for continued employment once the awards have been made).

Since the awards are issued at nil cost, they will be satisfied by the issue of ADSs from the Employee Benefit Trust.

There were no movements in the number of DBSP options in 2020 or 2019. The outstanding number of options as at December 31, 2020 is 163,000 (2019: 163,000), of which 62,170 were exercisable (2019: nil).

The weighted average remaining contractual life for the DBSP options outstanding as at December 31, 2020 was 0.6 years (2019: 1.6 years).

For the 2018 and 2019 financial years, under the Deferred Bonus Plan ("2019 DBP"), 100% of the annual bonus was paid in cash, of which 30% of amounts granted to the senior management team (after deduction of income tax and the relevant employee's national insurance contributions) was required to be utilized to acquire shares in the Company in the open market within 12 months of the grant of the award. No further grants under the DBSP are envisaged.

24.6 Deferred equity consideration

In October 2017, the Company's wholly owned subsidiary Mereo BioPharma 4 Limited entered into an exclusive license and option agreement (the "License Agreement") to obtain from AstraZeneca an exclusive worldwide, sub-licensable license under AstraZeneca's intellectual property rights relating to MPH-966, with an option to acquire such intellectual property rights following commencement of a pivotal trial and payment of related milestone payments (the "Option"), together with the acquisition of certain related assets.

Under the agreement with AstraZeneca, the Company may issue up to 1,349,693 ordinary shares which are dependent on achieving certain milestones.

In respect of milestones that are probable, the Group has accounted for, but not yet issued, 429,448 ordinary shares with a grant date fair value of £3.10, representing a value of £1.3 million.

24.7 Weighted average inputs

The following tables list the weighted average inputs to the models used for the fair value of share options granted during the year ended December 31, 2020:

	EIP 2019 grants	NED EIP 2019 grants
Expected volatility (%)	67	68
Risk-free interest rate (%)	0.59	0.64
Expected life of share options (years)	10	10
Market price of ADS's ($)	1.99	1.84
Model used	Black Scholes	Black Scholes

During the year ended December 31, 2020, no grants were issued under any other scheme.

The following tables list the weighted average inputs to the models used for the fair value of share options granted during the year ended December 31, 2019:

	EIP 2019 grants	NED EIP 2019 grants
Expected volatility (%)	66	66
Risk-free interest rate (%)	0.95	0.97
Expected life of share options (years)	10	10
Market price of ordinary shares (£)	0.66	0.63
Model used	Black Scholes	Black Scholes

During the year ended December 31, 2019, no grants were issued under any other scheme.

25. Commitments and contingencies

25.1 Group as a lessee

Information relating to the Group as a lessee can be found in Note 11 (Property, Plant and Equipment) and Note 23 (Financial and capital risk management).

25.2 Operating lease arrangements

Operating leases, in which the Group was the sublessor, related to a portion of an office leased by the Group, with lease terms of between one to two years. One of the subleases had an automatic extension on a month-to-month basis following the initial lease term, with rental increasing at a set percentage on each annual anniversary of the agreement. In August 2020, the Group terminated this lease arrangement. As at December 31, 2020 the Group does not have any leases as a lessor.

The maturity analysis of payments receivable by the Group in its capacity as sublessor is disclosed below:

	December 31, 2020 £'000s	2019 £'000s
Within one year	–	552
After one year but not more than five years	–	–
More than five years	–	–
	–	552

The Group did not have any leasing arrangements classified as finance leases at December 31, 2020 and 2019.

25.3 Financial commitments

Each of Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited and Mereo BioPharma 3 Limited (together, the "Subsidiaries") issued to Novartis loan notes (which were assigned by Novartis to the Company in exchange for ordinary shares pursuant to the Subscription Agreement) and each of the Subsidiaries agreed to make future payments to Novartis comprising amounts equal to ascending specified percentages of tiered annual worldwide net sales (beginning at high single digits and reaching into double digits at higher sales) by such Subsidiary of products that include the assets acquired. The levels of ascending percentages of tiered annual worldwide net sales are the same for each Subsidiary under the respective Purchase Agreements.

Each Subsidiary further agreed that in the event it transfers, licenses, assigns or leases all or substantially all of its assets, it will pay Novartis a percentage of the proceeds of such transaction. The Company will retain the majority of the proceeds from such a transaction. Such percentage is the same for each Subsidiary under the respective Purchase Agreements. The payment of a percentage of proceeds is not payable with respect to any transaction involving equity interests of Mereo BioPharma Group plc, a merger or consolidation of Mereo BioPharma Group plc, or a sale of any assets of Mereo BioPharma Group plc.

In October 2017, the Group's wholly owned subsidiary Mereo BioPharma 4 Limited entered into an exclusive license and option agreement ("the License Agreement"), to obtain from AstraZeneca an exclusive worldwide, sub-licensable license under AstraZeneca's intellectual property rights relating to MPH-966, with an option to acquire such intellectual property rights following commencement of a pivotal trial and payment of related milestone payments ("the Option"), together with the acquisition of certain related assets.Upon entering into the License Agreement, the Group made a payment of $3.0 million and issued 490,798 ordinary shares to AstraZeneca, for an aggregate upfront payment equal to $5.0 million. In connection with certain development and regulatory milestones, the Group has agreed to make payments of up to $115.5 million in the aggregate and issue additional ordinary shares to AstraZeneca for licensed products containing MPH-966. In addition, the Group has agreed to make payments to AstraZeneca based on specified commercial milestones of the product. The Group has also agreed to pay a specified percentage of sub-licensing revenue to AstraZeneca and to make royalty payments to AstraZeneca equal to ascending specified percentages of tiered annual worldwide net sales by the Group of licensed products (subject to certain reductions), ranging from the high single digits to low double digits. Royalties will be payable on a licensed-product-by-licensed-product and country-by-country basis until the later of ten years after the first commercial sale of such licensed product in such country and expiration of the last patent covering such licensed product in such country that would be sufficient to prevent generic entry. The Group has agreed to use commercially reasonable efforts to develop and commercialize at least one licensed product.

The License Agreement will expire on the expiry of the last-to-expire royalty term with respect to all licensed products. Upon the expiration of the royalty term for a licensed product in a particular country, the licenses to the Group for such product in such country will become fully paid and irrevocable. Prior to exercise of the Option, if at all, the Group may terminate the License Agreement upon prior written notice. Either party may terminate the agreement upon prior written notice for the other party's material breach that remains uncured for a specified period of time or insolvency.

26. Related party disclosures

26.1 Compensation of key management personnel of the Group

The remuneration of key management personnel of the Group is set out below in aggregate:

	Year ended December 31,		
	2020 £'000s	2019 £'000s	2018 £'000s
Short-term benefits	4,479	3,488	3,176
Post-employment benefits	144	64	60
IFRS 2 share-based payment charge	875	1,152	1,470
Total compensation paid to key management personnel	5,498	4,704	4,706

The amounts disclosed in the table above are the amounts recognized as an expense during the reporting period related to key management personnel. In 2020, key management personnel of the Group consisted of executive directors (the Chief Executive Officer and Chief Financial Officer – until July 2020), non-executive directors and other members of senior executive management (the General Counsel, the Chief Portfolio Management and Pipeline Strategy, Chief Business Officer, Chief Scientific Officer, the Chief Patient Access and Commercial Planning and the US Site Head (SVP Regulatory Affairs) – until July 2020).

26.2 Employee Benefit Trust

In 2016 the Company set up an Employee Benefit Trust ("EBT"). The EBT holds ADS's to satisfy the exercise of options under the Company's share-based incentive schemes (Note 24).

No funding was loaned to the EBT by the Company during the year ended December 31, 2020 (2019: £1.0 million). During the year ended December 31, 2020, 7 ordinary shares were purchased by the EBT (2019: 1,074,274). In December 2020, the EBT converted its ordinary shares into 247,456 ADSs which it holds along with £21,762 as of December 31, 2020 and 2019.

27. Events after the reporting period

27.1 Ultragenyx collaboration agreement

On December 17, 2020, the Company announced a license and collaboration agreement with Ultragenyx, for setrusumab, a monoclonal antibody in clinical development for OI. The agreement, which was subject to Hart-Scott-Rodino Antitrust Improvements Act 1976 (HSR) review completed on January, 25, 2021. Under the terms of the collaboration, Ultragenyx will lead future global development of setrusumab in both pediatric and adult patients. The Company granted Ultragenyx an exclusive license to develop and commercialize setrusumab in the U.S. and rest of the world, excluding Europe where the Company will retain commercial rights. Under the terms of the agreement, Ultragenyx made an upfront payment of £36.5 million ($50 million) in January 2021. Ultragenyx will also fund global development of the program until approval, and has agreed to pay a total of up to $254 million in contingent payments upon achievement of certain clinical, regulatory, and commercial milestones. Ultragenyx will pay tiered double-digit percentage royalties to Mereo on net sales outside of Europe and Mereo will pay a fixed double digit percentage royalty to Ultragenyx on net sales in Europe. As the license and collaboration agreement became effective in January 2021, no revenue was recognized in the year ended December 31, 2020.

As a consequence of the license and collaboration agreement with Ultragenyx and in accordance with terms of the agreement with Novartis as set out in Note 25.3, the Company made a payment to Novartis of approximately £7.3 million ($10 million). As the agreement was not effective until January 2021, a provision for this payment was not recognized in the year ended December 31, 2020.

27.2 Public offering of American Depository Shares

On February 12, 2021, the Company announced an underwritten public offering of 39,675,000 American Depositary Shares, at a public offering price of $2.90 per ADS. Each ADS represents five ordinary shares of the Company. The aggregate gross proceeds to the Company from the offering, before deducting underwriting discounts and commissions and offering expenses were $115.1 million. The net proceeds, after transaction costs were £78.3 million ($108.2 million).

as at December 31, 2020 and 2019

	Notes	Year Ended December 31, 2020 £'000s	2019 £'000s Restated
Assets			
Non-current assets			
Property, plant and equipment	6	1,112	1,696
Investments	4	184,469	172,814
		185,581	174,510
Current assets			
Prepayments		1,490	1,557
Other receivables		720	565
Cash and short-term deposits		22,623	4,307
		24,833	6,429
Current liabilities			
Trade and other payables		2,726	5,254
Intercompany payable	5	23,377	16,534
Accruals		3,624	3,414
Interest-bearing loans and borrowings	7	–	15,139
Lease liability		240	697
		29,968	41,038
Net current liabilities		(5,134)	(34,609)
Total assets less current liabilities		180,447	139,901
Non-current liabilities			
Provisions	8	109	104
Interest-bearing loans and borrowings	7	16,142	5,373
Warrant liability	9	50,775	131
Other liabilities		62	44
Lease liability		902	911
		67,990	6,563
Net assets		112,457	133,338
Equity shareholders' funds			
Share capital	10	1,017	294
Share premium	10	161,785	121,684
Other capital reserves	10	128,374	59,147
Other reserves	10	5,001	7,000
Employee Benefit Trust shares	12	(1,305)	(1,305)
Accumulated losses		(182,415)	(53,482)
Total equity shareholders' funds		112,457	133,338

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

The Company has taken advantage of the exemption permitted by Section 408 of the Companies Act 2006 not to present an income statement for the year.

Approved by the Board on April 14, 2021 and signed on its behalf by:

Dr. Denise Scots-Knight
Director
April 16, 2021

Company number: 09481161 (England and Wales)

for the years ended December 31, 2019 and 2020

	Issued capital £'000s	Share premium £'000s	Other capital reserves £'000s	Employee Benefit Trust £'000s	Other reserves £'000s	Accum-ulated losses £'000s	Total equity £'000s
At January 1, 2019	214	118,492	18,593	(307)	7,000	(23,625)	120,367
Loss for the year to December 31, 2019	–	–	–	–	–	(29,857)	(29,857)
Share-based payments – share options	–	–	1,543	–	–	–	1,543
Share-based payments – LTIPs	–	–	93	–	–	–	93
Issue of share capital on April 23, 2019	74	–	40,818	–	–	–	40,892
Transaction costs related to issuance of share capital on April 23, 2019	–	(761)	–	–	–	–	(761)
Issue of share capital on conversion of loan note	3	2,366	–	–	–	–	2,369
Issue of share capital on Novartis bonus shares	3	1,587	(1,590)	–	–	–	–
Equity element of convertible loan note	–	–	(310)	–	–	–	(310)
Purchase of treasury shares	–	–	–	(998)	–	–	(998)
At December 31, 2019	294	121,684	59,147	(1,305)	7,000	(53,482)	133,338
Loss for the year to December 31, 2020 (note 3)	–	–	–	–	–	(128,933)	(128,933)
Share-based payments	–	–	1,558	–	–	–	1,558
Issuance of share capital, net (note 10)	347	18,715	–	–	(2,125)	–	16,937
Issuance of share capital on conversion of loan notes (note 10)	375	21,386	33,104	–	–	–	54,865
Issuance of share capital on conversion of loan notes and warrants	–	–	1,084	–	–	–	1,084
Reclassification of loan notes embedded derivative	–	–	33,481	–	–	–	33,481
Conversion of warrants (note 9)	1	–	–	–	126	–	127
At December 31, 2020	**1,017**	**161,785**	**128,374**	**(1,305)**	**5,001**	**(182,415)**	**112,457**

1. Significant accounting policies

1.1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantages for the FRS 101 disclosure exemptions has been taken.

Under Section 408(4) of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Presentation of a cash flow statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Transactions with wholly owned subsidiaries;
- The effects of new but not yet effective IFRSs;
- The compensation of key management personnel; and
- Required disclosures relating to capital management.

As the consolidated financial statements of Mereo BioPharma Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 (Share-Based Payments) in respect of Group-settled share-based payments;
- Certain disclosures required by IAS 36 (Impairment of Assets);
- Certain disclosures required by IFRS 13 (Fair Value Measurement);
- Certain disclosures required by IFRS 7 (Financial Instruments Disclosures).

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The financial information is presented in pound sterling and all amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand currency units, unless otherwise stated.

1.2 Changes of accounting policies

New standards, interpretations and amendments effective from January 1, 2020.

There were a number of narrow scope amendments to existing standards which were effective from January 1, 2020. None of these had a material impact on the Company.

1.3 Summary of significant accounting policies

The Company's accounting policies are consistent with those described in the consolidated accounts of Mereo BioPharma Group plc, within Note 2 of the consolidated financial statements. Below are accounting policies which are specific to the Company.

a) Intercompany guarantee

The Company accounts for financial guarantees in accordance with IFRS 9 (Financial Instruments).

Financial guarantees given by subsidiaries to the Company are initially measured at fair value. The total cost of such guarantees is charged to the profit and loss account at the time the guarantee is given.

b) Investment in subsidiaries

Investments in subsidiary undertakings are stated at cost less any provision for impairment. Amounts capitalized as investments in subsidiary undertaking are reviewed for impairment at each period end in accordance with IAS 36 (Impairment of Assets).

1.4 Reclassification of comparative balances

The 2019 comparative balances have been reclassified to correctly present the gross balances for investments and intercompany amounts due to group undertakings as at December 31, 2019, as previously an intercompany payable was netted against the additions to investments. This results in an increase of £16.5 million in investments and intercompany payable balances. There is no impact on the loss for the year.

2. Significant accounting judgments, estimates and assumptions

The preparation of the Company accounts requires the management of the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The Company bases its estimates and judgments on historical experience and on various other assumptions that it considers to be reasonable. Actual results may differ from these estimates under different assumptions or conditions.

Share-based compensation

Incentives in the form of shares are provided to employees under a share option plan, long-term incentive plan and deferred bonus share plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The selection of different assumptions could affect the results of the Company.

Impairment of investments in subsidiaries

An assessment was made in respect of indicators of impairment in the carrying value of the Group's investment in subsidiaries as at December 31, 2020. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement. The assessment of intangible assets involves a number of significant judgments regarding the likelihood of successful product approval, the costs of reaching approval, the estimated useful life of intangible assets following commercialization and the subsequent commercial profitability of the product once approved.

3. Loss for the year

The Company's loss for the year was £128.9 million (2019: £29.9 million), which has been included in the Company's profit and loss account.

The Auditor's remuneration for audit and other services is disclosed in Note 6 of the consolidated financial statements.

The average number of employees employed by the Company (including executive Directors) in the year was 30 (2019: 37).

4. Company information

4.1 Investments in subsidiaries

Cost	£'000s
At January 1, 2019	**123,374**
Additions in the year (as restated)	27,354
Share-based payments to Group employees	440
Acquisition of Mereo BioPharma 5, Inc on April 23, 2019	40,892
At December 31, 2019 (as restated)	**192,060**
Additions in the year	12,790
Share-based payments to Group employees	454
At December 31, 2020	**205,304**
Provision for impairment	
At January 1, 2019	**19,246**
Charge during the year	1,589
At December 31, 2020	**20,835**
Net book value	
At December 31, 2020	**184,469**
At December 31, 2019	172,814

The Company grants rights to its own equity instruments to Group employees who are not employees of the Company. For these grants, the Company recognizes in equity the equity-settled share-based payment with a corresponding increase in the investment in the subsidiary in the separate financial statements.

The total amount of impairment loss recorded during the year ended December 31, 2020 was £1.6 million (2019: £19.2 million). The impairment loss was due to the recoverable value of an investment in a subsidiary falling below the carrying amount (held at cost, in accordance with the Company's accounting policies). The recoverable value of the investment was measured based on the value in use and the discount rate used in the calculation of value in use was 12% (2019: 15.3%). Any change in assumptions could result in further impairment loss in the future.

4.2 Information about subsidiaries

The following were subsidiary undertakings at the end of the year and have been included in the consolidated financial statements of the Group:

Name	Principal activities	Country of incorporation	% equity interest December 31, 2020	% equity interest December 31, 2019
Mereo BioPharma 1 Limited	Pharmaceutical R&D	U.K.	100	100
Mereo BioPharma 2 Limited	Pharmaceutical R&D	U.K.	100	100
Mereo BioPharma 3 Limited	Pharmaceutical R&D	U.K.	100	100
Mereo BioPharma 4 Limited	Pharmaceutical R&D	U.K.	100	100
Mereo BioPharma Ireland Limited	Pharmaceutical R&D	Ireland	100	100
Mereo BioPharma 5, Inc	Pharmaceutical R&D	U.S.	100*	100*
Navi Subsidiary, Inc.	Pharmaceutical R&D	U.S.	100*	100*
Mereo US Holdings Inc.	Holding company	U.S.	100	100
Employee Benefit Trust	Employee share scheme	Jersey	–	–

The registered office of Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited, Mereo BioPharma 3 Limited and Mereo BioPharma 4 Limited is located at Fourth Floor, 1 Cavendish Place, London W1G 0QF. The registered office of Mereo BioPharma Ireland Limited is Rocktwist House, Block 1, Western Business Park, Shannon, County Clare, V14 FW97, Republic of Ireland.

Mereo US Holdings Inc. was incorporated on December 3, 2018 for the sole purpose of effecting the business combination with Mereo BioPharma 5, Inc. (formerly OncoMed Pharmaceuticals, Inc.) on April 23, 2019. The registered office of Mereo US Holdings Inc., Mereo BioPharma 5, Inc. and its wholly owned subsidiary, Navi Subsidiary, Inc., is 251 Little Falls Drive, City of Wilmington, County of New Castle, Delaware 19808, US.

A capital contribution of £13.2 million (2019: £27.8 million) by Mereo BioPharma Group plc to its subsidiaries was recorded in the year to December 31, 2020. £0.5 million (2019: £0.4 million) has been recorded for the granting of employees' share options for services rendered by the employees to the subsidiaries. £12.8 million (2019: £27.4 million) has been recorded for the conversion of intercompany balances at original cost.

As at December 31, 2020, a total capital contribution of £4.5 million (2019: £4.0 million) by Mereo BioPharma Group plc to its subsidiaries has been recorded for the granting of employees' share options for services rendered by the employees to the subsidiaries.

As at December 31, 2020, a total capital contribution of £160.0 million (2019: £147.2 million) by Mereo BioPharma Group plc to its subsidiaries has been recorded for the conversion of intercompany balances at original cost.

5. Amounts owed by and to Group undertakings

On January 1, 2018 Mereo BioPharma Group plc resolved to capitalize the intercompany loans and all outstanding intercompany receivables at that date.

As at December 31, 2020, amounts owed by the Company to Group undertakings is £23.4 million (2019: £16.5 million, as restated). These amounts are repayable on demand and non-interest bearing.

6. Property, plant and equipment

As at December 31, 2020, the net book value of right-of-use assets is £1.0 million (of which £0.9 million relates to a building and £0.1 million relates to scanning equipment).

7. Interest-bearing loans and borrowings

The Group's interest-bearing loans and borrowings all reside in the Company. Details on the interest-bearing loans and borrowings of the Company are provided in Note 18 of the consolidated financial statements.

8. Provisions

Social security contributions on share options	Year ended December 31, 2020 £'000s	2019 £'000s
At beginning of year	104	842
Arising during the year	5	–
Released	–	(738)
At December 31	109	104
Current	–	–
Non-current	109	104

The provision for social security contributions on share options is calculated based on the number of options outstanding at the reporting date that are expected to be exercised. The provision is based on the estimated gain arising on exercise of the share options, using the best estimate of the market price at the balance sheet date. Since the Directors assume the options will be held for their full contractual life of ten years (see Note 24 of the consolidated financial statements) the liability has been classified as non-current. The provision has been discounted.

9. Warrant liability

The Group's warrant liability resides in the Company. Details on the warrant liability of the Company are provided in Note 20 of the consolidated financial statements.

10. Share capital, share premium and other reserves

The Group's share capital all resides in the Company. Details on the share capital of the Company are provided in Note 16 of the consolidated financial statements.

11. Share-based payments

The charge for share-based payments under IFRS 2 arises across the following schemes:

	Year ended December 31, 2020 £'000s	2019 £'000s
2015 Plan	2	85
Mereo BioPharma Group plc Share Option Plan	237	518
Long Term Incentive Plan	77	87
2019 Equity Incentive Plan	625	347
2019 NED Equity Incentive Plan	163	160
	1,104	1,197

Details on the share-based payments of the Company, including deferred equity consideration, are provided in Note 24 of the consolidated financial statements.

12. Related party disclosures

Details on related parties are provided in Note 26 of the consolidated financial statements.

13.Events after the reporting period

Details on events after the reporting period are provided in Note 27 of the consolidated financial statements.