Company Number 09481161

MEREO BIOPHARMA GROUP PLC

Annual Report and Accounts
Year ended December 31, 2022

MEREO BIOPHARMA GROUP PLC

CONTENTS

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Introduction

Mereo BioPharma Group plc (the "Company", "Mereo" or "Parent Company") is a public limited company incorporated under the laws of England and Wales and is listed on the Nasdaq Global Market ("NASDAQ"). The Company is a "quoted company" for the purposes of the Companies Act 2006 (the "Companies Act").

The Directors present their strategic report together with the directors' remuneration report, directors' report, audited consolidated financial statements of Mereo BioPharma Group plc and its subsidiaries (collectively, the "Group"), audited company financial statements and auditors' report for the year ended December 31, 2022. The Company has also filed with the U.S. Securities and Exchange Commission (the "SEC") its Annual Report on Form 20-F for the year ended December 31, 2022, which contains additional disclosures regarding some of the matters discussed in this report.

Business overview and strategy

We are a biopharmaceutical company focused on the development of innovative therapeutics for rare diseases. We have developed a robust portfolio of clinical stage product candidates. Our two rare disease product candidates are setrusumab for the treatment of osteogenesis imperfecta (OI) and alvelestat for the treatment of severe alpha-1-anti-trypsin deficiency- associated lung disease (AATD-LD) and Bronchiolitis Obliterans Syndrome (BOS) following allogenic stem cell transplant.

Following the announcement of the results for setrusumab in a Phase 2b study in adults with OI which demonstrated a dose dependent statistically significant increase in bone mineral density and bone strength, we announced a strategic partnership with Ultragenyx in December 2020 for the development of setrusumab in children and adults with OI. Ultragenyx initiated a pivotal, Phase 2/3 pediatric and young adult study (5-25 years old) in the first half of 2022, with the Phase 3 transition expected in mid-2023. Ultragenyx also intends to initiate a study of pediatric patients under age five with OI in the first half of 2023.

We announced successful completion of a Phase 2, dose-finding study for alvelestat in AATD-LD in May 2022 which demonstrated statistically significant changes in Neutrophil Elastase (NE) activity and biomarkers of disease severity at different time points up to 12 weeks. Further, in October 2022 we announced that Fast Track designation was granted by the U.S. Food and Drug Administration (FDA) for alvelestat in AATD-LD, along with additional program updates. In March 2023, we announced the outcome of the end-of-Phase 2 discussions with the FDA and the EMA (Scientific Advice) and based on clear recommendations from both Agencies, we are designing a single, global, Phase 3 study evaluating the 240 mg dose of alvelestat versus placebo in patients with AATD-LD to support applications for full marketing approvals in both the U.S. and EU. Alvelestat is also in an ongoing Phase 2 investigator-led study in AATD, including in patients who may be on augmentation therapy. This study has enrolled 60 patients with data expected in mid 2023. Following successful completion of a Phase 1b investigator-sponsored study in patients with BOS following allogenic stem cell transplant, a Phase 2 study was initiated in the second half of 2022.

Our oncology product candidate, etigilimab (an anti-TIGIT antibody), 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 have completed Simon Stage 1 of the open label Phase1b/2 basket study (the ACTIVATE study) evaluating etigilimab in combination with nivolumab in three rare tumors, two specific subtypes of soft-tissue sarcomas, uveal melanoma and testicular germ cell cancer, three gynecological carcinomas, cervical, ovarian and endometrial carcinomas, and any solid tumor with high mutation burden, all in the recurrent/metastatic setting. Etigilimab, in combination with nivolumab, is also in an ongoing investigator-led Phase 1b/2 study in clear cell ovarian cancer at The University of Texas MD Anderson Cancer Center, financed by the Cancer Focus Fund.

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

Our second oncology product, navicixizumab for the treatment of late line ovarian cancer, has completed a Phase 1b study and was partnered in January 2020 for further development with 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 male infertility, recognizing the need for greater resources to take these product candidates to market.

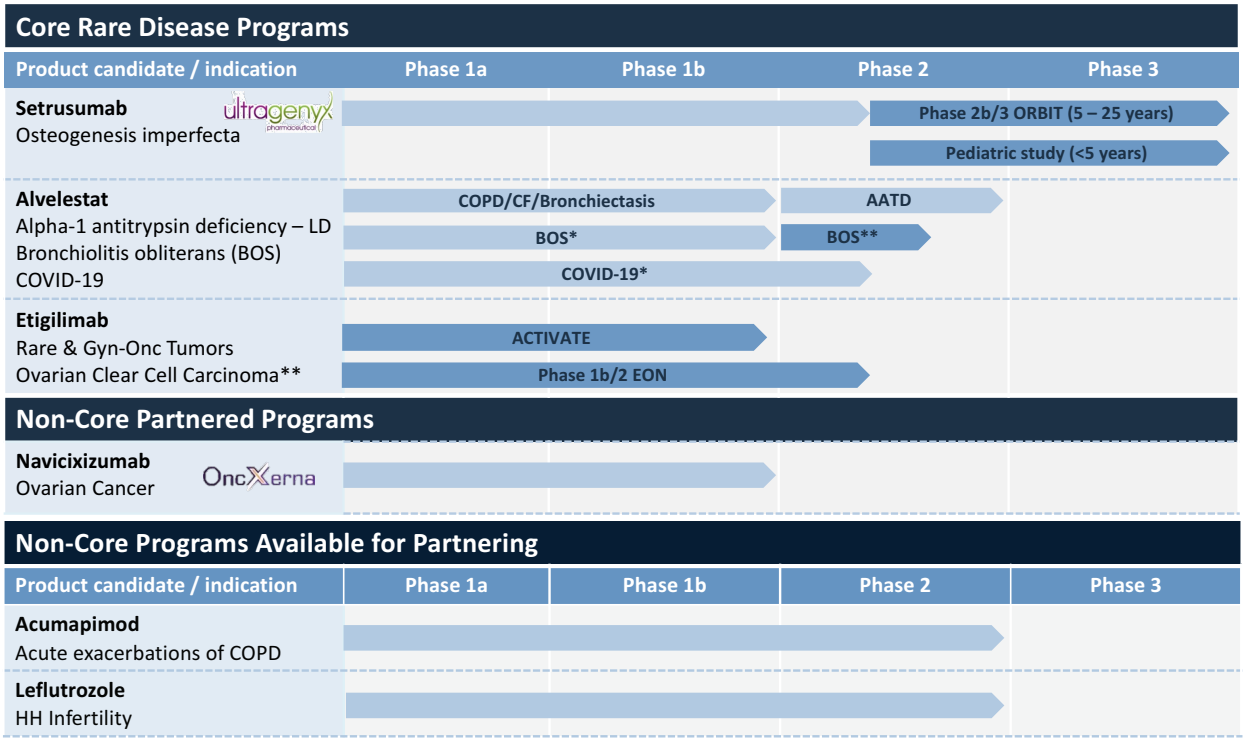
Our strategy is selectively to acquire and develop product candidates for rare diseases that have already received significant investment from large pharmaceutical and biotechnology companies and that have substantial pre-clinical, clinical and manufacturing data packages. Since our formation in March 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. 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.

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 product candidates. We have global commercial rights to alvelestat, etigilimab, acumapimod and leflutrozole and commercial rights to setrusumab in Europe and the U.K. We granted Ultragenyx an exclusive license to develop and commercialize setrusumab in the U.S. and rest of the world, and we have licensed global rights for navicixizumab to OncXerna.



** Investigator-led studies in collaboration with University of Alabama in Birmingham & National Cancer Institute;*
*** Investigator-led study conducted at The University of Texas MD Anderson Cancer Center, financed by the Cancer Focus Fund*

Core Rare Disease Product Candidates

Setrusumab (BPS-804/UX143): 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. The data was also presented, as a podium presentation, at the American Society of Bone and Mineral Research ("ASBMR") in October 2021.

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 U.K. 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 U.K. and we will pay a fixed double digit percentage royalty to Ultragenyx on net sales in Europe and the U.K. Under the terms of our 2015 agreement with Novartis, we will pay Novartis a percentage of proceeds, subject to certain deductions, with Mereo receiving a substantial majority of the payments from Ultragenyx.

Ultragenyx initiated a pivotal Phase 2/3 study in pediatric and young adult patients (5-25 years old) in the first half of 2022 and plans to transition to the Phase 3 part of the study in mid-2023. The objective of the Phase 2/3 study will first focus on determining the optimal dose based on increases in collagen production using serum P1NP levels and an acceptable safety profile. Following determination of the dose, Ultragenyx currently intend to adapt the study into a pivotal Phase 3 stage, evaluating fracture reduction over an estimated 15 to 24 months as the primary endpoint, subject to regulatory review. In the first half of 2023, Ultragenyx initiated a randomized study in OI in children under five with serious bone disease, comparing bisphosphonates to BPS804/UX143. Younger pediatric patients with OI often have a much higher fracture rate than other age groups and a greater medical need, driving clinical urgency for better treatment options. Annualized rate of fractures is the primary end-point in the study.

Alvelestat (MPH-966): Alvelestat is a novel, oral small molecule we are developing for the treatment of severe AATD-associated Lung Disease (AATD-LD) and BOS. AATD is 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, although due to underdiagnosis, there are estimated to be approximately 10,000 patients diagnosed in North America.

BOS is a progressive, ultimately fatal fibrotic lung disease due to graft versus host disease following stem cell transplant, or lung transplant rejection. An estimated fifty percent of lung transplant recipients will develop BOS by five years post-transplant, with an average survival of less than five years. There are an estimated 10,000 people living with lung transplant and BOS in the US and Europe. 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-LD from further lung damage. BOS is characterized by anti-organ auto-immune responses, either graft versus host (in SCT) or host versus graft (in lung transplant), exacerbated by elevated neutrophils in the lung and excess NE activity, leading to lung damage through elastin breakdown in the tissue and progressive fibrosis, and ultimately respiratory failure. By inhibiting NE, alvelestat will reduce the accelerating effects of NE-driven inflammation on BOS.

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 1,149 subjects treated with alvelestat.

We announced successful completion of a Phase 2, placebo-controlled, dose-ranging, proof-of-concept clinical trial in 99 patients with AATD-LD in the United States and the EU in May 2022 which demonstrated statistically significant changes in Neutrophil Elastase (NE) activity and biomarkers of disease severity at different time points up to 12 weeks. We subsequently announced additional Phase 2 data from this study in October 2022 demonstrating the association of biomarker responders in alvelestat-treated patients to improvement in the activity domain of the St George's Respiratory Questionnaire, but not in patients treated with placebo. No new safety signals were detected in patients with AATD-LD. The most frequent adverse event was of headache which was more frequently observed at the higher doses of alvelestat (120 mg and 240 mg) used in AATD-LD than was observed at lower doses used previous studies in COPD, bronchiectasis and cystic fibrosis, There was evidence of tolerance to headache being induced, and we intend to use a dose-escalation regime for initiation of treatment in future trials. A single treatment-emergent adverse event (TEAE) of liver function abnormality (raised hepatic transaminases, withour meeting Hy's Law) and one TEAE of prolonged QTc, in which study-drug stopping criteria were met were reported in the Phase 2. Both events fully resolved on study drug cessation. We obtained Fast Track designation for alvelestat for AATD-LD in the U.S. in October 2022. In March 2023, we announced the outcome of the end-of-Phase 2 discussions with the FDA and the EMA. Based on clear recommendations from both Agencies, we are designing a single, global, Phase 3 study evaluating the 240 mg dose of alvelestat versus placebo in patients with AATD-LD to support applications for full marketing approvals in both the U.S. and EU. The proposed Phase 3 study has two independent primary endpoints, i) a Patient-Reported Outcome (PRO), as guided by the FDA, and ii) lung density measured by CT scan, as guided by the EMA.

Alvelestat is also in an ongoing Phase 2 investigator-led study in AATD-LD, including in patients who may be on augmentation therapy, with data expected in the third quarter of 2023.

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 a study in this disease. The top-line results were reported in December 2021. The results demonstrated a safety profile consistent with previous studies, and in the alvelestat arm, a reduction (an improvement) of 2 points or more in the World Health Organization (WHO) Severity Score in 62.5% (5/9) of the patients versus 28.5% (2/7) in the placebo arm at day 5. At day 7 87.5% (7/8) patients in the alvelestat arm had improved by 2 points or more vs 57% (4/7) in the placebo arm. Inflammatory and pro-coagulopathy biomarkers were also supportive.

An open-label Phase 1b/2 investigator-sponsored study in BOS following allogeneic stem cell transplant is ongoing. Interim results of Phase 1b were reported in December 2021 showing stabilization or improvement in lung function measured by Forced Expiratory Volume in 1 second, (FEV1) in 6 of 7 patients, and supportive biomarker responses, with reduction in neutrophil elastase and the mature elastin breakdown product (desmosine) and reductions in markers of collagen synthesis associated with fibrosis. Evaluation of the clinical and safety data from 10 patients in Phase 1 supported the dose to be progressed and expansion into the Phase 2 portion of the study was initiated in the second half of 2022.

Etigilimab (MPH-313): 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. We 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, ovarian 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 were no treatment-related serious adverse events in the Phase 1a portion and there was only one treatment- related serious adverse event (autoimmune hepatitis) in the Phase 1b portion of the study. The Phase 1b study has now been completed.

The ACTIVATE open label Phase 1b/2 basket study of Etigilimab in combination with nivolumab in multiple tumor types enrolled 76 patients and has completed Simon Stage 1of the study. Parallel cohorts in the study have focused on three rare tumors, two subtypes of soft-tissue sarcomas, uveal melanoma and testicular germ cell cancer, three gynecological carcinomas, cervical, ovarian and endometrial carcinomas and any solid tumor with high mutation burden, all in the recurrent/metastatic setting.

We enrolled a total of 76 patients in the Phase 1b part of the study. The trial is evaluating objective response rate as a primary endpoint and will also evaluate safety, duration of response, pharmacokinetics, anti-drug antibodies, progression-free survival and additional secondary and exploratory endpoints. The study was designed to expand select cohorts of patients, based on outcomes, to further evaluate responses to etigilimab and anti-PD1. Biomarker analyses will be conducted on tumor tissues and blood samples from treated patients, including quantification of levels of tumor- associated TIGIT, PVR and related biomarkers to evaluate their potential utility for selecting patients most likely to respond to the combination of etigilimab and anti-PD1.

We reported an interim clinical and biomarker data update on this study in September 2022. At the time of the data cut-off, there were 63 efficacy-evaluable checkpoint inhibitor-naïve (CPI-naive) subjects with a minimum of 1 staging scan at 8 (+/-1) weeks and RECIST 1.1 response assessment or documented clinical progression.

We have completed enrollment in an open label Phase1b/2 basket study (the ACTIVATE study) evaluating etigilimab in combination with nivolumab on three rare tumors, two specific subtypes of soft-tissue sarcomas, uveal melanoma and testicular germ cell cancer, three gynecological carcinomas, cervical, endometrial and ovarian carcinomas and any solid tumor with high mutation burden, all in the recurrent/metastatic setting. These indications were selected based on observations of clinical activity in our prior Phase 1a/1b study and/or based on a comprehensive biomarker analysis of solid tumors which revealed tumor types with a high prevalence of expression of TIGIT and its principal ligand poliovirus receptor (PVR) and concordant expression of TIGIT and PD1. The selected tumor types have shown responsiveness to anti-PD1 therapies with response rates generally ranging from 5-20%. The combination of etigilimab and anti-PD1 may lead to improved responses in these patients.

In April 2021, the Company entered into partnership with Cancer Focus Fund for a Phase 1b/2 study of etigilimab in Clear Cell Ovarian Cancer to be conducted at The University of Texas MD Anderson Cancer Center. The Phase 1b/2 study is being financed by Cancer Focus Fund in exchange for upfront consideration of $1.5 million of the Company's shares and additional payments based on the achievement of certain milestones. Clear cell ovarian cancer is a rare cancer that accounts for approximately 5 to 10% of all ovarian

carcinomas in North America. MD Anderson are planning to follow the per protocol procedure to expand the Phase 1b/2 study from an initial 10 patients to 20 patients in the Phase 2 portion of the study.

Our Non-Core Partnered Programs

Following completion of successful Phase 1b or Phase 2 studies the products below are programs which we have successfully partnered.

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 the potential for accelerated approval was discussed. Navicixizumab has also been granted Fast Track designation by the FDA. In January 2020, Navi was licensed by the Company 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 the Merger, April 23, 2024, 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. See "—Material Agreements—CVR Agreement Between Us and Computershare—The NAVI Milestones."

Our Non-Core Programs Available for Partnering

Following completion of successful Phase 1 or Phase 2 studies the products below are programs which we intend to out-license or sell.

Acumapimod (BCT-197): Acumapimod is a p38 MAP kinase inhibitor therapy for treatment during severe acute exacerbations of COPD (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 explore out-licensing or sale opportunities with third parties for the further development of acumapimod.

Leflutrozole (BGS-649): Leflutrozole is an oral inhibitor of aromatase for the treatment of male infertility associated with HH. 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 associated with HH. We intend to explore out-licensing or sale opportunities with third parties for the further development of leflutrozole.

Our Strategy

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

- **Rapidly develop our product candidates and potentially commercialize our rare disease product candidates.**

  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 were followed for a further twelve months to examine the off-effects of setrusumab. 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. Ultragenyx initiated a pivotal Phase 2/3 study in young adults and pediatric patients (5-25 years old) in the first half of 2022 and expects to provide an update on the Phase 2 dose ranging part of this study in mid-2023, when the trial will transition into Phase 3. Following selection of the dose for the Phase 3 study, Ultragenyx intend to initiate an additional registrational trial in young pediatric patients (<5 years old) in the first half of 2023.

We reported successful top-line data from a Phase 2 proof-of-concept clinical trial of alvelestat for the treatment of severe AATD-LD in May 2022 and provided an additional data update in October 2022. We received regulatory feedback on the design of a single, global, pivotal registrational trial for alvelestat in AATD-LD for full approval in Q1 2023 and will now determine the optimum path forward for development of alvelestat towards approval and commercialization, including potential partnering. We also announced the completion and top-line data 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. The investigator-led Phase 1b/2 study in BOS following SCT has completed the Phase 1b stage (10 patients) and commenced the Phase 2 portion of the study in the second half of 2022 to evaluate clinical efficacy on lung function (FEV1) in a 6-month study in up to an additional 24 patients, with expansion for responders to 12 months.

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 have also completed enrollment in an open label Phase 1b/2 basket study evaluating our anti-TIGIT in combination with nivolumab in a range of tumor types including three rare tumors, sarcoma, uveal melanoma and germ cell cancer, three gynecological carcinomas, cervical, endometrial and ovarian carcinomas and tumors with high mutation burden. We enrolled a total of 76 patients in the Phase 1b part of the study and we reported an interim clinical and biomarker data update on this study in September 2022.

- **Efficiently advance our other product candidates and explore out-licensing or sale opportunities with third parties for further clinical development and/or commercialization.** 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. 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 out-licensing or sale opportunities with third parties for the further development and commercialization of leflutrozole.
- **Continue to be a partner of choice for pharmaceutical and biotechnology companies.** We believe that we are a preferred partner for 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, 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 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 rare diseases.

Financial review

The following table sets forth Mereo's results of operations for the years ended December 31, 2022 and 2021.

	Year ended December 31		Change	
	2022	2021		%
	£'000s	£'000s	£'000s	%
Revenue	—	36,464	(36,464)	(100)%
Cost of revenue	936	(17,908)	18,844	(105)%
Research and development expenses	(24,962)	(23,559)	(1,403)	6%
Administrative expenses	(19,543)	(15,933)	(3,610)	23%
Operating loss	(43,569)	(20,936)	(22,633)	108%
Finance income	696	1	695	*
Finance costs	(3,361)	(4,022)	661	(16)%
Changes in fair value of financial instruments	7,805	40,039	(32,234)	(81)%
Gain/(loss) on disposal of intangible assets	—	113	(113)	(100)%
Net foreign exchange gain/(loss)	1,525	(954)	2,479	*
Other income and expenses	811	—	811	*
(Loss)/profit before tax	(36,093)	14,241	(50,334)	*
Taxation	1,897	(1,516)	3,413	*
(Loss)/profit attributable to equity holders of the parent	(34,196)	12,725	(46,921)	*
Currency translation of foreign operations	(1,828)	(191)	(1,637)	*
Total comprehensive (loss)/income attributable to equity holders of the parent	(36,024)	12,534	(48,558)	*

Comparison of Years Ended December 31, 2022 and 2021

Revenue

Revenue was nil for the year ended December 31, 2022 compared to £36.5 million for the year ended December 31, 2021.

In January 2021, the Company's licensing and collaboration agreement with Ultragenyx for the development and commercialization of setrusumab for OI became effective. Under the terms of the agreement, 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 U.K. where we retain commercial rights. Each party will be responsible for post-marketing commitments in their respective territories.

Ultragenyx made an upfront payment of £36.5 million ($50 million) to Mereo in January 2021 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 U.K. and we will pay a fixed double digit percentage royalty to Ultragenyx on net sales in Europe and the U.K.

Cost of revenue

Cost of revenue for the year ended December 31, 2022 was a credit of £0.9 million compared to £17.9 million of expense for the year ended December 31, 2021.

In 2021, cost of revenue was comprised of £9.5 million, representing the carrying value of the setrusumab rights granted to Ultragenyx under the licensing and collaboration agreement, and £8.4 million in relation to our 2015 agreement with Novartis, under which the Company pays a percentage of proceeds, subject to certain exceptions. Under the terms of this agreement, we made a payment of £7.2 million to Novartis for the year-ended December 31, 2021. The payment included a deduction for costs of £2.4 million which was deferred to be recognized in the statement of comprehensive income when the associated costs are incurred. For the year ended December 31, 2022, £0.9 million of these deductions were recognized in cost of revenue compared to £1.1 million for the year ended December 31, 2021.

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, 2022 and 2021.

	Year ended December 31		Change	
	2022	2021		
	£'000s	£'000s	£'000s	%
Setrusumab (BPS-804/UX143)	3,356	3,597	(241)	(7)%
Alvelestat (MPH-966)	5,430	5,303	127	2%
Etigilimab (MPH-313)	15,802	13,499	2,303	17%
Leflutrozole (BGS-649)	58	157	(99)	(63)%
Acumapimod (BCT-197)	50	94	(44)	(47)%
Navicixizumab ("Navi")	—	15	(15)	(100)%
Other	1	63	(62)	(98)%
Unallocated costs	265	831	(566)	(68)%
Total R&D expenses	24,962	23,559	1,403	6%

Total R&D expenses increased by £1.4 million, or 6%, from £23.6 million in 2021 to £25.0 million in 2022.

R&D expenses relating to etigilimab increased by £2.3 million. The increase was due to the costs associated with additional patients and the duration of treatment for patients responding to therapy in 2022 compared to 2021 in the open label Phase 1b/2 basket study in combination with an anti-PD-1 in a range of tumor types. R&D expenses relating to alvelestat increased £0.1 million, or 2%, primarily reflecting the end of study related costs for the Phase 2 proof-of-concept study in AATD. Partially offsetting the increases, R&D expenses relating to setrusumab decreased by £0.2 million, or 7%. Setrusumab R&D expenditure in 2022 comprised activities associated with laying the groundwork for price reimbursement in Europe, and input into development, regulatory and manufacturing plans with our partner, Ultragenyx, as the global development of the program is funded by Ultragenyx pursuant to our licensing and collaboration agreement.

Administrative expenses

Administrative expenses increased by £3.6 million, or 23%, from £15.9 million in 2021 to £19.5 million in 2022.

The increase was primarily driven by additional costs incurred in connection with the Schedule 13D filings and subsequent Cooperation Agreement with Rubric Capital, and increased share-based payment expenses, partially offset by a reduction in other professional fees.

Finance income and costs

Total finance costs decreased from £4.0 million in 2021 to £3.4 million in 2022. The decrease is primarily related to a reduction in the interest on the June 2020 Private Placement convertible loan notes of £0.9 million following conversion of certain loan notes in 2022. Finance income increased by £0.7 million from nil to £0.7 million as a result of interest income on short-term deposits.

Changes in fair value of financial instruments

The total change in fair value of financial instruments for 2022 was a gain of £7.8 million, a decrease of £32.2 million compared to a gain of £40.0 million in 2021. The gain resulted from a £7.6 million (2021: £39.5 million) unrealized gain on Warrants in respect of the June 2020 Private Placement and a £0.2 million (2021: £0.5 million) unrealized gain on warrants issued to our former lenders in connection with the loan facility. The unrealized gain in the warrant instruments in both 2022 and 2021 primarily resulted from a decline in the market price of our ADSs as of December 31, 2022 compared to December 31, 2021, and as of December 31, 2021 compared to December 31, 2020.

Net foreign exchange gain/(loss)

The net foreign exchange gain for 2022 was £1.5 million compared to a loss of £1.0 million in 2021, a change of £2.5 million. The net foreign exchange gain is primarily related to the translation of non-functional currency balances, primarily denominated in U.S. dollars.

Taxation

The income tax benefit for 2022 was £1.9 million. 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") and and income taxes paid in the prior year for which a carryback claim has been made to offset against taxable income in the

prior year. The income tax charge for 2021 was £1.5 million. The income tax charge arises primarily from a £40.0 million unrealized gain resulting from changes in the fair value of warrant instruments.

Currency translation of foreign operations

The currency translation of foreign operations for the year ended December 31, 2022 was £1.8 million compared to £0.2 million for the year ended December 31, 2021. The £1.6 million change is primarily related to the devaluation of the pound sterling to the U.S. dollar in the 2022 compared to 2021.

Liquidity and Capital Resources

Overview

In the first half of 2022, we conducted a comprehensive strategic review of our portfolio and capital allocation strategy. This review included a detailed evaluation of current market conditions, the status of our three ongoing programs, an analysis of recent emerging clinical data, our overall cost base and contractual commitments, consideration of obligations in our existing partnership agreements, and feedback from potential new partners and shareholders. In the fourth quarter of 2022 we provided an update to our operating plan, which included a targeted reduction in the employee base of up to 40% and a significant reduction in other costs. Our updated plan maintains the ability to progress our core programs, deliver on multiple near-term milestones and optimize value for shareholders. We will retain the core capabilities and key personnel needed to advance our two core rare disease programs, setrusumab and alvelestat, and to generate value from our assets. The updated plan extends our cash runway into 2026.

Under the current business plan and cash flow forecasts, and in consideration of our ongoing research and development efforts and our general corporate funding requirements, we anticipate that our current on-hand cash resources will extend into 2026. However, we will need additional external funding to complete our development plans and potentially commercialize selected rare disease products. We plan to fund our operations through cash on hand and a combination of non-dilutive funding sources, public or private equity or debt financings or other sources.

We do not currently have any approved product candidates and as a result, have not generated any revenue from product sales. As a result, to date, we have financed our operations primarily through the issuances of our equity securities, convertible debt and warrants. Through these offerings, we raised $183 million (£137.9 million) We also received an upfront payment of $50 million under the license and collaboration agreement with Ultragenyx for setrusumab in 2021.

Cash Flows

Comparison of Years Ended December 31, 2022 and 2021

The table below summarizes our cash flows (used in) from operating, investing and financing activities for the years ended December 31, 2022 and 2021.

	Year Ended December 31,	
	2022	2021
	£'000s	£'000s
Net cash used in operating activities	(38,820)	(5,239)
Net cash from/(used) in investing activities	1,497	(421)
Net cash (used in)/from financing activities	(784)	77,652
Net (decrease)/increase in cash and cash equivalents	(38,107)	71,992

Operating Activities

Net cash used in operating activities for the year ended December 31, 2022 was £38.8 million, an increase of £33.6 million from £5.2 million in 2021. The increase was primarily driven by the receipt of upfront payments from Ultragenyx of £36.5 million, offset by associated payments to Novartis of £7.2 million in 2021. Further, in 2021, we received R&D tax credits from the U.K. tax authorities of £2.8 million compared to a tax payment of £1.5 million in 2022. In 2021, these operating cash inflows primarily offset the operating expenditures of the Company, whereas in 2022, similar cash inflows did not occur.

Investing Activities

Net cash from investing activities for the year ended December 31, 2022 was £1.5 million, an increase from a cash outflow of £0.4 million in 2021. The increase was primarily driven by interest earned on short term deposits of £0.7 million and milestone receipt of £1.5 million from OncXerna following the global licensing arrangement for navicixizumab, offset by payments to CVR holders of £0.7 million.

Financing Activities

Net cash used in financing activities for the year ended December 31, 2022 was £0.8 million, a decrease of £78.4 million, compared to cash inflow of £77.7 million in 2021. The decrease is primarily attributable to £78.4 million net proceeds from the Public Offering in February 2021.

Financial outlook

We expect that our existing cash and short-term deposits will enable us to fund our currently committed clinical trials and operating expenses and capital expenditure requirements into 2026.

Principal risks and uncertainties

The risks described below are those that we currently believe may materially affect us. We may face additional risks and uncertainties not currently known to us or that we currently deem to be immaterial.

- We have a limited operating history and have never generated any revenue from product sales.
- We will need additional funding to complete the development of our current product candidates; to license, acquire, and develop future product candidates; and to commercialize our product candidates, if approved. If we are unable to raise capital when needed, we could be forced to delay, reduce, or eliminate research and development programs, any future commercialization efforts or acquisitions of potential product candidates.
- We depend heavily on the success of setrusumab, alvelestat and etigilimab. We cannot give any assurance that any of these product candidates or therapeutic candidates will receive regulatory approval, which is necessary before they can be commercialized. If we are unable to commercialize setrusumab, alvelestat and etigilimab, whether on our own or through agreements with third parties, or experience significant delays in doing so, our ability to generate revenue and our financial condition will be adversely affected.
- The COVID-19 pandemic impacted and may continue to impact our business or any other similar pandemic may materially impact our business, including, delays to enrollment of patients in clinical trials for our product candidates, delays in engagement with or responses from regulatory authorities, delays to clinical trial supplies, planned clinical developments and our ongoing or future clinical studies.
- We depend on enrollment of patients in our clinical trials for our product candidates. If we are unable to enroll patients in our clinical trials, or enrollment is slower than anticipated, in particular for our product candidates with rare disease indications, our research and development efforts could be adversely affected.
- We may become exposed to costly and damaging liability claims, either when testing our product candidates in the clinic or at the commercial stage, and our product liability insurance may not cover all damages from such claims.
- Enacted and future healthcare legislation may increase the difficulty and cost for us to obtain marketing approval of and commercialize our product candidates and may affect the prices we may set.
- 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.
- We intend to directly commercialize or co-commercialize our product candidates for rare diseases and to out- license or sell our other product candidates for further development and/or commercialization. If we are unable to develop our own sales, marketing, and distribution capabilities or enter into business arrangements, we may not be successful in commercializing our product candidates.
- The successful commercialization of our product candidates will depend in part on the extent to which governmental authorities and health insurers establish adequate coverage, reimbursement levels, and pricing policies. Failure to obtain or maintain coverage and adequate reimbursement for our product

candidates, if approved, could limit our ability to market those product candidates and decrease our ability to generate revenue.

- Our existing and future product candidates may not gain market acceptance, in which case our ability to generate revenues from product sales will be compromised.
- We rely, and expect to continue to rely, on our partners to develop and commercialize our licensed or partnered product candidates. If our partners do not secure adequate funding or satisfy their obligations under our agreements with them, or if they terminate our licenses, partnerships or collaborations with them, we may not be able to develop or commercialize our licensed or partnered product candidates as planned.
- We rely, and expect to continue to rely, on third parties, including independent investigators and CROs, to conduct our clinical trials. If these CROs do not successfully carry out their contractual duties or meet expected deadlines, we may not be able to obtain regulatory approval for or commercialize our product candidates, or such approval or commercialization may be delayed, and our business could be substantially harmed.
- We currently rely on third-party CMOs for the production of clinical supply of our product candidates and intend to rely on CMOs for the production of commercial supply of our product candidates, if approved. Our dependence on CMOs may impair the development of our product candidates and may impair the commercialization of our product candidates, which would adversely impact our business and financial position.
- We rely on patents and other intellectual property rights to protect our product candidates, the obtainment, enforcement, defense and maintenance of which may be challenging and costly. Failure to enforce or protect these rights adequately could harm our ability to compete and impair our business.
- We may become subject to third parties' claims alleging infringement of third-party patents and proprietary rights, or we may be involved in lawsuits to protect or enforce our patents and other proprietary rights, which could be costly and time consuming, delay or prevent the development and commercialization of our product candidates, or put our patents and other proprietary rights at risk.
- Our business and operations may suffer, and proprietary information may be lost, in the event of information technology system failures, cyberattacks or deficiencies in our cybersecurity.
- Our future growth and ability to compete depends on retaining our key personnel and recruiting additional qualified personnel.
- We may not satisfy Nasdaq's requirements for continued listing. If we cannot satisfy these requirements, Nasdaq could delist our ADSs, which could have an adverse impact on the liquidity and market price of our ADSs.
- Failure to establish and maintain effective internal controls could have a material adverse effect on our business and stock price.

Risk Mitigations

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 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. We set out below the key risk mitigations by area:

Clinical development and manufacturing: 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. The Group also has an experienced in-house team that is working with a number of specialist manufacturers in respect of its drug manufacturing capabilities.

Commercialization: For our rare disease programs, we engage with regulators, health technology assessment ("HTA") bodies, treating physicians and patient representative organizations at all stages of our development. 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 centers of expertise are

part of our development work on an ongoing basis and we also consult regularly with the patient representative organizations 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 setrusumab, alvelestat and etigilimab on an ongoing basis.

Regulatory: We have an experienced in-house team who works 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.

Compliance with laws and regulations: 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 or 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.

Intellectual Property: We have an experienced Head of IP employed by the Company since 2015 and, in addition, we utilize expert external counsel in the prosecution and maintenance of our global IP portfolio.

Funding: As at December 31, 2022 the Group had total cash resources (being cash and short-term deposits) of £56.3 million. The Directors have prepared detailed quarterly cashflow forecasts through December 31, 2025. These forecasts indicate that the Group has a total cash runway into 2026 and will have sufficient funds to meet its liabilities as they fall due for at least the next 12 months.

Key Performance Indicators

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 in the "Financial review" section of the Strategic Report.

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;
- Business development including partnering, out-licensing and in-licensing activities; and
- The development and prosecution of our patent portfolio.

These activities are discussed in the "Business overview and strategy" section of the Strategic Report.

Information about the Company's 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 specialty 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.

As part of our comprehensive strategic review of our portfolio and capital allocation strategy conducted during the year, in the fourth quarter of 2022 we provided an update to our operating plan, which included a targeted reduction in the employee base of up to 40% and a significant reduction in other costs. Our updated plan maintains the ability to progress our core programs, deliver on multiple near-term milestones and optimize value for shareholders. We will retain the core capabilities and key personnel needed to advance our two core rare disease programs, setrusumab and alvelestat, and to generate value from our assets. These actions, although difficult given the impact on our employees, were designed to allow the Group to reduce its cost base and maintain a sustainable company for the long-term benefit of all stakeholders.

Our internal expertise is leveraged with external organizations, including contract research organizations ("CROs") and contract manufacturing organizations ("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 32 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 of Directors ("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, the Head of Human Resources 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 color, 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 at least annual basis. The Group undertakes 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, 2022 is as follows:

Position	Male	Female	Total
Directors of the Company (CEO and Non-Executive)	7	3	10
Executive officers	3	4	7
Employees	12	16	28
Total	**22**	**23**	**45**

Executive officers consist of senior managers who have responsibility for planning, director or controlling the activities of the Group. As at December 31, 2022, this includes the Chief Financial Officer, General Counsel and Company Secretary, Chief Business Officer, Chief Patient Access and Commercial Planning, Chief Scientific Officer, Senior Vice President and Therapeutic Head and Senior Vice President Clinical Development.

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 R&D strategy, corporate and financing strategies.

Diversity and human rights

The Company recognizes the value in promoting a culture of diversity and inclusion and aims to both reflect the global communities in which we operate and have a positive impact upon them. At present the Company

does not have a specific policy on human rights, however we have several policies that promote the principles of human rights. We partner with our suppliers and external organizations to ensure long-term mutually beneficial relationships, and respect for human rights is embedded throughout our global network.

Social and 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.

Quantification and reporting methodology

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 SECR disclosures include the U.K. based subsidiaries only and exclude non-U.K. based subsidiaries. Refer to Note 5 of the consolidated financial statements for information on subsidiaries.

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 2022 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.

	2022	2021
Energy used by the company (in KWH)	68,255	68,626
Emissions associated with the reported energy use (tCO_2e)	13	15

Intensity Ratio

The chosen primary intensity ratio is total gross emissions in metric tonnes CO2e (mandatory emissions) per employee.

	2022	2021
Tonnes of CO_2e per employee	0.46	0.49

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 in 2022 was slightly lower than the prior year due to continued hybrid working by our employees and ongoing focus on energy efficiency.

In addition, during the office refurbishment in 2021, we prioritized energy saving choices such as insulating floors, motion-activated lighting, and operational changes to the heating system. As a company, we are also committed to sourcing our electricity from fully renewable sources. We continue to invest in energy efficiency and are currently in the process of migrating to more energy efficient IT storage solutions.

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 meets regularly to discuss developments of the Group's existing portfolio of product candidates, strategic business development, ongoing operations and other relevant matters. The Board 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 13 to 15.

As set out in greater detail above, 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"). The Company also holds 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 revised long-term incentive plan in April 2019, which allows us to incentivize and retain employees across the Group and aligns employees' objectives with those of the Group. We granted share options under these schemes to all employees and Non-Executive Directors in 2022 and 2021.

As part of our comprehensive strategic review of our portfolio and capital allocation strategy conducted in 2022, we provided an update to our operating plan, which included a targeted reduction in the employee base of up to 40% and a significant reduction in other costs. These actions, although difficult given the impact on our employees, were designed to allow the Group to reduce its cost base and maintain a sustainable company for the long-term benefit of all stakeholders. Further information is set out at page 16.

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' interests 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 greenhouse gas emissions report which is in compliance with streamlined energy and carbon reporting requirements is included on page 17. In 2022, there has been continued use of video conferencing for a majority of internal and external meetings, including board meetings, reducing the need for travel. The emissions saving resulting from these activities has not been quantified, but this practice has resulted in some behavior changes that are expected to continue for the foreseeable future. We continue to seek opportunities to better utilize energy efficient and sustainable solutions wherever possible.

The Board recognizes the importance of maintaining 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 at least an 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.

In maintaining good corporate governance structures, 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 product candidates and our current development pipeline and other information about the Company.

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:

Michael Wyzga	**Dr. Denise Scots-Knight**
Chairman	Chief Executive Officer
March 28, 2023	March 28, 2023

Annual Statement by Chair of Remuneration Committee

Introduction

Dear Shareholder,

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, 2022 (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 this Annual Statement, a revised Directors' Remuneration Policy and the Annual Report on Remuneration for the financial year ended December 31, 2022. 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 2023 Annual General Meeting ("AGM"). 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, is intended to apply until the 2026 AGM, unless a new version is presented to shareholders in the interim.

The Remuneration Committee has concluded that the current overarching remuneration framework continues to be effective. 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.

As a company with operations in the United Kingdom and the United States, we seek to attract and retain outstanding employees who have the potential to support the growth of the Group and to attract and retain Non-Executive Directors ("NEDs") who can substantially contribute to our success as an innovative, clinical-stage biopharmaceutical company. As the Group has operations in the UK and the US, our senior executives and our NEDs live and work in the UK and the US, and as we are listed on Nasdaq, we design and implement our Policy taking account of both UK and US market practice, with an increasing focus on the US. In summary, our NED remuneration is structured in alignment with US practice and our CEO remuneration is also heavily influenced by US practice.

Within this structure, however, we are taking the opportunity to amend the Policy to allow for performance based restricted stock units (PSUs). This change will more closely link incentives with the long-term strategy as well as increasing alignment between the Chief Executive Officer and shareholders. Therefore, we will be seeking shareholder approval for a revised Policy at the 2023 AGM. Further details can be found in the Directors' Remuneration Policy on pages 21 to 30.

In the year ended December 31, 2022, all decisions taken on remuneration were in accordance with the terms of reference of the Remuneration Committee and involved the exercise of appropriate commercial judgment. No discretions were exercised in relation to directors' remuneration in the year beyond the exercise of the commercial judgment of the Remuneration Committee and in ensuring the bonus objectives remained aligned to the latest strategy.

Yours sincerely,

Dr. Anders Ekblom
Chair of the Remuneration Committee,

March 28, 2023

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 May 27, 2021 However, as set out in the Annual Statement on pages 31 to 41, following a review of our remuneration arrangements , we are seeking approval for a new policy at the AGM in 2023. The policy in this report will therefore be put to a binding shareholder vote at the AGM, which is anticipated to be held on May 22, 2023, 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 in light of our revised operating plan and market developments. 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 pages 40 to 41.

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 change in approach has been proposed, primarily aimed at ensuring our remuneration arrangements are appropriately aligned with the medium- to long-term strategy and with shareholders:

- **Performance-based restricted stock units to also be granted** – We are proposing to grant performance-based restricted stock units ('PSUs') to the Chief Executive Officer in addition to our current approach of making awards of market value options (with no performance conditions) to the Chief Executive Officer. The rationale for this change in use of the 2019 EIP is set out in the Annual Statement on page 26.

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-enrollment. The Company makes payments of up to 10% 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%. 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 up to 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	Following the implementation of the 2019 Equity Incentive Plan (the "2019 EIP"), equity incentive awards from the start of 2019 have been 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. The Deferred Compensation Plan under the Company's 2019 NED EIP allows Non-Executive Directors to voluntarily elect to receive Deferred Restricted Stock Units ("RSUs") over ADSs in lieu of some or all of their cash fees, which are then held until settlement following separation of service.
Performance framework	Not applicable.

Equity incentives (long-term benefit)

Purpose and link to strategy	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 honor 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 honor 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.

A key aim of the EIP is to motivate the Chief Executive Officer and other senior executives to achieve superior shareholder returns over the longer term. In fulfillment of this aim, the Committee proposes to make awards of market value options (which are not currently subject to performance conditions) alongside awards of performance-based restricted stock units ('PSUs'). It is intended that the PSUs will initially be subject to stretching ADS price performance conditions. However, the Committee will review the type of award to be made, the balance, the performance measures, and the appropriateness of the performance targets prior to each EIP grant.

Awards under the NED EIP are not 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 policy and 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. What the weighting, measures and targets should be for the variable pay schemes operated by the Company.

The Committee also retains the ability to adjust the targets (up or down) and / or set different measures and alter weightings for the variable pay schemes and to adjust targets 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 organization. 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

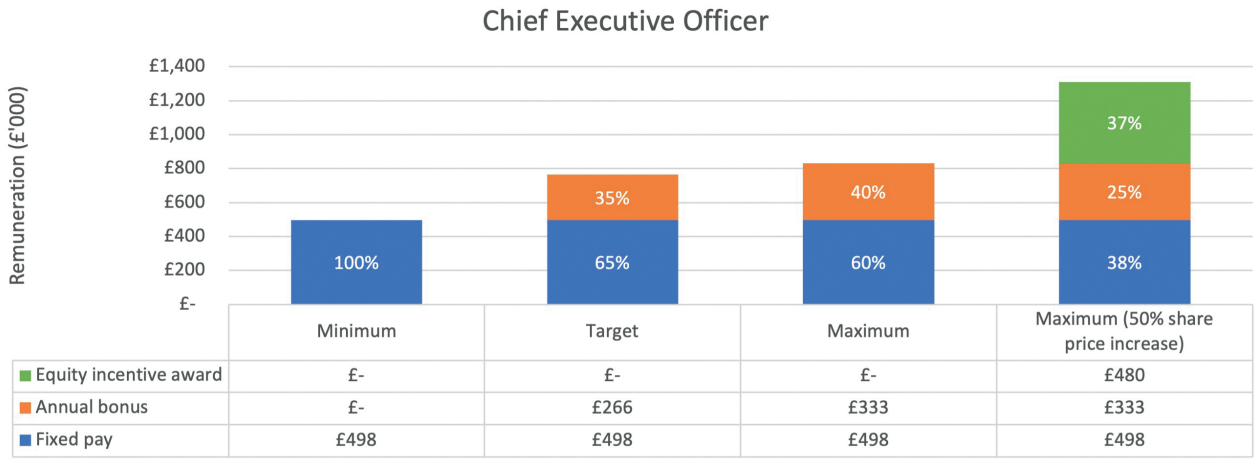
The charts set out for illustrative purposes only, what the annual remuneration the Company expects the Chief Executive Officer will obtain if performance levels are below threshold (minimum), meet expectations (target) or exceed the maximum targets (maximum) in 2023.

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 (75% of base salary);
- Maximum plus 50%[1] share price growth scenario: fixed pay plus annual bonus at maximum pay out (75% of annual base salary) and value of equity incentive awards granted in 2023 assuming share price growth of 50%.

Fixed pay comprises:

- Salaries: salary effective as at January 1, 2023;
- Benefits: value of all benefits received in the 2022 financial year;
- Pension: 10% of salary.



	Minimum	Target	Maximum	Maximum (50% share price increase)
Equity incentive award	£-	£-	£-	£480
Annual bonus	£-	£266	£333	£333
Fixed pay	£498	£498	£498	£498

[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 2023 has been used. As the PSUs element of long-term incentive remuneration for 2023 is subject to very stretching absolute share price performance targets (up to 400% increase from date of grant) it is not possible to show reward scenarios which assume zero share price growth, nor for a scenario where there is 50% share price growth as none of the awards would vest at these levels of performance. In addition, the Committee has set the threshold level of performance for the PSUs at a very demanding level and considers this to be above a target level of performance and, as a result, no value is included in the target scenario. As a result, no long-term incentive values in relation to PSUs are shown in the chart. The long-term incentive value for the maximum with 50% share price increase scenario relates solely to the award of market value share options and is based on the award granted in 2023.

Annual Report on Remuneration

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, 2022 and 2021. 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). Further information about share option grants can be found on page 36.

Year Ended December 31, 2022 (in £)	(a) Salary/fees (i)	(b) Benefits (ii)	(c) Bonus	(d) Long-term incentives (v)	(e) Pensions	Other (iii/iv)	2022 Total	Fixed Remuneration (a, b and e)	Variable remuneration (c, d and other)
Executive									
Dr. Denise Scots-Knight [1]	418,747	9,231	251,248	–	41,875	1,098,605	1,819,706	469,853	1,349,853
Non-Executive									
Dr. Jeremy Bender	47,368	–	–	–	–	51,416	98,784	47,368	51,416
Dr. Anders Ekblom	55,912	–	–	–	–	51,416	107,328	55,912	51,416
Dr. Peter Fellner [2]	54,342	–	–	–	–	38,562	92,904	54,342	38,562
Anne Hyland [3]	30,634	–	–	–	–	32,357	62,991	30,634	32,357
Dr. Pierre Jacquet	39,107	–	–	–	–	82,633	121,740	39,107	82,633
Dr. Annalisa Jenkins [4]	6,839	–	–	–	–	5,240	12,079	6,839	5,240
Dr. Abdul Mullick [3]	14,916	–	–	–	–	8,978	23,894	14,916	8,978
Dr. Deepa Pakianathan	45,686	–	–	–	–	51,416	97,102	45,686	51,416
Justin Roberts [4]	–	–	–	–	–	–	–	–	–
Dr. Brian Schwartz [2]	36,350	–	–	–	–	51,416	87,766	36,350	51,416
Dr. Daniel Shames [4]	6,839	–	–	–	–	5,240	12,079	6,839	5,240
Mike Wyzga	80,035	–	–	–	–	51,416	131,451	80,035	51,416
Marc Yoskowitz [4]	6,839	–	–	–	–	5,240	12,079	6,839	5,240

(1) Pension figure included in the table above for Dr. Denise Scots-Knight includes payments in lieu of pension of £37,875.
(2) Dr. Peter Fellner and Dr. Brian Schwartz resigned from the Board on November 10, 2022.
(3) Anne Hyland was appointed to the Board on March 1, 2022 and resigned from the Board on November 10, 2022. Dr. Abdul Mullick was appointed to the Board on May 17, 2022 and resigned from the Board on November 10, 2022.
(4) Dr. Annalisa Jenkins, Justin Roberts, Dr. Daniel Shames and Marc Yoskowitz were appointed to the Board on November 10, 2022. Mr. Roberts has waived all remuneration in respect of his appointment as a Non-Executive Director.

Year Ended December 31, 2021 (in £)	(a) Salary/fees	(b) Benefits (ii)	(c) Bonus	(d) Long-term incentives (v)	(e) Pensions	Other (iii/iv)	2021 Total	Fixed Remuneration (a, b and e)	Variable remuneration (c, d and other)
Executive									
Dr. Denise Scots-Knight	398,808	9,050	239,284	–	58,155	940,000	1,645,297	466,013	1,179,284
Non-Executive									
Dr. Peter Fellner	100,000	–	–	–	–	56,942	156,942	100,000	56,942
Peter Bains	37,218	–	–	–	–	56,942	94,160	37,218	56,942
Dr. Jeremy Bender	40,375	–	–	–	–	105,444	145,819	40,375	105,444
Dr. Anders Ekblom	47,175	–	–	–	–	56,942	104,117	47,175	56,942
Kunal Kashyap	43,750	–	–	–	–	56,942	100,692	43,750	56,942
Dr. Deepa Pakianathan	44,150	–	–	–	–	56,942	101,092	44,150	56,942
Dr. Brian Schwartz	39,550	–	–	–	–	105,444	144,994	39,550	105,444
Mike Wyzga	49,500	–	–	–	–	56,942	106,442	49,500	56,942
Dr. Pierre Jacquet	9,962	–	–	–	–	–	9,962	9,962	–

(1) Pension figure included in the table above for Dr. Denise Scots-Knight includes payments in lieu of pension of £54,155.
(2) Peter Bains resigned on September 20, 2021.
(3) Kunal Kashyap resigned on October 26, 2021.
(4) Dr. Pierre Jacquet was appointed on September 20, 2021. The figure included in the table represents the amount accrued and unpaid as of December 31, 2021. On February 1, 2022, Dr. Jacquet was granted 33,393 market value options under the 2019 NED EIP plan which vested on grant in lieu of this amount.
(i) During the year ended December 31, 2022, for non-executive directors who elected to receive Deferred RSUs in lieu of cash for their annual fees, the grant date fair value of Deferred RSUs are included within salary/fees.
(ii) Benefits represent private medical insurance during the years ended December 31, 2022 and 2021.
(iii) During the years ended December 31, 2022 and 2021, market value options were granted as an equity incentive award to the CEO. 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 the Executive Director 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, 2022.
(iv) During the years ended December 31, 2022 and 2021, 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.
(v) During the years ended December 31, 2022 and 2021, 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 Director (CEO). 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 CEO are a percentage of base salary, based on performance-based measures against Company-wide target objectives.

For the 2022 performance period, the CEO was entitled to an annual performance bonus of 60% of base salary for a target level of performance, which could be increased with stretch performance up to a maximum of 75% of base salary. The agreed Company-wide target objectives were met at 100% of target, meaning the bonus pay-out for the 2022 performance period is 60% of 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 2022 included the following:

- Conducting a comprehensive strategic review of our portfolio and capital allocation strategy, resulting in extending our cash runway into 2026
- On alvelestat, successful completion of a Phase 2 study in AATD, which demonstrated statistically significant changes in biomarkers of lung function at different time points up to 12 weeks, and granting of Fast Track designation by the U.S. Food and Drug Administration (FDA) for alvelestat in AATD and the outcome of the end-of-Phase 2 meeting
- On setrusumab, achievement of key activities in laying the groundwork for reimbursement in Europe and the UK and securing first feedback from Health Technology Assessment (HTA) bodies, including future evidence requirements
- On etigilimab, completed enrollment of the Phase 1b portion of the Phase 1b/2 ACTIVATE study, with results that support continued investigation in a number of cohorts, and in the investigator-led Phase 1b/2 study of etigilimab in combination with nivolumab in clear cell ovarian cancer conducted by a partner, results that support expansion of the number of patients in the study
- In manufacturing, successful delivery of a higher strength table formulation for alvelestat and establishment of a Phase 3 pilot scale process
- Successful achievement of milestones on intellectual property

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, 2022:

– 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, 2022, 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	January 14, 2022	1,100,000	1.40	1,540,000	January 14, 2032
Dr. Jeremy Bender	February 1, 2022	55,000	1.31	72,050	February 1, 2032
Dr. Anders Ekblom	February 1, 2022	55,000	1.31	72,050	February 1, 2032
Dr. Peter Fellner	February 1, 2022	55,000	1.31	72,050	February 1, 2032
Anne Hyland	March 1, 2022	36,666	1.24	45,466	March 1, 2032
Dr. Pierre Jacquet	February 1, 2022	88,393	1.31	115,795	February 1, 2032
Dr. Annalisa Jenkins	December 1, 2022	9,167	0.79	7,242	December 1, 2032
Dr. Abdul Mullick	June 1, 2022	24, 486	0.45	11,019	June 1, 2032
Dr. Deepa Pakianathan	February 1, 2022	55,000	1.31	72,050	February 1, 2032
Dr. Brian Schwartz	February 1, 2022	55,000	1.31	72,050	February 1, 2032
Dr. Daniel Shames	December 1, 2022	9,167	0.79	7,242	December 1, 2032
Mike Wyzga	February 1, 2022	55,000	1.31	72,050	February 1, 2032
Marc Yoskowitz	December 1, 2022	9,167	0.79	7,242	December 1, 2032

The exercise price of all options granted during the year under the 2019 EIP and 2019 NED EIP was the market value of the ADSs upon closing on the last business day before the grant. The face value of all options granted during the year was determined based on the exercise price at the date of grant.

2.2 Payments to past Directors (audited)

There were no payments to past Directors made during the financial year ending December 31, 2022 that are required to be disclosed.

2.3 Payments for loss of office (audited)

Dr. Peter Fellner resigned from the Board and ceased to be a Director on November 10, 2022. In accordance with his letter of appointment and the terms agreed for his departure, Dr. Fellner received the following in 2022:

- Fees up to the termination date of £54,342;
- For the purposes of his outstanding Share Option Plan and 2019 EIP awards Dr. Fellner will be treated as a 'good leaver' within the meaning of the scheme rules. As a result, he was allowed to retain 338,534 outstanding Share Option Plan awards and 94,750 outstanding vested 2019 NED EIP awards. He will be entitled to exercise these options for a period up to the tenth anniversary of the grant date for each award.

Anne Hyland resigned from the Board and ceased to be a Director on November 10, 2022. In accordance with her letter of appointment and the terms agreed for her departure, Ms. Hyland received the following in 2022:

- Fees up to the termination date payable in Deferred RSUs of £30,634;
- For the purposes of her outstanding Share Option Plan and 2019 EIP awards Ms. Hyland will be treated as a 'good leaver' within the meaning of the scheme rules. As a result, she was allowed to retain 36,666 outstanding vested 2019 NED EIP awards. She will be entitled to exercise these options for a period up to the tenth anniversary of the grant date for each award.

Dr. Abdul Mullick resigned from the Board and ceased to be a Director on November 10, 2022. In accordance with his letter of appointment and the terms agreed for his departure, Dr. Mullick received the following in 2022:

- Fees up to the termination payable in Deferred RSUs of £14,916;
- For the purposes of his outstanding Share Option Plan and 2019 EIP awards Dr. Mullick will be treated as a 'good leaver' within the meaning of the scheme rules. As a result, he was allowed to retain 24,486 outstanding vested 2019 NED EIP awards. He will be entitled to exercise these options for a period up to the tenth anniversary of the grant date for each award.

Dr. Brian Schwartz resigned from the Board and ceased to be a Director on November 10, 2022. In accordance with his letter of appointment and the terms agreed for his departure, Dr. Schwartz received the following in 2022:

- Fees up to the termination payable in Deferred RSUs of £33,066;
- For the purposes of his outstanding Share Option Plan and 2019 EIP awards Dr. Schwartz will be treated as a 'good leaver' within the meaning of the scheme rules. As a result, he was allowed to retain 108,500 outstanding vested 2019 NED EIP awards. He will be entitled to exercise these options for a period up to the tenth anniversary of the grant date for each award.

2.4 Directors' service contracts and letters of appointment

Dr. Denise Scots-Knight joined the Company as an employee on July 29, 2015 and her current service contract is dated September 3, 2021. 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, 2022, are summarized in the table below:

Non-Executive Director	Date of appointment
Dr. Anders Ekblom	July 29, 2015
Michael Wyzga	April 23, 2019
Dr. Deepa Pakianathan	April 23, 2019
Dr. Jeremy Bender	October 1, 2020
Dr. Pierre Jacquet	September 20, 2021
Dr. Annalisa Jenkins	November 10, 2022
Justin Roberts	November 10, 2022
Dr. Daniel Shames	November 10, 2022
Marc Yoskowitz	November 10, 2022

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

The table below sets out, as at December 31, 2022, 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 ADSs, with each ADS representing five ordinary shares. Ordinary shares held have been converted into equivalent ADSs.

Director	Shares Vested Beneficially owned	Awards Vested 2015 Plan/ Share Option Plan (equivalent ADS vested but not yet exercised)	Awards Vested 2019 EIP/NED EIP (ADSs vested, not yet exercised)	Awards Unvested 2019 EIP/NED EIP (ADSs, unvested)
Dr. Denise Scots-Knight	215,654	308,949	515,415	1,454,585
Dr. Jeremy Bender	–	–	131,026	15,506
Dr. Anders Ekblom	37,940	43,252	179,286	18,048
Dr. Pierre Jacquet	–	–	106,615	16,228
Dr. Analisa Jenkins	–	–	–	19,113
Dr. Deepa Pakianathan	–	–	99,333	9,167
Dr. Daniel Shames	–	–	–	19,113
Mike Wyzga	–	–	178,145	30,221
Marc Yoskowitz	–	–	–	19,113
Justin Roberts[1]	16,756,120	–	–	–

(1) Mr. Roberts is a partner of Rubric Capital Management LP, which has ultimate voting and investment power over the ordinary shares and ADSs held by Rubric Capital Management LP. He disclaims beneficial ownership of such shares except to the extent of any pecuniary interest therein. Mr. Roberts has waived all remuneration in respect of his appointment as a non-executive director.

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

As at December 31, 2022, 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, 2022. The underlying grants for the 2015 Plan and the LTIP are in ordinary shares and have been presented here in equivalent ADS.

Director	Equity Award Plan	No. of ADSs outstanding as at December 31, 2021	No. of ADSs granted in the year	No. of ADSs lapsed during the year	No. of ADSs exercised during the year	No. of ADSs cancelled during the year	No. of ADSs outstanding as at December 31, 2022	Exercise Price Per ADS ($)	Grant Date	Expiration Date
Executive										
Dr. Denise	2015 Plan	308,949					308,949	8.63	September 25, 2015	September 25, 2025
Scots-Knight	DBSP	6,441			(6,441)		–	nil	April 26, 2018	January 31, 2022
	2019 EIP	87,500					87,500	5.40	May 20, 2019	May 20, 2029
	2019 EIP	87,500					87,500	3.00	July 23, 2019	July 23, 2029
	2019 EIP	175,000					175,000	1.84	February 20, 2020	February 20, 2030
	2019 EIP	520,000					520,000	2.72	February 1, 2021	February 1, 2031
	2019 EIP	–	1,100,000				1,100,000	1.40	January 14, 2022	January 14, 2032
Non-Executive										
Dr. Peter	2015 Plan	338,534					338,534	8.63	September 29, 2015	September 29, 2025
Fellner [1]	2019 NED EIP	5,500					5,500	5.40	May 20, 2019	May 20, 2029
	2019 NED EIP	5,500					5,500	3.00	July 23, 2019	July 23, 2029
	2019 NED EIP	11,000					11,000	1.84	February 20, 2020	February 20, 2030
	2019 NED EIP	31,500					31,500	2.72	February 1, 2021	February 1, 2031
	2019 NED EIP	–	55,000			(13,750)	41.250	1.31	February 1, 2022	February 1, 2032
Dr. Jeremy	2019 NED EIP	22,000					22,000	3.32	January 19, 2021	January 19, 2031
Bender	2019 NED EIP	31,500					31,500	2.72	February 1, 2021	February 1, 2031
	2019 NED EIP	Nil	55,000				55,000	1.31	February 1, 2022	February 1, 2032
	2019 NED EIP		38,032				38,032	(2)	February 1, 2022	(2)
Dr. Anders	2015 Plan	43,252					43,252	8.63	September 29, 2015	September 29, 2025
Ekblom	2019 NED EIP	5,500					5,500	5.40	May 20, 2019	May 20, 2029
	2019 NED EIP	5,500					5,500	3.00	July 23, 2019	July 23, 2029
	2019 NED EIP	11,000					11,000	1.84	February 20, 2020	February 20, 2030
	2019 NED EIP	31,500					31,500	2.72	February 1, 2021	February 1, 2031
	2019 NED EIP		55,000				55,000	1.31	February 1, 2022	February 1, 2032
	2019 NED EIP		44,042				44,042	(2)	February 1, 2022	(2)
	2019 NED EIP		1,540				1,540	(2)	December 1, 2022	(2)
Dr. Brian	2019 NED EIP	22,000					22,000	3.32	January 19, 2021	January 19, 2031
Schwartz [1]	2019 NED EIP	31,500					31,500	2.72	February 1, 2021	February 1, 2031
	2019 NED EIP		55,000				55,000	1.31	February 1, 2022	February 1, 2032
	2019 NED EIP		36,999			(8,413)	28,586	(2)	February 1, 2022	(2)
Dr. Pierre	2019 NED EIP		88,393				88,393	1.31	February 1, 2022	February 1, 2032
Jacquet	2019 NED EIP		32,867				32,867	(2)	February 1, 2022	(2)
	2019 NED EIP		1,583				1,583	(2)	December 1, 2022	(2)
Dr. Annalisa	2019 NED EIP		9,167				9,167	0.79	December 1, 2022	December 1, 2032
Jenkins	2019 NED EIP		9,946				9,946	(2)	December 1, 2022	(2)
Dr. Deepa	2019 NED EIP	5,500					5,500	5.40	May 20, 2019	May 20, 2029
Pakianathan	2019 NED EIP	5,500					5,500	3.00	July 23, 2019	July 23, 2029
	2019 NED EIP	11,000					11,000	1.84	February 20, 2020	February 20, 2030
	2019 NED EIP	31,500					31,500	2.72	February 1, 2021	February 1, 2031
	2019 NED EIP		55,000				55,000	1.31	February 1, 2022	February 1, 2032
Dr. Daniel	2019 NED EIP		9,167				9,167	0.79	December 1, 2022	December 1, 2032
Shames	2019 NED EIP		9,946				9,946	(2)	December 1, 2022	(2)
Mike Wyzga	2019 NED EIP	5,500					5,500	5.40	May 20, 2019	May 20, 2029
	2019 NED EIP	5,500					5,500	3.00	July 23, 2019	July 23, 2029
	2019 NED EIP	11,000					11,000	1.84	February 20, 2020	February 20, 2030
	2019 NED EIP	31,500					31,500	2.72	February 1, 2021	February 1, 2031
	2019 NED EIP		55,000				55,000	1.31	February 1, 2022	February 1, 2032
	2019 NED EIP		46,953			(3,429)	43,524	(2)	February 1, 2022	(2)
	2019 NED EIP		56,342				56,342	(2)	June 1, 2022	(2)
Marc	2019 NED EIP		9,167				9,167	0.79	December 1, 2022	December 1, 2032
Yoskowitz	2019 NED EIP		9,946				9,946	(2)	December 1, 2022	(2)
Anne	2019 NED EIP		32,761			(8,935)	23,826	(2)	March 1, 2022	(2)
Hyland	2019 NED EIP		50,416			(13,750)	36,666	1.24	March 1, 2022	February 27, 2032
	2019 NED EIP		13,542			(5,079)	8,463	(2)	June 1, 2022	(2)
	2019 NED EIP		3,276			(807)	2,469	(2)	June 1, 2022	(2)
Dr. Abdul	2019 NED EIP		48,369			(15,441)	32,928	(2)	June 1, 2022	(2)
Mullick	2019 NED EIP		39,178			(14,692)	24,486	0.51	June 1, 2022	May 29, 2032

(1) Figures for Dr. Peter Fellner, Anne Hyland, Dr. Abdul Mullick and Dr. Brian Schwartz are as of the date they resigned from the Board, November 10, 2022.
(2) Deferred RSUs do not have an exercise price and payment of Deferred RSUs will generally be made 180 days following separation of service.

Executive Director (CEO)

– Under the 2019 EIP, we have granted market value options to our CEO, Dr. Denise Scots-Knight. 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 our Executive Director since 2019 were in respect of ADSs.

– Under the 2015 Plan, we have granted market value options to our CEO. 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.

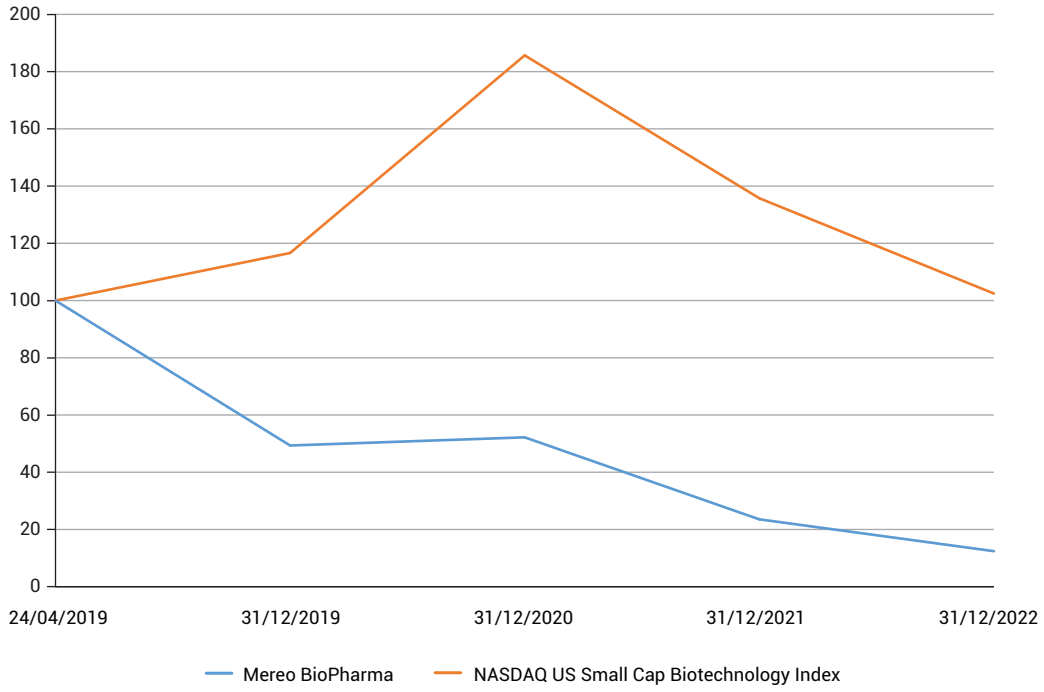
Non-Executive Directors

– 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 since 2019 were in respect of ADSs.

2.6 Performance Graph and Table

The graph below shows the Company's performance, measured by total shareholder return, relative to the Nasdaq US Small Cap Biotechnology Index, which has been selected for this comparison because the Company has been trading on the Nasdaq 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.

	2022	2021	2020	2019
Total CEO remuneration	£1,819,706	£1,645,297	£1,043,484	£1,176,187
CEO bonus (as a % of maximum available)	80%	81%	100%	75%
CEO LTIP[1] vesting (as a % of maximum available)	100%	100%	100%	100%

(1) Awards of market value options were granted under the 2019 EIP Plan as an equity incentive to the CEO in 2022, 2021, 2020 and 2019. As the options granted in 2022, 2021, 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, 2022. Going forward, this disclosure will build up over time to cover a rolling five-year period.

	2022			2021			2020		
	Salary/ fee (%)	Benefits (%)	Annual bonus (%)	Salary/ fee (%)	Benefits (%)	Annual bonus (%)	Salary/ fee (%)	Benefits (%)	Annual bonus (%)
Dr. Denise Scots-Knight	5	2	5	–	3	(40)	2.0	3.4	36
Dr. Jeremy Bender	17			1			–		
Dr. Anders Ekblom	19			(2)			–		
Dr. Peter Fellner [1]	(46)			–			–		
Anne Hyland [4]	N/A								
Dr. Pierre Jacquet	293								
Dr. Annalisa Jenkins [3]	–								
Dr. Abdul Mullick [2]	N/A								
Dr. Deepa Pakianathan	3			–			–		
Justin Roberts [3]	–								
Dr. Brian Schwartz [1]	(8)			(1)			–		
Dr. Daniel Shames [3]	–								
Mike Wyzga	62								
Marc Yoskowitz [3]	–			24			–		
Average of all employees (other than Directors)	29	(11)	–	1	30	8	2	6	(19.7)

(1) Dr. Peter Fellner and Dr. Brian Schwartz resigned from the Board on November 10, 2022.
(2) Anne Hyland was appointed to the Board on March 1, 2022 and resigned from the Board on November 10, 2022. Dr. Abdul Mullick was appointed to the Board on May 17, 2022 and resigned from the Board on November 10, 2022 – no prior year comparison available.
(3) Dr. Annalisa Jenkins, Justin Roberts, Dr. Daniel Shames and Marc Yoskowitz were appointed to the Board on November 10, 2022 – no prior year comparison available.

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.

	2022 £'000s	2021 £'000s	% change
Gross pay to all employees	14,195	12,183	17%
R&D expenditure	24,962	23,559	6%

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. Anders Ekblom (Chair), Dr. Deepa Pakianathan, and Justin Roberts (from December 15, 2022). 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") and Compensia, Inc. ("Compensia"). 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, 2022 were £11,169 (excluding VAT) (2021: £41,445), 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. Compensia was appointed in 2021 and has provided advice in relation to general remuneration matters and did not provide any other services to the Company. Fees paid to Compensia in relation to the advice provided to the Committee during the year were $76,628 (2021: $76,891). The Committee is satisfied that the advice they received from FIT and Compensia was objective and independent.

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

- Reviewed and approved the remuneration package of our CEO and direct reports of the CEO;
- Approved the annual bonus payments to the CEO in 2022 and the annual bonus plan for the 2022 financial year;
- Reviewed and approved the increase in the number of shares available for grant under the 2019 EIP plans;
- Reviewed and confirmed the vesting of equity incentive awards and reviewed and approved the terms of the 2022 equity incentive awards;
- Approved the creation of the Deferred RSU Plan under the Company's existing 2019 Non-Employee Equity Incentive Plan.

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 at the 2022 Annual General Meeting which took place on May 16, 2022, and the binding approval of the Directors' Remuneration Policy at the Annual General Meeting which took place on May 27, 2021 was as follows:

Resolution	Votes for	% for	Votes against (excluding withheld)	% against	Total (excluding withheld)	Withheld
Approval of the Directors' Remuneration Report	290,941,347	74.88%	97,611,150	25.12%	388,552,497	597,365
Approval of the Directors' Remuneration Policy	210,914,645	82.31%	45,338,865	17.69%	256,253,510	626,805

2.12 Statement of Implementation of Remuneration Policy for the Year Ending December 31, 2023

Annual salary

For 2023, the CEO was granted a 6% increase in annual salary.

Benefits and pension

The CEO will continue to receive pension contributions (or cash payments in lieu) to the value of 10% of basic salary. No changes will be made to the provision of other benefits.

Bonus

The CEO will be eligible for an annual bonus of 60% of basic salary for achievement of target level or no higher than 75% of basic salary for achievement of stretch goals for the 2023 financial year.

The bonus will be subject to the achievement of short-term performance targets which will be set by the Committee with respect to the 2023 performance period. The performance targets will cover key objectives that relate to the achievement of the Group's wider strategic goals including, for 2023, 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 performance targets 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 approved Policy, the Committee has issued market value options to the CEO during 2023.

On January 25, 2023, equity incentive awards were granted to the Chief Executive Officer under the 2019 EIP. These equity incentive awards included market value options over ADSs and performance based restricted stock units ("PSUs") over ADSs. The market value options over ADSs have a vesting period over four years, with 25% of the award vesting on the first anniversary of the grant date and the balance vesting in equal monthly installments over the following three years; no performance conditions were attached to the awards. The PSUs have a two year vesting period based on achievement of very stretching absolute share price performance conditions (up to a 400% increase from the date of grant).

	ADS options granted	PSUs granted	Exercise Price per ADS ($)	Face value ($)
Dr. Denise Scots-Knight	1,150,000	470,150	1.01 (a)	1,161,500 (a)

(a) PSUs do not have an exercise price and payment of PSUs will only be made upon achievement of specified stretching share price performance conditions.

Non-Executive Directors' fees

Non-Executive Directors may voluntarily elect to convert their annual cash fees into Deferred RSUs (over ADSs) that are then held until settlement, generally 180 days following separation of service. This Deferred Compensation Plan is delivered under the terms of the existing 2019 Non-Executive Equity Incentive Plan.

In addition to annual cash fees or Deferred RSUs, as elected, on February 1, 2023, equity incentive awards were granted to Non-Executive Directors in line with the 2019 EIP. A total of 55,000 equity incentive awards in the form of market value options over ADSs, were granted to each Non-Executive Director at an exercise price of $0.94 per ADS, with a vesting period of one year; vesting is in equal monthly installments over the one-year period following grant date. No performance conditions were attached to the awards.

Mr. Roberts has waived all remuneration in respect of his appointment as a Non-Executive Director.

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

Dr. Anders Ekblom
Director

March 28, 2023

The Directors present their report together with the audited financial statements for the year ended December 31, 2022.

Principal activities
The Strategic Report on pages 3 to 19 describes the Group's principal development activities, strategy and future developments.

Results and dividends
The Group recorded a total comprehensive loss for the year attributable to equity holders of the parent of £36.0 million (2021: total comprehensive income of £12.5 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, 2022, we spent £25.0 million (2021: £23.6 million) on research and development activity.

Research and development spend primarily reflects the underlying activity on clinical trials for our product candidates as well as the manufacturing of drug products 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.

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)

Non-executive directors

Michael Wyzga (Chairman)	
Dr. Jeremy Bender	
Dr. Anders Ekblom	
Dr. Peter Fellner	(resigned November 10, 2022)
Anne Hyland	(appointed March 1, 2022; resigned November 10, 2022)
Dr. Pierre Jacquet	
Dr. Annalisa Jenkins	(appointed November 10, 2022)
Dr. Abdul Mullick	(appointed May 17, 2022; resigned November 10, 2022)
Dr. Deepa Pakianathan	
Justin Roberts	(appointed November 10, 2022)
Dr. Brian Schwartz	(resigned November 10, 2022)
Dr. Daniel Shames	(appointed November 10, 2022)
Marc Yoskowitz	(appointed November 10, 2022)

As at the date of this report, the Directors held shares representing 13.6% 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 20 to 41.

Information on environmental matters
The Company is required to measure and report its greenhouse gas emissions. This information is outlined in the "Social and environmental matters" section of the Strategic Report on page 17.

Future developments
Details of future developments can be found in the Strategic Report on pages 4 to 9 and form part of this report by cross-reference.

Post-balance sheet events
Further information on post-balance sheet events is provided in Note 28 within the consolidated financial statements contained within this report.

Going concern
The going concern basis has been applied in these consolidated financial statements as the Company has adequate resources to meet its liabilities as they fall due for the foreseeable future and at least 12 months from the date of approval of these consolidated financial statements.

The Company 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 Company may develop.

Until such time as the Company can generate significant revenue from product sales, or other commercial revenues, if ever, or through licensing and/or collaboration agreements for its rare disease and oncology product candidates, the Company will seek to finance its operations through a combination of non-dilutive funding sources, public or private equity or debt financings or other sources.

As of December 31, 2022, the Company has cash and short-term deposits available of £56.3 million.

The Directors have prepared detailed cash flow forecasts for the period from approval of these accounts to June 30, 2024. The Directors have considered the continuing economic uncertainty, rises in inflation, and impacts on the labor market on these forecasts.

The Company's existing funds provide the Company with sufficient cash resources to meet its liabilities as they fall due and for the period through June 30, 2024. Therefore, although the Company continues to generate losses, the Directors consider that there is sufficient headroom between the forecast expenditure and cash resources such that the likelihood of the headroom being exhausted is remote. Therefore, the Directors determined that it is appropriate to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Financial risk management objectives and policies (including information on exposure to price risk, credit risk, liquidity risk and cash flow risk)
Refer to Note 24 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, 2022 and December 31, 2021.

Share capital
As at the date of this report, the Company had total issued and fully paid up share capital of £1,874,786 representing 624,928,519 ordinary shares of £0.003, all of which rank pari passu.. 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.

The Company's 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 for employees 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, 2022 (2021: nil). During the year ended December 31, 2022, no ordinary shares were purchased

by the EBT (2021: nil). A total of 15,645 ADSs held by the EBT were used in the year-ended December 31, 2022 to satisfy the exercise of options under the Company's share-based incentive schemes (2021: 31,205). As of December 31, 2022, the EBT holds 200,606 ADSs (2021: 216,251) along with £17,741 in cash (2021: £17,866).

Branches outside the U.K.
As at December 31, 2022, the Group consists of certain subsidiaries which are incorporated outside the United Kingdom. Further information can be found in Note 5 of the financial statements. There are no branches of the Company outside the United Kingdom.

Annual general meeting ("AGM")
The AGM of the Company is anticipated to be held on May 22, 2023. 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, BDO 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 March 28, 2023 and signed on its behalf by:

Michael Wyzga	**Charles Sermon**
Chairman	General Counsel and Company Secretary
March 28, 2023	March 28, 2023

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. Under that law, the directors are required to prepare the group financial statements in accordance with UK-adopted international accounting standards. The directors have also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

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, for the Group, in accordance with UK-adopted international accounting standards, and, for the Company, in accordance with United Kingdom Accounting Standards;
- 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; and
- Prepare a directors' report, a strategic report and directors' remuneration report which comply with the requirements of the Companies Act 2006.

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

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy.

Website publication
The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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

March 28, 2023

Opinion on the financial statements

In our opinion:

- 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 December 31, 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- 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 (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended December 31, 2022 which comprise the consolidated statement of comprehensive (loss)/income, the consolidated and Company balance sheets, the consolidated statement of cash flows, the consolidated and Company statements of changes in equity and notes to the consolidated and Company 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 UK adopted international accounting standards. 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 Financial Reporting Standard 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company 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.

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 the Parent Company's ability to continue to adopt the going concern basis of accounting, including the detailed forecast for the period ending June 30, 2024, included:

- Evaluated the Directors' method of assessment, including the relevance and reliability of underlying data used to make the assessment, and whether assumptions and changes to assumptions from prior years are appropriate and consistent with each other.
- Tested the assumptions used by management, including the level of forecast research and development (R&D) costs and general and administrative expenditure by corroborating a sample of costs to supporting evidence, including third party cost estimates for development projects.
- Determined through inspection and testing of the methodology and calculations that the methods utilized were appropriate to be able to make an assessment for the entity taking into consideration the nature of the Group's cost base and cash inflows.
- Tested the accuracy of historical forecasting against actual results.
- We evaluated the Directors' sensitivity analysis for reasonably possible changes in the cost base, tested the arithmetic accuracy of this analysis and challenged the assumptions applied.

- We performed our own sensitivity analysis removing all future cash inflows from the model and at considered the impact of that on the projected cash balance as 30 June 2024.
- We evaluated the period assessed by the Directors to determine that they had considered a period of at least 12 months from the date of approval of the financial statements. We also enquired whether the Directors had considered and identified any events or conditions that may exist beyond that period; examined board meeting minutes and press releases for any such events or conditions.
- Comparing the level of available financial resources with the Group's financial forecasts, including taking account of reasonably possible (but not unrealistic) adverse effects that could arise from risks, both individually and collectively.
- We assessed the adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment.

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 the Parent Company's ability to continue as a going concern for a period of at least twelve months 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.

Overview

Coverage[1]	*100% (2021: 89%) of Group loss before tax (2021: profit before tax)* *Nil Group revenue in 2022 (2021: 100% of Group revenue)* *98% (2021: 86%) of Group total assets*		
Key audit matters		2022	2021
	Assessment of carrying value of intangible assets	X	X
	Assessment of carrying value of investments in subsidiaries (Parent Company balance sheet)	X	X
	Ultragenyx transaction accounting		X
	Ultragenyx transaction accounting is no longer considered to be a key audit matter because it relates to a transaction which commenced in the prior year, for which the accounting policy through the agreement life, was confirmed.		
Materiality	*Group financial statements as a whole* £1,200,000 (2021: £1,100,000) based on 2.7% (2021: 2.6%) of adjusted losses before tax		

[1] These are areas which have been subject to a full scope audit by the group engagement team.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

On December 31, 2022, the Group comprised of the Parent Company; four trading UK companies (Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited, Mereo BioPharma 3 Limited and Mereo BioPharma 4 Limited; one trading US company (Mereo BioPharma 5, Inc.) and 3 other companies.

The Parent Company and the US company (Mereo BioPharma 5, Inc.) were deemed to be the significant components for the Group and full scope audit procedures were performed by the group audit team. For the insignificant four UK trading companies, specified audit procedures were performed over material balances. The specified audit procedures of all these entities were carried out by the group audit team for the purposes of this opinion.

The remaining entities were deemed insignificant to the Group due to the size of operations and balances within each company. The financial information of these entities were subject to analytical review procedures carried out by the group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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, including 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter		How the scope of our audit addressed the key audit matter
Assessment of carrying value of intangible assets Refer to the accounting policies (pages 59 to 67) and Note 13 of the Consolidated Financial Statements (pages 76 to 77) £24.1 million (2021-£24.6 million)	The Group has significant intangible assets arising from the acquisition of products in development. Management's determination of fair values of the identifiable intangible assets is complex and includes management's judgements over significant unobservable inputs and assumptions utilized, including development costs, launch dates of products, probability of successful development, sales price and projections, expense and cash flow projections and discount rates. These assumptions are subjective in nature and are affected by expectations about future market, economic or industry conditions. As there are highly judgemental areas within the assessment of the carrying values, a significant risk was identified which we deemed to be a key audit matter.	Our audit procedures included: • We assessed whether management's approach for assessing the impairment of its intangible assets was appropriate, and if the assessment complied with the requirements of the applicable accounting standards. • We obtained an understanding of the research and development activities for each intangible asset to assess and evaluate the existence of any internal or external indicators of impairment, by inspecting minutes of meetings, investor information, analyst notes and R&D investor presentation information, including launch dates; • With the assistance of our internal valuation experts, we tested the arithmetic accuracy and integrity of the models used in the valuation by sample-checking formulae, assessed the reasonableness of the discount rates and reviewed the methodology applied versus our expectations;

Key audit matter	How the scope of our audit addressed the key audit matter

	• We compared assumptions used in the current periods' models to prior periods. We assessed the appropriateness of changes made by inquiry of R&D staff, review of clinical trial progress and corroboration to supporting information. We also evaluated if there should be further changes to the assumptions based on our understanding of the intangible assets.
	• We performed a sensitivity analysis on the impairment models to identify which assumptions the impairment assessment was most sensitive to. For these assumptions, such as probability of successful development, market for therapeutic treatment and expected sales price, we assessed the reasonability by performing the following procedures;
	  • We agreed management's assumptions to their supporting evidence such scientific research studies and pricing analysis.
	  • We challenged management's assumptions through comparison to our own identified scientific research studies, and industry research on the expected therapeutic market and pricing points for each product candidate.
	  • Using our sensitivity analysis and market research of the assumptions, we further assessed the level at which an impairment would be required and the likelihood of this being reached.
	• We assessed the reliability of the forecasts by comparing prior year forecasts to actual results in the current year. We read analysts forecasts to identify whether there were any contrary views to be considered.
	• We assessed and challenged management's cash flow assumptions regarding future development costs necessary to be incurred for the intangible assets to reach a point of commercialisation.

Key audit matter		How the scope of our audit addressed the key audit matter
		• We assessed if there is an external market for commercialisation by researching competitor's development activities, inquiry with R&D staff, performing market research, inspecting evidence of more recent interactions with potential third parties and assessing specific business development activity. **Key observations** Based on the procedures performed we consider that the assumptions made by management in their impairment assessment are reasonable.
Assessment of carrying value of investments in subsidiaries (Parent Company) Refer to the accounting policies (pages 59 to 67) and Note 4 of the Company Financial Statements (page 102) Cost of investment £221 million (2021: £212.5 million) Impairment provision £46.9 million: (2021: £20.8 million) Net carrying value £174.1 million (2021: £191.7 million)	The Parent Company is a biopharmaceutical company focused on the development and commercialization of innovative therapeutics that aim to improve outcomes for rare diseases. Its existing portfolio consists of six clinical stage product candidates which are owned by its subsidiaries. The impairment assessment of the carrying value of investments in subsidiaries requires significant judgement to determine an appropriate recoverable amount for each investment. Judgement is required, as the recoverable amount is determined by taking into account future cash flows in relation to the development and commercialization activities of each subsidiary. There is a risk that the investments may be impaired below their carrying value and not properly accounted for. For these reasons we considered the carrying value and the related disclosures of the investment in subsidiaries to be a key audit matter.	Our audit procedures included: • We obtained management's analysis of the recoverable amounts for each subsidiary and tested the calculation of the recoverable amounts, leveraging the testing that was completed over the related intangible asset value in use calculation, where appropriate. For the investment not covered by intangible asset testing, we corroborated management's analysis of comparable product candidate sale or out licensing transactions, to third party sources, to assess estimated fair value. • We assessed whether the Director's approach for assessing impairment of its investments was appropriate, and if the assessment complied with the applicable accounting standards. • We assessed whether the disclosure in the Parent Company financial statements met with the requirements of the financial reporting framework and our own understanding. **Key observations** Based on the procedures performed, we consider that the assumptions made by the directors in their impairment assessment and the related disclosures are reasonable.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent Company financial statements	
	2022 £m	2021 £m	2022 £m	2021 £m
Materiality	£1,200,000	£1,100,000	£960,000	£990,000
Basis for determining materiality	2.7% Adjusted losses before tax (to exclude warrant liability re-valuation gains)	2.6% Adjusted losses before tax (to exclude warrant liability revaluation gains and Ultragenyx out-licensing entries)	80% of Group Materiality	90% of Group Materiality
Rationale for the benchmark applied	Adjusted losses before taxes is considered the most appropriate measure in assessing the performance of the Group given that the focus of the users are solely relating to research and development costs.	Adjusted losses before taxes is considered the most appropriate measure in assessing the performance of the Group given that the focus of the users are solely relating to research and development costs.	Materiality was capped at 80% Group materiality given the assessment of the components aggregation risk.	Materiality was capped at 90% Group materiality given the assessment of the components aggregation risk.
Performance materiality	£720,000	£550,000	£576,000	£550,000
Basis for determining performance materiality	60% of materiality based on our expectations of the level of misstatement and due to multiple account balances having a significant level of judgement involved in their estimation.	50% of materiality based on our expectations of the level of misstatement and due to multiple account balances having a significant level of judgement involved in their estimation.	60% of materiality based on our expectations of the level of misstatement and due to multiple account balances having a significant level of judgement involved in their estimation.	50% of materiality based on our expectations of the level of misstatement and due to multiple account balances having a significant level of judgement involved in their estimation.

Component materiality

We set materiality for each significant component of the Group based on a percentage of between 70% and 80% (2021: 80% and 90%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £840,000 to £960,000 (2021: 880,000 to £990,000). In the audit of each component, we further applied performance materiality levels of 60% (2021: 50%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £60,000 (2021: £22,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this gives rise to 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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 the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and 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.
Directors' remuneration	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
Matters on which we are required to report by exception	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 Statement of Directors' Responsibilities, 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's and the 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.

Extent to which the audit was 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory framework in which the Group operates, focussing on those laws and regulations that had a significant effect on the financial statements or that had a fundamental effect on the operations of the Group, namely: the accounting framework (UK-adopted international accounting standards and FRS101); the Companies Act 2006; relevant tax legislation; and the requirements for regulated products.
- We enquired of management, those charged with governance and in-house legal counsel, obtained and examined meeting minutes and other supporting documentation, concerning the Group's policies and procedures in relation to:
    - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - The internal controls established to mitigate risks related to fraud and non-compliance with laws and regulations.
- We discussed among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential fraud in management override of controls, specifically in relation to management bias and the judgements involved in accounting estimates (such as impairment review valuation of intangible assets, valuation of provision for deferred cash consideration, valuation of financial instruments and valuation of contingent consideration).
- We have considered the risk of fraud through management override of controls by:
    - Sample testing the appropriateness of journal entries and other adjustments by inquiry and corroboration to supporting evidence; and
    - Assessing whether the judgements made in accounting estimates are indicative of potential bias, in particular the estimates regarding the intangible asset and investment impairment reviews (refer to key audit matter section above).
- We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and discussed how and where these might occur and remained alert to any indications of fraud and non-compliance with laws and regulations throughout the audit

The engagement partner has assessed that the engagement team collectively had the appropriate competence and capabilities to identify or recognize non-compliance with laws and regulations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: 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 Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ian Oliver (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Reading, UK

March 28, 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

	Notes	Year ended December 31, 2022 £'000s	2021 £'000s	2020 £'000s
Revenue	6	—	36,464	—
Cost of revenue	6	936	(17,908)	—
Research and development expenses		(24,962)	(23,559)	(16,347)
Administrative expenses		(19,543)	(15,933)	(21,222)
Operating loss		(43,569)	(20,936)	(37,569)
Finance income	9	696	1	44
Finance costs	9	(3,361)	(4,022)	(6,383)
Changes in the fair value of financial instruments	9	7,805	40,039	(109,849)
Gain/(loss) on disposal of intangible assets		—	113	(10,872)
Net foreign exchange gain/(loss)		1,525	(954)	(1,821)
Other income and expenses	9	811	—	—
(Loss)/profit before tax	7	(36,093)	14,241	(166,450)
Taxation	10	1,897	(1,516)	2,822
(Loss)/profit for the year, attributable to equity holders of the parent		(34,196)	12,725	(163,628)
Items that may be reclassified subsequently to profit or loss:				
Currency translation of foreign operations		(1,828)	(191)	349
Total comprehensive (loss)/income for the year, attributable to equity holders of the parent		(36,024)	12,534	(163,279)
Basic (loss)/profit per share for the year (in £)	11	(0.06)	0.02	(0.48)
Diluted loss per share for the year (in £)	11	(0.06)	(0.05)	(0.48)

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

	Notes	As at December 31, 2022 £'000s	2021 £'000s
Assets			
Non-current assets			
Property, plant and equipment	12	1,831	2,530
Intangible assets	13	24,116	24,564
		25,947	27,094
Current assets			
Prepayments		3,125	2,799
R&D tax credits	10	1,296	—
Other taxes receivable	10	614	809
Other receivables	15	762	1,419
Cash and short-term deposits	16	56,334	94,296
		62,131	99,323
Total assets		88,078	126,417
Equity and liabilities			
Non-current liabilities			
Provisions	18	—	1,320
Convertible loan notes	21	—	14,384
Warrant liability	20	129	8,336
Lease liability	12	1,222	1,754
Other liabilities		182	80
		1,533	25,874
Current liabilities			
Trade and other payables	17	3,078	2,499
Accruals		4,491	3,826
Current tax liabilities	10	—	1,522
Provisions	18	4,822	2,803
Convertible loan notes	21	11,085	—
Warrant liability	20	402	—
Lease liability	12	466	622
Other liabilities	6	333	1,269
		24,677	12,541
Total liabilities		26,210	38,415
Net assets		61,868	88,002
Equity			
Issued capital	22	1,875	1,755
Share premium	22	254,303	247,460
Other capital reserves	22	132,680	129,835
Employee Benefit Trust shares	22	(1,058)	(1,140)
Other reserves	22	7,401	7,401
Accumulated losses	22	(331,164)	(296,968)
Translation reserve		(2,169)	(341)
Total equity		61,868	88,002

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

Approved by the Board on March 28, 2023 and signed on its behalf by:

Dr. Denise Scots-Knight (Director)

March 28, 2023

Company number: 09481161 (England and Wales)

	Notes	Year ended December 31, 2022 £'000s	2021 £'000s	2020 £'000s
Operating activities				
(Loss)/profit before tax		(36,093)	14,241	(166,450)
Adjustments to reconcile (loss)/profit before tax to net cash flows:				
Depreciation of property, plant and equipment	12	727	642	1,599
Share-based payments expense	26	3,862	3,302	1,558
Net foreign exchange (gain)/loss		(2,064)	954	1,821
Increase in provisions and other liabilities	18,6	211	1,385	162
Finance income	9	(696)	(1)	(44)
Finance costs	9	2,910	3,797	6,226
Other non-cash movements		647	156	–
Gain on lease modification		—	—	(957)
Fair value remeasurement on warrants	9	(7,805)	(40,039)	109,849
Other income and expenses	9	(811)	—	—
(Gain)/loss on disposal of intangible assets		—	(113)	10,872
Out-license of intangible asset		—	9,457	—
Working capital adjustments				
Decrease/(increase) in receivables and prepayments		695	(589)	141
Increase/(decrease) in trade and other payables and accruals		1,126	(1,256)	(3,551)
Taxation	10	(1,529)	2,825	10,433
Net cash flows used in operating activities		(38,820)	(5,239)	(28,341)
Investing activities				
Acquisition of subsidiary		—	—	(354)
Purchase of property, plant and equipment	12	(10)	(535)	(16)
Proceeds from intangible assets (net of transaction costs)	9	1,484	113	1,821
Interest earned	9	696	1	44
Payments to CVR holders	9	(673)	—	—
Net cash flows (used in)/from investing activities		1,497	(421)	1,495
Financing activities				
Proceeds from issuance of ordinary shares		—	78,532	20,136
Transaction costs on issuance of shares		—	(234)	(1,307)
Proceeds from exercise of employee share options		—	46	—
Proceeds from issuance of convertible loan notes		—	—	44,375
Transaction costs on issuance of convertible loan notes		—	—	(3,598)
Repayment of bank loans		—	—	(19,802)
Transaction costs relates to loans and borrowings		—	—	(81)
Interest paid on bank loan		—	—	(2,900)
Payment of lease liabilities	12	(937)	(692)	(2,086)
Proceeds from TAP agreement	22	153	—	—
Net cash flows (used in)/from financing activities		(784)	77,652	34,737
Net (decrease)/increase in cash and cash equivalents		(38,107)	71,992	7,891
Cash and cash equivalents at January 1		94,296	23,469	16,347
Effect of exchange rate changes		145	(1,165)	(769)
Cash and cash equivalents at December 31		56,334	94,296	23,469

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

	Notes	Issued capital	Share premium	Other capital reserves	Employee Benefit Trust shares	Other reserves	Accum-ulated losses	Translation reserves	Total
At December 31, 2019		294	121,684	59,147	(1,305)	7,000	(146,065)	(499)	40,256
Loss for the year		—	—	—	—	—	(163,628)	—	(163,628)
Other comprehensive income		—	—	—	—	—	—	349	349
Total		—	—	—	—	—	(163,628)	349	(163,279)
Share-based payments	26	—	—	1,558	—	—	—	—	1,558
Issuance of share capital, net		347	18,715	—	—	(2,125)	—	—	16,937
Conversion of loan notes and warrants		375	21,386	34,188	—	—	—	—	55,949
Reclassification of loan notes embedded derivative		—	—	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)
Profit for the year		—	—	—	—	—	12,725	—	12,725
Other comprehensive income		—	—	—	—	—	—	(191)	(191)
Total		—	—	—	—	—	12,725	(191)	12,534
Share-based payments	26	—	—	3,302	—	—	—	—	3,302
Issuance of share capital, net	22	601	78,609	—	—	—	—	—	79,210
Exercise of share options		—	—	(119)	165	—	—	—	46
Conversion of loan notes and warrants	22	137	7,066	(1,722)	—	2,400	—	—	7,881
At December 31, 2021		1,755	247,460	129,835	(1,140)	7,401	(296,968)	(341)	88,002
Loss for the year		—	—	—	—	—	(34,196)	—	(34,196)
Other comprehensive income		—	—	—	—	—	—	(1,828)	(1,828)
Total		—	—	—	—	—	(34,196)	(1,828)	(36,024)
Share-based payments	26	—	—	3,862	—	—	—	—	3,862
Exercise of share options		—	—	(82)	82	—	—	—	—
Conversion of loan notes	22	120	6,843	(1,005)	—	—	—	—	5,958
Issuance of warrants	22	—	—	70	—	—	—	—	70
At December 31, 2022		1,875	254,303	132,680	(1,058)	7,401	(331,164)	(2,169)	61,868

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

1. Corporate information

Mereo BioPharma Group plc (the "Company" or "Mereo") is a clinical-stage, United Kingdom ("UK") based biopharmaceutical company focused on 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 AIM market of London Stock Exchange plc 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 for the year ended December 31, 2022 were authorized for issue in accordance with a resolution of the Directors on March 28, 2023. The principal activities of the Company are the development and commercialization of innovative therapeutic pharmaceutical products for rare diseases.

2. Significant accounting policies

Basis of preparation

The Company's consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards.

The consolidated financial statements are presented in pound sterling ("£"), which is the presentational currency of the Company. 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. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Basis of consolidation

The consolidated financial information comprises the financial statements of Mereo BioPharma Group plc and its subsidiaries as at December 31, 2022. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company 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 Company. They are deconsolidated from the date that control ceases. Intercompany transactions, balances and unrealized gains on transactions between subsidiaries are eliminated in preparing the consolidated financial statements. Accounting policies of subsidiaries are consistent with the policies adopted by the Company.

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 Company, it is consolidated into the Company'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 Company provides.

Segmental information

The Company has one operating segment. The Chief Operating Decision Maker ("CODM") is the Chief Executive Officer. The Company 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 Company's financing is managed and monitored on a consolidated basis.

Non-current assets held by the Company are located in the United Kingdom and United States. As at December 31, 2022, less than £0.1 million (2021: £0.1 million) of non-current assets are located in the United States.

Going concern

The going concern basis has been applied in these consolidated financial statements as the Company has adequate resources to meet its liabilities as they fall due for the foreseeable future and at least 12 months from the issuance date of these consolidated financial statements.

The Company 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 Company may develop.

Until such time as the Company can generate significant revenue from product sales, or other commercial revenues, if ever, or through licensing and/or collaboration agreements for its rare disease or oncology product candidates, the Company will seek to finance its operations through a combination of public or private equity or debt financings or other non-dilutive sources.

Summary of significant accounting policies

a) Revenue

The Company's ordinary business activities are the development of product candidates to key clinical milestones and either strategically partnering them or further developing such product candidates through regulatory approval and potentially commercialization. The Company may enter into a range of different agreements with third parties, including but not limited to: (i) licensing agreements where the global rights to a product candidate are licensed to a partner; and (ii) collaboration agreements where rights to a product candidate are licensed to a partner but the Company retains certain rights, for example to further develop or commercialize the product candidate in specified geographical territories. Under both licensing and collaboration agreements, rights to product candidates are provided to a partner typically in exchange for consideration in the form of upfront payments and/or development, regulatory, commercial or other similar milestones, and royalties on commercial sales, should regulatory approval be obtained for the product candidates. Where the Company has performed significant development activities for its product candidates, income from agreements with third parties are considered to be proceeds derived from the Company's ordinary activities and therefore represent revenue within the scope of IFRS 15, Revenue from Contracts with Customers.

Revenue includes income from licensing and collaboration agreements. Consideration received up front is recognized at the point in time in which the right to use an intangible asset is transferred and further payments received are recognized upon the achievement of specified development, regulatory, commercial or other similar milestones. For agreements with a right to access an intangible asset, revenue is recognized over time, typically on a straight-line basis over the life of the license or collaboration agreement. When there are other performance obligations in such agreements, the consideration is allocated using the residual approach and recognized when the performance obligations are satisfied.

Income from development, regulatory, commercial or similar milestones is recognized when considered highly probable that a significant reversal will not occur. Timing of the recognition of such milestones are considered to be a key judgment, as they are often dependent on third parties. In general, for milestones which are subject to the decisions of third parties (e.g. the acceptance or approval of a filing by a regulatory authority), the Company recognizes milestone income when the decision occurs.

The Company does not currently have any approved product candidates. Accordingly, no commercial sales revenue was generated during the year.

Intangible assets out-licensed under a license or collaboration agreement are recorded within "Cost of revenue" in the Company's consolidated statement of comprehensive (loss)/income based on an allocation of cost or value of the rights that have been out-licensed. Payments to third parties arising as a direct consequence of the income recognized are also recorded within "Cost of revenue" in the Company's consolidated statement of comprehensive (loss)/income.

b) Research and development (R&D) expenses

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 Company 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 criteria for capitalization, including ongoing costs associated with acquired intellectual property rights and intellectual property rights generated internally by the Company, is recognized in the consolidated statement of comprehensive (loss)/income as incurred. Intellectual property and in-process R&D from asset acquisitions are recognized as intangible assets at cost.

c) Taxation

Tax expense recognized in the consolidated statement of comprehensive (loss)/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 Company 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)/income.

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.

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 Company intends to settle its current tax assets and liabilities on a net basis.

d) 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 Company. The functional currencies of consolidated subsidiaries are pound sterling and US dollars ("$").

Transactions in foreign currencies are initially recorded by the Company 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)/income.

The results and financial position of subsidiaries that have a functional currency different from the presentational currency of the Company 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, which approximates the exchange rates at the dates of the transactions. 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 (loss)/income.

e) 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)/income 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.

f) Business combinations

Business combinations are accounted for using the acquisition method of accounting. At the date of acquisition, the Company 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 of 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)/income as a bargain purchase. A valuation is performed of assets and liabilities assumed on each acquisition accounted for as a business combination based on the 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)/income as an administrative expense.

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

g) Leases

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

The Company assesses whether a contract is, or contains, a lease at inception of the contract. The Company 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 Company 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 Company 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 Company 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.

h) 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. Refer to policy on provision for deferred cash consideration below.

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.

i) Financial instruments

Financial assets and liabilities are recognized in the consolidated balance sheet only when the Company 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 short-term investments, interest income and impairment gains or losses are recognized directly in the consolidated statement of comprehensive income. The difference between cumulative fair value gains or losses and the cumulative amounts recognized in the consolidated statement of comprehensive (loss)/income is recognized in other comprehensive income until derecognition, when the amounts in other comprehensive income are reclassified to the consolidated statement of comprehensive (loss)/income.

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.

Convertible loan notes

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. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. 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 and not subsequently remeasured. Upon conversion, the amount initially recognized in "Other capital reserves" will be transferred to "Share premium."

Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

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)/income.

Non-substantial modifications to financial liabilities are measured at amortized cost with the associated gain or loss recognized in the consolidated statement of comprehensive (loss)/income. 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)/income, where the terms of the warrant instruments allow for cashless exercise.

j) 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 Company.

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 Company 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 Company 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.

k) 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 12
- Intangible assets not yet available for use Notes 13 and 14

At each reporting date, the Company 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 Company 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)/income 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 Company 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)/income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

l) 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.

m) Provisions

Provisions are recognized when the Company 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 Company 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)/income 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.

n) 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.

o) Share-based payments

Employees (including executives) and non-executive directors of the Company 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 and non-executive directors under various plans (see Note 26).

In accordance with IFRS 2 Share-based Payments ("IFRS 2"), charges for these incentives are expensed through the consolidated statement of comprehensive (loss)/income on a straight-line basis over their vesting period, based on the Company'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.

p) 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.

q) Employee Benefit Trust

The Company 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 (see Note 26). 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 fulfill 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.

r) Pension contribution costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

3. Significant judgments, estimates and assumptions

The preparation of these consolidated financial statements 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.

Judgments

a) Revenue

Judgment is required to determine the appropriate accounting for the license and collaboration agreement with Ultragenyx Pharmaceutical, Inc. ("Ultragenyx"). Management has determined that the upfront proceeds from the license and collaboration agreement represent proceeds from the Company's ordinary business activities and, therefore, represent revenue within the scope of IFRS 15, Revenue from Contracts with Customers. Judgment is also required to determine the portion of the carrying amount of the intangible asset to derecognize, relative to the value retained, as a result of the license and collaboration agreement with Ultragenyx.

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 Company's intangible assets (see Note 14), right-of-use assets, leasehold improvements, office equipment and IT equipment as at December 31, 2022.

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 (loss)/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.

The incremental borrowing rate for the current lease portfolio 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 Company 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 Company, the contract includes an extension option beyond the non-cancellable period for which the Company has the right to use the underlying asset. In applying this judgment, the Company 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. The lease expired in August 2022.

d) Identification and classification of financial instruments

On June 3, 2020, the Company completed a private placement transaction (Note 19) 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 was 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.

Estimates and assumptions

a) Deferred consideration

Deferred consideration represents contingent cash consideration and 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 18). The amount provided is based on estimates regarding the timing and progress of the related research and development activities (see Note 24).

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 (see Note 19), the Company 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 (see Note 24).

c) Contingent consideration

The Company 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, 2022, the Company estimates the fair value of the contingent consideration liability to be £nil (2021: nil). 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, 2022

In the current year, the Company 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, 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements:

- 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
- Amendments to IFRS 3

b) New standards, interpretations and amendments not yet effective

At the date of authorization of these consolidated financial statements, the Company has not applied the following new and revised IFRS that have been issued but are not yet effective, and in relation to those effective from January 1, 2024, had not yet been endorsed by the UK Endorsement Board.

Effective January 1, 2023

- Amendments to IFRS 17 – Insurance Contracts
- Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction
- Amendments to IAS 8 – Definition of accounting estimates
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of accounting policies

Effective January 1, 2024

- Amendments to IAS 1 – Classification of liabilities as current or non-current
- Amendments to IAS 1 – Non-current liabilities with covenants
- Amendments to IFRS 16 – Lease liability in a sale and leaseback

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

5. Group information

Information about subsidiaries

The consolidated financial statements of the Company include:

Name	Principal activities	Country of incorporation	% Equity interest December 31, 2022	% Equity interest December 31, 2021
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	US	100	100
Navi Subsidiary, Inc.	Pharmaceutical R&D	US	100	100
Mereo US Holdings, Inc.	Holding Company	US	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. Revenue

The Company recognized upfront proceeds of £36.5 million ($50.0 million) from the license and collaboration agreement with Ultragenyx for setrusumab as revenue in the year ended December 31, 2021. The variable consideration relating to future milestones and sales royalties will be recognized in the consolidated statement of comprehensive (loss)/income when the milestones are achieved or the underlying commercial sales are made, in the event regulatory approval is achieved.

As a consequence of the license and collaboration agreement with Ultragenyx and in accordance with terms of the 2015 asset purchase with Novartis, the Company made a payment to Novartis of £7.2 million ($10.0 million). The payment included a deduction for costs of £2.4 million which was deferred and will be recognized in the consolidated statement of comprehensive (loss)/income when the associated costs are incurred. In the year ended December 31, 2022, £0.9 million (2021: £1.1 million) of these deductions were recognized within "Cost of revenue" in the consolidated statement of comprehensive (loss)/income. As of December 31, 2022, the remaining balance to be recognized of £0.3 million (2021: £1.3 million) is included within "Other liabilities" in the consolidated balance sheet. See Note 13 for additional details.

7. (Loss)/profit before tax

(Loss)/Profit before tax is stated after charging:

	Year ended December 31,		
	2022 £'000s	2021 £'000s	2020 £'000s
Fees payable to the Company's Auditor for the audit of the consolidated accounts	371	358	449
Fees payable to the Company's Auditor for other services:			
Audit of subsidiary accounts	49	46	49
Audit related assurance services	59	57	318
Gain on modification of lease	–	–	(957)
Income from sub-lease	–	–	(646)
Depreciation of right-of-use assets	583	570	1,531
Depreciation (excluding right-of-use assets)	144	72	68

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 income/(loss).

8. Employees

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

	Year ended December 31,		
	2022 £'000s	2021 £'000s	2020 £'000s
By activity:			
Administrative	29	26	22
Research and development	20	19	17
Total	49	45	39

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

	Year ended December 31,		
	2022 £'000s	2021 £'000s	2020 £'000s
Included in research and development expenses:			
Salaries	4,590	4,126	3,046
Social security costs	456	402	397
Pension contributions	78	73	66
Share-based payment expenses	1,083	1,210	446
Included in administrative expenses:			
Salaries	4,478	3,763	4,832
Social security costs	606	418	681
Pension contributions	124	99	89
Share-based payment expenses	2,779	2,092	1,112
Total	14,194	12,183	10,669

Total compensation costs for Directors during the year was:

	Year ended December 31,		
	2022 £'000s	2021 £'000s	2020 £'000s
Salaries and fees	534	810	1,114
Benefits in kind	9	9	14
Pension contributions	42	58	61
Bonus	226	239	538
Total	811	1,116	1,727

During 2022, one Director was a member of a defined contribution pension scheme (2021: one; 2020: one). Further details concerning the remuneration of key management personnel is included in Note 27. In respect of directors' remuneration, amounts are included in the detailed disclosures in the audited section of the Directors' Remuneration report on Page 31, which are ascribed as forming part of these financial statements.

9. Other income/expenses and adjustments

Finance income

	Year ended December 31,		
	2022 £'000s	2021 £'000s	2020 £'000s
Bank interest earned	696	1	5
Gain on short-term investments	–	–	39
Total	696	1	44

Finance costs

	Year ended December 31,		
	2022 £'000s	2021 £'000s	2020 £'000s
Interest on convertible loan notes	(2,660)	(3,549)	(2,241)
Interest on bank loan	–	–	(2,900)
Interest on lease liabilities	(209)	(227)	(1,085)
Discounting of provision on deferred cash consideration	(451)	(225)	(157)
Other	(41)	(21)	–
Total	(3,361)	(4,022)	(6,383)

Changes in the fair value of financial instruments

	Year ended December 31,		
	2022 £'000s	2021 £'000s	2020 £'000s
Changes in the fair value of warrants – private placement	7,593	39,535	(45,977)
Changes in the fair value of warrants – bank loan	212	504	(714)
Changes in the fair value of embedded derivative	–	–	(63,158)
Total	7,805	40,039	(109,849)

Other income and expenses

In February 2022, the Company received a milestone payment of $2.0 million (£1.5 million) under the Navi License Agreement with OncXerna. An associated payment was made to the former shareholders of Mereo BioPharma 5, Inc. under the Contingent Value Rights Agreement ("CVR") of a total of $0.9 million (£0.7 million), after deductions of costs, charges and expenditures, which resulted in other income, net of £0.8 million.

10. Taxation

	Year ended December 31,		
	2022 £'000s	2021 £'000s	2020 £'000s
UK corporation tax R&D credit	1,296	–	2,822
Tax credit/(charge)	601	(1,516)	–
Total	1,897	(1,516)	2,822

U.K. income tax

The Company is entitled to claim tax credits in the United Kingdom under the U.K. 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").

U.S. income tax

During the year-ended December 31, 2022, the Company received £0.8 million related to Alternative Minimum Tax ("AMT") credits, previously recognized as other taxes recoverable within the consolidated balance sheet. The Company generates R&D tax credits for U.S. federal and state purposes. In respect of these R&D tax credits, no deferred tax assets have been recognized in any periods presented. As of December 31, 2022, the Company had an uncertain tax position of £3.1 million, representing approximately 20% of these historic R&D tax losses claimed.

Reconciliation of effective tax rate

	Year ended December 31,		
	2022 £'000s	2021 £'000s	2020 £'000s
(Loss)/profit on ordinary activities before income tax	(36,093)	14,241	(166,450)
Tax on profit at standard U.K rate of 19%	6,857	(2,706)	31,626
Expenses not deductible for income tax purposes (permanent differences)	(965)	(708)	(13,270)
Income not taxable	12	78	4
Temporary timing differences	–	(65)	–
R&D relief uplift	558	1,435	1,214
Losses (unrecognized)	(4,810)	(345)	(14,479)
Foreign tax	422	505	184
Differences in overseas tax rates	323	286	261
Derecognition of deferred tax	–	–	(2,686)
Effects of carryback loss relief	(649)	–	–
Adjustments in respect of prior years	612	–	–
Other	(463)	4	(32)
Tax credit/(charge) for the year	1,897	(1,516)	2,822

Deferred tax

The analysis of unrecognized deferred tax is set out below:

	Year ended December 31,		
	2022 £'000s	2021 £'000s	2020 £'000s
Losses	47,209	44,683	37,021
Loan relationships	443	73	421
U.S tax credits	12,206	10,557	9,880
R&D capitalization	3,001	–	–
Fixed assets	–	–	414
Share options	434	151	55
Other U.S deferred tax	–	31	86
Other	–	–	137
Temporary differences	51	56	18
Net deferred tax asset (unrecognized)	63,344	55,551	48,032

The analysis of recognized deferred tax is set out below:

	At January 1, 2022 £'000s	Recognized in income £'000s	At December 31, 2022 £'000s
Deferred tax liabilities			
Intangible asset and right-of-use asset	(20)	(156)	(176)
Deferred tax asset			
Net operating losses and lease liability	20	156	176
Net deferred tax asset/(liability)	–	–	–

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.

U.K. 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 profit/(loss) before tax is 19% (2021: 19%). The Finance Act 2021, which was substantively enacted on May 24, 2021, included provisions to increase the standard rate of U.K. corporation tax from 19% to 25%, effective from April 1, 2023. As a result, U.K. deferred tax assets and liabilities have been measured at a rate of 25%.

At December 31, 2022, the Company had U.K. tax losses to be carried forward of approximately £125.8 million.

U.S. deferred tax

U.S. 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, 2022, the Company had U.S. federal tax losses to be carried forward of approximately £74.6 million, of which £67.7 million can be carried forward indefinitely and £6.9 million which will begin to expire in 2023. At December 31, 2022, the Company had U.S. state tax losses to be carried forward of approximately £4.0 million which begin to expire in 2027.

11. Earnings per share

Basic profit/(loss) per share is calculated by dividing the profit/(loss) attributable for the year to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted loss per share is based on dividing the loss attributable for the year, adjusted for the effect of diluted ordinary shares, by ordinary share equivalents, which includes the weighted average number of ordinary shares outstanding and the effect of dilutive ordinary share equivalents.

	Year ended December 31,		
	2022	2021	2020
Numerator – Basic earnings per share (£'000s):			
(Loss)/profit attributable to equity holders of the parent	(34,196)	12,725	(163,628)
Denominator – Basic earnings per share:			
Weighted average number of ordinary shares	603,196,403	527,818,648	338,953,141
(Loss)/profit per share – basic (£)	(0.06)	0.02	(0.48)
Numerator – Diluted earnings per share (£'000s):			
(Loss)/profit attributable to equity holders of the parent	(34,196)	12,725	(163,628)
Effect of dilutive ordinary shares	–	(38,523)	–
Numerator – Diluted earnings per share	(34,196)	(25,798)	(163,628)
Denominator – Diluted earnings per share:			
Number of ordinary shares used for basic earnings per share	603,196,403	527,818,648	338,953,141
Weighted average effect of dilutive ordinary shares	–	27,457,163	–
Weighted average number of diluted ordinary shares outstanding	603,196,403	555,275,811	338,953,141
Loss per share – diluted (£)	(0.06)	(0.05)	(0.48)

For the years ended December 31, 2022 and 2020, share options, convertible loan notes and warrants were anti-dilutive as they would have decreased the loss per share and were excluded from the calculation of diluted loss per share. Therefore, the weighted average shares outstanding used to calculate both the basic and diluted loss per share was the same. For the year ended December 31, 2021, the effect of dilutive ordinary shares, net of the current year tax charge, is related to Company's outstanding warrants. Share options and convertible loan notes were anti-dilutive for the same year.

12. Property, plant and equipment

	Right-of-use asset (buildings) £'000s	Right-of-use asset (equipment) £'000s	Leasehold improve-ments £'000s	Office equipment £'000s	IT equipment £'000s	Total £'000s
Cost of valuation						
At January 1, 2022	2,903	295	557	173	180	4,108
Additions	–	–	–	7	3	10
Disposals	(451)	(300)	–	(16)	(10)	(777)
Currency translation effects	13	5	–	–	–	18
At December 31, 2022	2,465	–	557	164	173	3,359
Depreciation						
At January 1, 2022	(1,025)	(231)	(124)	(69)	(129)	(1,578)
Disposals	451	300	–	16	10	777
Depreciation for the year	(514)	(69)	(95)	(23)	(26)	(727)
At December 31, 2022	(1,088)	–	(219)	(76)	(145)	(1,528)
Net book value						
At January 1, 2022	1,878	64	433	104	51	2,530
At December 31, 2022	1,377	–	338	88	28	1,831

	Right-of-use asset (buildings) £'000s	Right-of-use asset (equipment) £'000s	Leasehold improve-ments £'000s	Office equipment £'000s	IT equipment £'000s	Total £'000s
Cost of valuation						
At January 1, 2021	1,848	1,169	164	71	132	3,384
Additions	923	–	393	109	48	1,473
Lease modification	133	30	–	–	–	163
Disposals	–	(868)	–	(7)	–	(875)
Currency translation effects	(1)	(36)	–	–	–	(37)
At December 31, 2021	2,903	295	557	173	180	4,108
Depreciation						
At January 1, 2021	(531)	(1,023)	(85)	(65)	(107)	(1,811)
Disposals	–	868	–	7	–	874
Depreciation for the year	(494)	(76)	(39)	(11)	(22)	(642)
At December 31, 2021	(1,025)	(231)	(124)	(69)	(129)	(1,578)
Net book value						
At January 1, 2021	1,318	146	79	6	25	1,573
At December 31, 2021	1,878	64	433	104	51	2,530

In August 2022, the Company's lease for office space in Redwood City, California expired, and certain equipment was disposed. In June 2021, the Company entered into a new lease agreement for additional office space in London, UK. The Company also extended the lease term of the existing office space, which resulted in the modification of the right-of-use asset.

The Company leases office space and equipment for use in administrative and research and development activities. In the year-ended December 31, 2022, the Company made lease payments of £0.9 million (2021: £0.7 million). The maturity of lease liabilities as of December 31, 2022 are as follows:

	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	466	1,072	150	–	1,688

Further details on the movements within lease liability are included in Note 23.

13. Intangible assets

	Acquired development programs £'000s
Cost	
At January 1, 2021	33,005
At December 31, 2021	33,005
At December 31, 2022	33,005
Revisions to estimated value	
At January 1, 2021	(1,357)
Revision to estimated value	2,373
Out-license of intangible asset	(9,457)
At December 31, 2021	(8,441)
Revision to estimated value	(448)
At December 31, 2022	(8,889)
Net book value	
At December 31, 2021	24,564
At December 31, 2022	24,116

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

On January 25, 2021, the Company's license and collaboration agreement with Ultragenyx for the development and commercialization of setrusumab for OI became effective. Under the terms of the agreement, the Company received an upfront payment of £36.5 million ($50 million). Additionally, the Company will be eligible to receive up to $254 million in future milestones and royalties. The license and collaboration agreement grants Ultragenyx an exclusive license to develop and commercialize setrusumab in the US and rest of the world, excluding Europe where the Company retains commercial rights. As a result, intangible assets with a carrying value of £9.5 million were derecognized and recorded within "Cost of revenue" in the Company's consolidated statement of comprehensive income/(loss). Refer to Note 3 for additional information.

In October 2017, the Company acquired the exclusive license for alvelestat and included the option to acquire certain assets from AstraZeneca AB ("AstraZeneca"). On that date the fair value of alvelestat 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 £0.4 million (2021: increase of £2.4 million) due to changes in estimated timelines and the probability of contractual milestones being achieved. Refer to Note 18 and Note 24 for additional information.

During the year the Company did not revise the value of any other intangible assets. As the intangible assets remain under development, no amortization charge has been recognized (2021: £nil).

14. 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:

	December 31, 2022 £'000s	December 31, 2021 £'000s
BPS-804/UX143 (setrusumab)	2,159	2,159
MPH-966 (alvelestat)	7,760	8,208
BGS-649 (leflutrozole)	9,886	9,886
BCT-197 (acumapimod)	4,311	4,311
Total	24,116	24,564

The Company 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, 2022. Management believes 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 Company receives upfront payments, milestone receipts and royalties on commercial sales; therefore, the Company 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 Company and is applied consistently across each of the acquired development programs. The cost of capital was determined to be 15.0% (2021: 12.0%).

Where an out-licensing agreement has been reached with a third party, 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.

15. Other receivables

	December 31, 2022 £'000s	2021 £'000s
Lease deposits	293	408
VAT recoverable	362	387
Other	107	624
Total	762	1,419

16. Cash and short-term deposits

	December 31, 2022 £'000s	2021 £'000s
Cash	5,230	93,727
Short-term deposits	51,104	569
Total	56,334	94,296

Short-term deposits are available immediately or within 90 days and earn interest at the respective short-term deposit rates.

17. Trade and other payables

	December 31, 2022 £'000s	2021 £'000s
Trade payables	2,886	2,285
Social security and other taxes	167	190
Other payables	25	24
Total	3,078	2,499

Trade and other payables are non-interest bearing and have an average term of one month.

18. Provisions

	December 31, 2022 £'000s	2021 £'000s
Social security contribution on vested share options	9	–
Provision for deferred cash consideration	4,634	4,123
Restructuring	179	–
Total	4,822	4,123
Current	4,822	2,803
Non-current	–	1,320

	Social security contribution on vested share options £'000s	Deferred cash consideration £'000s	Restructuring
At January 1, 2021	109	1,525	–
Arising/(released) during the year, net	(109)	–	–
Increase in provision due to the unwinding of the time value of money	–	225	–
Increase in provision due to a change in estimates relating to timelines and probabilities of contractual milestones being achieved (revision to intangible asset, see Note 13)	–	2,373	–
At December 31, 2021	–	4,123	–
Arising/(released) during the year, net	9	–	179
Increase in provision due to the unwinding of the time value of money	–	451	–
Increase in provision due to changes in foreign exchange rates	–	508	–
Decrease in provision due to a change in estimates relating to timeline and probabilities of contractual milestones being achieved (revision to intangible asset, see Note 13)	–	(448)	–
At December 31, 2022	9	4,634	179

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 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 13). This provision is calculated as the risk-adjusted net present value of future cash payments to be made by the Company. 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.

In October 2022, the Company announced an updated operating plan, including a targeted reduction in the employee base of up to 40% and a significant reduction in other costs. In connection with the implementation of the operating plan, restructuring costs primarily relating to employee severance and other termination benefits of £0.2 million were paid during the year and as of December 31, 2022, the remaining provision is £0.2 million.

19. 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 30, 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 principal 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 remained outstanding as of December 31, 2020. See Note 21.

During the year ended December 31, 2022, the Company issued and allotted 40,020,280 ordinary shares (2021: 40,397,976 ordinary shares) at a price of £0.174 per share on conversion of Loan Notes. As of December 31, 2022, Loan Notes in an aggregate principal amount of £6.2 million (2021: £12.4 million) remain outstanding.

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 on June 30, 2023. The Warrants can be exercised for cash or on a cashless basis at the discretion of the warrant holder. Certain 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.

20. Warrant liability

	December 31, 2022 £'000s	2021 £'000s
At January 1	8,336	50,775
Issued during the year	–	–
Settled during the year	–	(2,400)
Fair value changes during the year	(7,805)	(40,039)
At December 31	**531**	**8,336**

The change in fair value of the warrant liability represents an unrealized gain in the years ended December 31, 2022 and 2021.

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 in the Company. The warrants were conditional on certain Resolutions being passed at the Company's 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 30, 2023. The warrants are classified as liabilities as the Company does not have an unconditional right to avoid redeeming the instruments for cash. The fair value of the warrant liability was £0.4 million as of December 31, 2022 (£8.0 million as of December 31, 2021). The change in the fair value of £7.6 million was recognized as a gain in the consolidated statement of comprehensive (loss)/income. During the year-ended December 31, 2022, no warrants were exercised (2021: 15,414,626). Refer to Note 22 for details of the warrant exercises.

Warrants – bank loan

As of December 31, 2022 and 2021, the former lenders of the Company have warrants outstanding to purchase a total of 1,243,908 ordinary shares at an exercise price of £2.95 per share exercisable until August 2027 and a total of 1,243,908 ordinary shares at an exercise price of $0.4144 per share exercisable until October 2028.

At December 31, 2022, the fair value of these warrants were £0.1 million (2021: £0.3 million). There were no warrants exercised during the year ended December 31, 2022 (2021: nil).

Total outstanding warrants

At December 31, 2022, a total of 147,431,351 warrants are outstanding (2021: 147,431,351). The warrants outstanding are equivalent to 24% of the issued ordinary share capital of the Company (2021: 25%).

The following table lists the weighted average inputs to the models used for the fair value of warrants:

	December 31, 2022	2021
Expected volatility (%)	95	75
Risk-free interest rate (%)	3.99	0.9
Expected life of warrants (years)	0.5	1.5
Market price of ADS ($)	0.75	1.60
Model used	Black-Scholes	Black-Scholes

21. Convertible loan notes

	December 31, 2022 £'000s	2021 £'000s
Novartis Loan Note	4,449	3,771
Loan Notes – private placement	6,636	10,613
Total	**11,085**	**14,384**
Current	11,085	–
Non-current	–	14,384

Novartis Loan Note

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 10, 2023. 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. Refer to Note 28 for additional information.

Loan Notes – private placement

The initial issuance of Loan Notes in an aggregate principal amount of £40.5 million were issued on June 3, 2020 and formed part of the private placement transaction (see Note 19) 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). In 2020, between initial recognition and the passing of the Resolutions (see Note 19), changes in the fair value of the embedded derivative totaling £63.2 million were recognized as an expense in the consolidated statement of comprehensive (loss)/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 of £41.6 million was recognized; no gain or loss was recognized on conversion. The remaining portion of the embedded derivative relating to the conversion feature attributable to the Loan Notes outstanding of £33.5 million 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. Refer to Note 22 for details of Loan Notes converted to equity.

	December 31, 2022 £'000s	2021 £'000s
January 1	10,613	12,946
Issued	–	–
Interest charge	1,981	2,974
Converted to equity	(5,958)	(5,307)
December 31	**6,636**	**10,613**

22. Issued capital and reserves

	Ordinary shares Number	Ordinary share capital £'000s	Share premium £'000s
As at January 1, 2020	**97,959,622**	**294**	**121,684**
Issued on February 11, 2020	14,295,520	43	2,511
Issued on February 20, 2020	12,252,715	37	2,267
Issued on June 4, 2020	89,144,630	267	15,244
Issued on June 30, 2020	125,061,475	375	21,386
Issued on December 23, 2020	239,179	1	–
Transaction costs for issued share capital	–	–	(1,307)
As at December 31, 2020	**338,953,141**	**1,017**	**161,785**
Issued during the year	245,955,098	738	85,909
Transaction costs for issued share capital	–	–	(234)
As at December 31, 2021	**584,908,239**	**1,755**	**247,460**
Issued during the year	40,020,280	120	6,843
As at December 31, 2022	**624,928,519**	**1,875**	**254,303**

Since January 1, 2020, 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.

- 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 Company 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;

- 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.

- On February 12, 2021, the Company issued and allotted 198,375,000 ordinary shares of the Company with a nominal value of £0.003 at a price of £0.395 per share, equivalent to 39,675,000 ADS at a price of $2.726 per ADS, after underwriting discounts and commissions, resulting in proceeds of £78.4 million. Transaction costs incurred for the issuance of share capital was £0.2 million.

- During the year ended December 31, 2021, 14,954,491 warrants (equivalent to 2,990,898 ADSs) were exercised by way of a cashless exercise resulting in 4,621,147 ordinary shares (924,229 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. A further 460,135 warrants (equivalent to 92,027 ADSs) were exercised on a cash basis at the exercise price of £0.348, which resulted in aggregate proceeds of £0.2 million.

- On May 4, 2021, the Company issued and allotted 2,100,840 ordinary shares of £0.003 in nominal value in the capital of the Company at a price of £0.517 per share to Cancer Focus Fund, as part of a non-cash, equity-settled transaction where the Company entered into partnership with Cancer Focus Fund for a Phase 1b/2 study of etigilimab in Clear Cell Ovarian Cancer to be conducted at The University of Texas MD Anderson Cancer Center. The study will be financed by Cancer Focus Fund, in exchange for upfront consideration of $1.5 million (£1.09 million) of the Company's ordinary shares and additional payments based on the achievement of certain milestones. The Company initially recognized a prepayment of £1.09 million with reference to fair value of the ordinary shares granted, of which £0.2 million was subsequently recorded in the consolidated statement of comprehensive income/(loss) during the year ended December 31, 2021.

- During the year ended December 31, 2021, the Company issued and allotted 40,397,976 ordinary shares of £0.003 in nominal value in the capital of the Company at an exercise price of £0.174 per share on non-cash conversion of Loan Notes.

- During the year ended December 31, 2022, the Company issued and allotted 40,020,280 ordinary shares of £0.003 in nominal value in the capital of the Company at an exercise price of £0.174 per share on non-cash conversion of Loan Notes.

Other capital reserves

	Share-based payments £'000s	Equity component of convertible loan notes £'000s	Other warrants issued £'000s	Merger reserve £'000s	Other reserves £'000s	Total £'000s
At January 1, 2020	**18,285**	**–**	**44**	**40,818**	**–**	**59,147**
Share-based payments expense during the year	1,558	–	–	–	–	1,558
Novartis convertible loan note instrument and warrants	–	1,084	–	–	–	1,084
Conversion of 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**
Share-based payments expense during the year	3,302	–	–	–	–	3,302
Share options exercised	(119)	–	–	–	–	(119)
Conversion of Loan Notes	–	(1,722)	–	–	–	(1,722)
At December 31, 2021	**23,026**	**32,843**	**44**	**40,818**	**33,104**	**129,835**
Share-based payments expense during the year	3,862	–	–	–	–	3,862
Share options exercised	(82)	–	–	–	–	(82)
Issuance of warrants	–	–	70	–	–	70
Conversion of Loan Notes	–	(1,005)	–	–	–	(1,005)
At December 31, 2022	**26,806**	**31,838**	**114**	**40,818**	**33,104**	**132,680**

Share-based payments

The Company has various share option schemes under which options to subscribe for the Company'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 26 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, 2022 is £1.08 million (December 31, 2021: £1.08 million).

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 embedded derivative financial liability extinguished (see Note 19).

Other warrants issued

The funding arrangements with The Alpha-1 Project are a compound instrument consisting of a liability and an equity component. In 2022, the Company issued 1,101,683 warrants over ordinary shares and received funding of £0.2 million, of which less than £0.1 million was allocated to the equity component. The total value of the equity component (consideration received for the warrants) as at December 31, 2022 is £0.1 million (2021: 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 Company'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,		
	2022	2021	2020
	£'000s	£'000s	£'000s
Other reserves	7,401	7,401	5,001
Accumulated losses	(331,164)	(296,968)	(309,693)

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. During the year ended December 31, 2021, 15,414,626 private placement warrants were exercised, resulting in a £2.4 million reduction in the warrant liability which was recognized as an addition to “Other reserves."

23. Changes in liabilities arising from financing activities

	Lease liability	Novartis loan Note	Warrant liability	Deferred cash consi-deration	Loan notes – private placement	Other	Total
Carrying value at January 1, 2021	1,794	3,196	50,775	1,525	12,946	62	70,298
Financing cash flows	(692)	—	—	—	—	—	(692)
Non-cash changes							
Settled during the year	—	—	(2,400)	—	(5,307)	—	(7,707)
Interest expense	230	575	—	206	2,974	18	4,003
Lease addition	910	—	—	—	—	—	910
Lease modification	163	—	—	—	—	—	163
Changes in fair value	—	—	(40,039)	2,373	—	—	(37,666)
Changes in foreign exchange	(29)	—	—	19	—	—	(10)
Carrying value at December 31, 2021	**2,376**	**3,771**	**8,336**	**4,123**	**10,613**	**80**	**29,299**
Financing cash flows	(937)	—	—	—	—	153	(784)
Non-cash changes							
Settled during the year	—	—	—	—	(5,958)	—	(5,958)
Interest expense	209	678	—	451	1,981	19	3,338
Issuance of warrants	—	—	—	—	—	(70)	(70)
Changes in fair value	—	—	(7,805)	(448)	—	—	(8,253)
Changes in foreign exchange	40	—	—	508	—	—	548
Carrying value at December 31, 2022	**1,688**	**4,449**	**531**	**4,634**	**6,636**	**182**	**18,120**

24. Financial and capital risk management and fair value measurement

Capital risk management

The Company'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 Company's R&D activities and operations. The Company's principal methods of adjusting the capital available are through issuing new shares, licensing and/or collaboration agreements or arranging suitable debt financing. The Company's share capital and share premium are disclosed in Note 22. The Company's convertible loans are disclosed in Note 21. The Company monitors the availability of capital with regards to its committed and forecasted future expenditure on an ongoing basis.

The Company has an Employee Benefit Trust which holds ADSs to satisfy exercises of options under the Company's share option schemes (see Note 26).

Financial risk management objectives and policies

The Company seeks to maintain a balance between equity capital and convertible debt to provide sufficient cash resources to execute the business plan. In addition, the Company 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.

Company's principal financial instruments comprise warrants, convertible loan notes and trade payables which arise directly from its operations. The Company has various financial assets, including receivables and cash and short-term deposits.

Interest rate risk

The Company'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.

The Company's interest payable on convertible loan notes is fixed. Consequently, there is no material exposure to interest rate risk in respect of interest payable.

Credit risk

The Company is dependent on a number of third parties for the delivery of its programs and, where required, pays upfront deposits and fees in advance of the delivery of services. The Company considers all of its material counterparties to be creditworthy and the credit risk for each of its major counterparties to be low, but continues to assess credit risk as part of its management of these third-party relationships. The Company's maximum exposure to credit risk for the components of the balance sheet at December 31, 2022 are the carrying amounts.

Liquidity risk

The Company's policy is to maintain adequate cash reserves at highly rated banks and financial institutions and also seeks to invest in short-term deposits to achieve a competitive rate of return. The Company's liquid resources are invested with regard to the timing of payments to be made in the ordinary course of business, while monitoring its funding requirements through preparation of short-term, mid-term and long-term forecasts.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments at December 31, 2022:

	Within 1 year £'000s	Between 1 and 3 years £'000s	Between 3 and 5 years £'000s	Over 5 years £'000s	Total £'000s
Leases	611	1,222	152	—	1,985
Trade and other payables	3,078	—	—	—	3,078
Accruals	4,491	—	—	—	4,491

The Company does not face a significant liquidity risk with regards to its lease liabilities.

The Company 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 Company entered into with various entities pursuant to which the Company 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.

Foreign currency and market risk

Foreign currency risk arises from R&D activities, commercial transactions and recognized assets and liabilities in foreign currencies, with the principal currency exposure being fluctuations in pound sterling, U.S. dollars and Euros.

The functional currency of the Company and all subsidiaries is pound sterling, except for Mereo BioPharma 5, Inc. whose functional currency is U.S. dollars. The Company 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 income/(loss).

Funding secured in 2021 and 2020 was principally in U.S dollars and, although the Company currently has no revenue from product sales, proceeds received from upfront milestones under its licensing and collaboration agreements are denominated in U.S. dollars, while the majority of operating costs are denominated in pound sterling, U.S. dollars and Euros.

The Company seeks to minimize this exposure by passively maintaining foreign currency cash balances at levels appropriate to meet foreseeable foreign currency expenditures. The Company 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:

	December 31, 2022 £'000s	2021 £'000s
Pound sterling	52,812	92,104
U.S. dollars	2,484	2,018
Euro	1,029	165
Swiss francs	9	9
Total	**56,334**	**94,296**

The table below shows those transactional exposures that give rise to net currency gains and losses recognized in the consolidated statement of comprehensive income/(loss). Such exposures comprise the net monetary assets and monetary liabilities of the Company that are not denominated in the functional currency of the relevant subsidiary. As at December 31, these exposures were as follows:

	December 31, 2022 £'000s	2021 £'000s
Net foreign currency assets/(liabilities)		
U.S. dollars	872	920
Euro	768	(142)
Swiss francs	(179)	9
Total	**1,461**	**787**

The most significant currencies in which the Company transacts, other than pound sterling, are the U.S. dollar and the Euro. The Company 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 U.S. dollar and the Euro against pound sterling:

December 31, 2022	U.S. dollar £'000s	Euro £'000s
Loss before tax	(79)	(70)
Equity	(79)	(70)

December 31, 2021	U.S. dollar £'000s	Euro £'000s
Profit before tax	(84)	13
Equity	(84)	13

Financial instruments by category

	Fair value through profit or loss December 31,		Amortized cost December 31,	
	2022 £'000s	2021 £'000s	2022 £'000s	2021 £'000s
Financial assets				
Cash and short-term deposits	—	—	56,334	94,296
Other receivables	—	—	400	1,032
Total financial assets	**—**	**—**	**56,734**	**95,328**
Financial liabilities				
Provisions	4,634	4,123	187	–
Convertible loan notes	—	—	11,086	14,384
Warrant liability	531	8,336	—	—
Trade and other payables	—	—	2,911	2,309
Accruals	—	—	4,491	3,826
Lease liability	—	—	1,688	2,376
Total financial liabilities	**5,165**	**12,459**	**20,363**	**22,895**

The carrying values of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements are approximately equal to their fair values.

Fair value hierarchy

Liabilities measured at fair value	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
Provision for deferred consideration (Note 18)	December 31, 2022	4,634	—	—	4,634
Warrant liability (Note 20)	December 31, 2022	531	—	129	402

Liabilities measured at fair value	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
Provision for deferred consideration (Note 18)	December 31, 2021	4,123	—	—	4,123
Warrant liability (Note 20)	December 31, 2021	8,336	—	341	7,995

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2022 and 2021.

The following table presents the changes in Level 3 items for the years ended December 31, 2022 and December 31, 2021.

	Provision for deferred cash consideration £'000s	Warrant liability £'000s
January 1, 2021	1,525	49,930
Settled during the year	—	(2,400)
Unwinding of the time value of money (recognized as a finance cost)	225	—
Change in estimate relating to probabilities (revision to intangible asset, see Note 13)	2,373	—
Change in fair value	—	(39,535)
December 31, 2021	**4,123**	**7,995**
Unwinding of the time value of money (recognized as a finance cost)	451	—
Change in foreign exchange rates	508	—
Change in estimate relating to probabilities (revision to intangible asset, see Note 13)	(448)	—
Change in fair value	—	(7,593)
December 31, 2022	**4,634**	**402**

The following methods and assumptions were used to estimate the fair values:

- 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. The Company 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, 2022, the Company estimates the fair value of the contingent consideration liability to be £nil. CVR payments of £0.7 million in 2022 and £0.4 million in 2020 were made relating to the Navi milestones received from OncXerna. 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 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 and rates of interest at each reporting date.

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, 2022 and 2021 are as follows:

	Valuation technique	Significant unobservable inputs	Input range (weighted average)	Sensitivity of the input to fair value
Provision for deferred cash consideration	Discounted cash flow	WACC	2022: 15%	1% increase/decrease would result in a decrease/increase in fair value by £25,000
		WACC	2021: 12%	1% increase/decrease would result in a decrease/increase in fair value by £31,000
		Probability of success	2022: 40.6%-81.2%	10% increase/decrease would result in an increase/decrease in fair value by £0.6 million
		Probability of success	2021: 40.6%-81.2%	10% increase/decrease would result in an increase/decrease in fair value by £0.5 million
Contingent consideration liability	Discounted cash flow	Ongoing uncertainty in the clinical development of the Navi product Regulatory approval and commercialization risks		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 license agreement as detailed in Note 13. Although pursuant to the license agreement the Company is entitled to additional payments of up to $302 million, there continues to be significant uncertainty in respect of any milestone and royalty payments under the license agreement.
Warrant liability related to the private placement	Black-Scholes model	Expected volatility	2022: 95.5%	Volatility was estimated by reference to the 0.4 year historical volatility of the historical share price of the Company, matching the maturity of the instrument. If the volatility is decreased to 91.8% based on 3-month historical volatility, the carrying value of the warrants as of December 31, 2022 would decrease to £0.3 million.
		Expected volatility	2021: 75.1%	Volatility was estimated by reference to the 1.4 years historical volatility of the historical share price of the Company, matching the maturity of the instrument. If the volatility is decreased to 67.4% based on 1-year historical volatility, the carrying value of the warrants as of December 31, 2021 would decrease to £6.7 million.

25. Commitments and contingencies

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 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 alvelestat, 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 Company 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 Company 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 alvelestat. In addition, the Company has agreed to make payments to AstraZeneca based on specified commercial milestones of the product. The Company 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 Company 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 Company 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 Company for such product in such country will become fully paid and irrevocable. Prior to exercise of the Option, if at all, the Company 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.

The Company enters into contracts in the normal course of business with contract research organizations ("CROs"), contract manufacturing organizations ("CMOs") and other third parties to assist in the performance of research and development activities and other services and products for operating purposes. The contracts with CROs generally provide for termination on notice, and therefore, are cancellable contracts and not included herein. The Company has manufacturing commitments with CMOs of £0.9 million as of December 31, 2022.

26. Share-based payments

The charge for share-based payments arises across the following schemes:

	Year ended December 31,		
	2022 £'000s	2021 £'000s	2020 £'000s
2019 Equity Incentive Plan	3,149	2,860	922
2019 NED Equity Incentive Plan	713	499	167
2015 Plan	—	—	3
Mereo BioPharma Group plc Share Option Plan	—	68	376
Long Term Incentive Plan	—	(125)	90
Total	**3,862**	**3,302**	**1,558**

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, and subsequently amended on February 3, 2020 and January 15, 2021. 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 ADSs to non-executive directors.

During the years ended December 31, 2022, 2021 and 2020, 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 years ended December 31, 2022, 2021 and 2020, 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.

During the year ended December 31, 2022, deferred restricted stock units ("Deferred RSUs") under the 2019 NED EIP were granted to NEDs who elected to receive Deferred RSUs over ADSs in lieu of annual cash compensation for the period commencing February 1, 2022. Subject to the continued service of the NEDs, the Deferred RSUs vest in substantially equal monthly installments over the year. Payment of Deferred RSUs in ADSs will generally be made 180 days following separation of service.

The number of Deferred RSUs to be granted were determined by dividing the estimated amount of the annual cash compensation by the average closing trading price of the Company's ADSs over the most recent 30 trading days as of the grant date.

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 and the number of Deferred RSUs for the 2019 NED EIP during the year-ended December 31, 2022:

	2019 EIP			2019 NED EIP	
	Options over ADS Number	WAEP $	Deferred RSUs Number	Options over ADS Number	WAEP $
Outstanding at January 1, 2022	3,943,702	2.88	—	421,791	2.90
Granted during the year	4,126,400	1.38	386,144	535,488	1.22
Cancelled during the year	(1,164,197)	1.83	(42,104)	(42,192)	1.01
Forfeited during the year	(48,044)	3.97	—	—	
Exercised during the year	—	—	—	—	
Outstanding at December 31, 2022	**6,857,861**	**2.15**	**344,040**	**915,087**	**2.00**
Exercisable at December 31, 2022	2,082,027	2.95	–	832,584	2.09

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-ended December 31, 2021:

	2019 EIP		2019 NED EIP	
	Options over ADS Number	WAEP $	Options over ADS Number	WAEP $
Outstanding at January 1, 2021	1,567,873	2.94	149,416	3.06
Granted during the year	2,696,960	2.83	296,000	2.81
Cancelled during the year	(253,277)	2.66	(23,625)	2.72
Forfeited during the year	(28,521)	5.37	—	—
Exercised during the year	(39,333)	2.11	—	—
Outstanding at December 31, 2021	**3,943,702**	**2.88**	**421,791**	**2.90**
Exercisable at December 31, 2021	727,698	3.16	386,623	2.91

The weighted average remaining contractual life for the share options outstanding as at December 31, 2022 for the 2019 EIP was 8.4 years (2021: 8.7 years) and for the 2019 NED EIP was 8.5 years (2021: 8.6 years).

The weighted average fair value of options granted during the year was $1.20 per ADS (2021: $2.50 per ADS). Options outstanding at the end of the year had an exercise price of between $0.51 and $5.40 per ADS. The weighted average fair value of Deferred RSUs over ADSs granted during the year was $0.99 per ADS.

The 2015 Plan

Under the Mereo BioPharma Group Limited Share Option Plan (the "2015 Plan"), the Company, at its discretion, granted share options to acquire ordinary shares 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 share options were granted during the year under the 2015 Plan and no further share option grants are envisaged.

	2022		2021	
	Options Number	WAEP £	Options Number	WAEP £
Outstanding at January 1	8,297,694	1.31	8,923,600	1.32
Forfeited during the year	(423,164)	1.55	(625,906)	1.29
Outstanding at December 31	**7,874,530**	**1.46**	**8,297,694**	**1.31**
Exercisable at December 31	7,874,530	1.46	8,297,694	1.31

The weighted average remaining contractual life for the share options outstanding as at December 31, 2022 was 2.6 years (2021: 3.6 years). Options outstanding at the end of the year had an exercise price of between £1.43 and £2.44 per ordinary share.

The Mereo Share Option Plan

The Mereo 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.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, options for the Option Plan during the year:

	2022		2021	
	Options Number	WAEP £	Options Number	WAEP £
Outstanding at January 1	1,323,965	3.04	1,411,395	3.14
Forfeited during the year	(770,805)	3.32	(87,430)	3.11
Outstanding at December 31	**553,160**	**3.49**	**1,323,965**	**3.04**
Exercisable at December 31	553,160	3.49	1,323,965	3.04

The weighted average remaining contractual life for the share options outstanding as at December 31, 2022 was 4.8 years (2021: 5.6 years). Options outstanding at the end of the year had an exercise price of between £3.05 and £3.59 per ordinary share.

Long Term Incentive Plan

Under the Company's Long Term Incentive Plan (LTIP), initiated in 2016, the Company, 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-market 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.

	2022 Number	2021 Number
Outstanding at January 1	—	482,748
Lapsed during the year	—	(482,748)
Outstanding at December 31	**—**	**—**
Exercisable at December 31	–	–

All LTIP options lapsed during the year ended December 31, 2021. No LTIP options were granted during the years ended December 31, 2021 and 2022 and no further grants are envisaged.

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.

The outstanding number of options as at December 31, 2021 was 100,817 all of which were exercisable and had a weighted average life of 0.1 years. During the year ended December 31, 2022, 22,592 options lapsed (2021: 62,183) and 78,225 options were exercised (2021: nil). There are no options outstanding as at December 31, 2022.

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.

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.

Weighted average inputs

The following table includes the weighted average inputs to the models used for the fair value of share options granted during the year ended December 31, 2022:

	2019 EIP	2019 NED EIP
Expected volatility (%)	96	96
Risk-free interest rate (%)	1.83	1.96
Expected life of share options (years)	10	10
Market price of ADSs ($)	1.38	1.22
Model used	Black-scholes	Black-scholes

During the year ended December 31, 2022, no grants of share options were issued under any other scheme.

The following table includes the weighted average inputs to the models used for the fair value of share options granted during the year ended December 31, 2021:

	2019 EIP	2019 NED EIP
Expected volatility (%)	97	98
Risk-free interest rate (%)	1.15	1.09
Expected life of share options (years)	10	10
Market price of ADSs ($)	2.83	2.81
Model used	Black-scholes	Black-scholes

During the year ended December 31, 2021, no grants were issued under any other scheme.

The expected volatility inputs for the years ended December 31, 2022 and 2021 reflect the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends.

27. Related party disclosures

Compensation of key management personnel of the Company

The remuneration of key management personnel of the Company is set out below in aggregate:

	Year ended December 31,		
	2022 £'000s	2021 £'000s	2020 £'000s
Short-term benefits	3,699	4,018	4,479
Post-employment benefits	158	173	144
Share-based payment charge	3,043	2,559	875
Total	**6,900**	**6,750**	**5,498**

The amounts disclosed in the table above are the amounts recognized as an expense during the reporting period related to key management personnel. In 2022, key management personnel of the Company consisted of the executive director (the Chief Executive Officer), non-executive directors, and other members of senior executive management (the Chief Financial Officer, the General Counsel, the Chief Portfolio Management and Pipeline Strategy, Chief Business Officer, Chief Scientific Officer, the Chief Patient Access and Commercial Planning, the Senior Vice President Clinical Development, and Senior Vice President and Therapeutic Head).

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 (see Note 26).

No funding was loaned to the EBT by the Company during the year ended December 31, 2022 or 2021. During the years ended December 31, 2022 and 2021, no ordinary shares were purchased by the EBT. A total of 15,645 ADSs held by the EBT were used in the year-ended December 31, 2022 to satisfy the exercise of options under the Company's share-based incentive schemes (2021: 31,205). As of December 31, 2022, the EBT holds 200,606 ADSs (2021: 216,251) along with £17,741 in cash (2021: £17,866).

28. Events after the reporting period

On February 10, 2023, the Company amended the Novartis Loan Note, extending the maturity date to February 10, 2025. Pursuant to the amendment and a new warrant instrument, interest accrued to the amendment date was paid in cash and warrants to purchase 2,000,000 ordinary shares at an exercise price of £0.150 per ordinary share were issued and are exercisable until February 10, 2028.

	Notes	As at December 31, 2022 £'000s	2021 £'000s
Assets			
Non-current assets			
Property, plant and equipment	6	1,823	2,397
Investments	4	172,369	191,710
		174,192	194,107
Current assets			
Prepayments		2,092	1,249
Other receivables		656	1,019
Cash and short-term deposits		56,098	93,815
		58,846	96,083
Current liabilities			
Trade and other payables		2,696	2,074
Current tax liabilities		418	484
Intercompany payable	5	16,441	34,694
Accruals		2,465	2,420
Lease liability		466	362
Provisions	8	9	–
Convertible loan notes	7	11,085	–
Warrant liability	9	402	–
		33,982	40,034
Net current liabilities		24,864	56,048
Total assets less current liabilities		199,056	250,156
Non-current liabilities			
Convertible loan notes	7	–	14,384
Warrant liability	9	129	8,336
Lease liability		1,222	1,753
Other liabilities		182	80
		1,533	24,553
Net assets		197,523	225,603
Equity shareholders' funds			
Share capital	10	1,875	1,755
Share premium	10	254,303	247,460
Other capital reserves	10	132,680	129,835
Other reserves	10	7,401	7,401
Employee Benefit Trust shares	12	(1,058)	(1,140)
Accumulated losses		(197,678)	(159,708)
Total equity shareholders' funds		197,523	225,603

The accompanying notes form an integral part of these 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. The Company's loss for the financial year ended December 31, 2022 was £38.0 million (2021: profit of £22.7 million).

Approved by the Board on March 28, 2023 and signed on its behalf by:

Dr. Denise Scots-Knight
Director
March 28, 2023

Company number: 09481161 (England and Wales)

	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 December 31, 2020	1,017	161,785	128,374	(1,305)	5,001	(182,415)	112,457
Profit for the year	–	–	–	–	–	22,707	22,707
Share-based payments	–	–	3,302	–	–	–	3,302
Issuance of share capital, net	601	78,609	–	–	–	–	79,210
Exercise of share options	–	–	(119)	165	–	–	46
Conversion of loan notes and warrants	137	7,066	(1,722)	–	2,400	–	7,882
At December 31, 2021	1,755	247,460	129,835	(1,140)	7,401	(159,708)	225,603
Loss for the year	–	–	–	–		(37,970)	(37,970)
Share-based payments	–	–	3,862	–	–	–	3,862
Exercise of share options	–	–	(82)	82			–
Conversion of loan notes	120	6,843	(1,005)	–	–	–	5,958
Issuance of warrants	–	–	70	–	–	–	70
At December 31, 2022	1,875	254,303	132,680	(1,058)	7,401	(197,678)	197,523

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, 2022.

There were a number of narrow scope amendments to existing standards which were effective from January 1, 2022. 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) 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).

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, 2022. 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 £38.0 million (2021: profit of £22.7 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 35 (2021: 34). The average number of employees during the year by activity was 23 administrative employees (2021: 25) and 12 research and development employees (2021: 9). Total compensation costs for persons employed by the Company (including Executive Directors) during the year was £6.3 million (2021: £6.4 million), comprised of salaries of £3.3 million (2021: £3.8 million), social security costs of £0.5 million (2021: £0.7 million), pension contributions of £0.1 million (2021: £0.2 million) and share-based payments expenses of £2.4 million (2021: £1.7 million). Further information about share-based payment transactions is provided in note 11 of the consolidated financial statements. In respect of directors' remuneration, amounts are included in the detailed disclosures in the audited section of the Directors' Remuneration Report on page 31, which are ascribed as forming part of these financial statements.

4. Company information

4.1 Investments in subsidiaries

Cost	£'000s
At January, 2021	**205,304**
Additions in the year	5,659
Share-based payments to Group employees	1,582
At December 31, 2021	**212,545**
Additions in the year	6,937
Share-based payments to Group employees	1,469
At December 31, 2022	**220,951**
Provision for impairment	
At January 1, 2021	**20,835**
At December 31, 2021	**20,835**
Charge during the year	27,747
At December 31, 2022	**48,582**
Net book value	
At December 31, 2022	**172,369**
At December 31, 2021	191,710

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.

In the year-ended December 31, 2022, an impairment loss of £27.7 million was recorded (2021: nil). The impairment loss was due to the recoverable value of investments in subsidiaries falling below the carrying amount (held at cost, in accordance with the Company's accounting policies). The recoverable value of the investments were measured based on the value in use, and the discount rate used in the calculation of value in use was 15% (2021: 12%). 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, 2022	% equity interest December 31, 2021
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	–	–

*Indirect holdings

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 £8.4 million (2021: £7.2 million) by Mereo BioPharma Group plc to its subsidiaries was recorded in the year to December 31, 2022. £1.5 million (2021: £1.6 million) has been recorded for the granting of employees' share options for services rendered by the employees to the subsidiaries. £6.9 million (2021: £5.7 million) has been recorded for the conversion of intercompany balances at original cost.

As at December 31, 2022, a total capital contribution of £7.5 million (2021: £6.0 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, 2022, a total capital contribution of £172.6 million (2021: £165.6 million) by Mereo BioPharma Group plc to its subsidiaries has been recorded for the conversion of intercompany balances at original cost.

5. Amounts owed to Group undertakings

As at December 31, 2022, amounts owed by the Company to Group undertakings is £16.4 million (2021: £34.7 million). These amounts are repayable on demand and bears an interest rate between 0% and 4.55%.

6. Property, plant and equipment

As at December 31, 2022, the net book value of right-of-use assets is £1.4 million which relates to a building.

	Right-of-use asset (building) £'000s	Right of use asset (equipment) £'000s	Leasehold improvements £'000s	Office equipment £'000s	IT equipment £'000s	Total £'000s
Cost						
At January 1, 2022	2,464	295	557	140	134	3,590
Additions	–	–	–	8	3	11
Disposals	–	(299)	–	–	–	(299)
Currency translation effects	–	4	–	–	–	4
At December 31, 2022	**2,464**	**0**	**557**	**148**	**137**	**3,306**
Depreciation						
At January 1, 2022	(702)	(231)	(124)	(36)	(99)	(1,192)
Disposals	–	299	–	–	–	299
Depreciation for the year	(386)	(68)	(95)	(23)	(18)	(590)
At December 31, 2022	**(1,088)**	**0**	**(219)**	**(59)**	**(117)**	**(1,483)**
Net book value						
At January 1, 2022	1,762	64	433	104	35	2,398
At December 31, 2022	**1,376**	**0**	**338**	**89**	**20**	**1,823**

The Group's lease liability resides in the Company. Details on the lease liability of the Company, including maturity analysis, are provided in Note 12 of the consolidated financial statements.

7. Convertible loan notes

The Group's interest-bearing loans and borrowings all reside in the Company. Details on the convertible loan notes of the Company are provided in Note 21 of the consolidated financial statements.

8. Provisions

	Year ended December 31, 2022 £'000s	2021 £'000s
At beginning of year	**–**	**109**
Arising during the year	9	–
Released	–	(109)
At December 31,	**9**	**–**
Current	9	–
Non-current	–	–

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.

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 22 of the consolidated financial statements.

11. Share-based payments

The charge for share-based payments arises across the following schemes:

	Year ended December 31, 2022 £'000s	2021 £'000s
2015 Plan	–	–
Mereo BioPharma Group plc Share Option Plan	–	35
Long Term Incentive Plan	–	(125)
2019 Equity Incentive Plan	1,681	1,310
2019 NED Equity Incentive Plan	713	499
	2,394	**1,719**

Details on the share-based payments of the Company, including deferred equity consideration, are provided in Note 26 of the consolidated financial statements.

12. Related party disclosures

Details on related parties are provided in Note 27 of the consolidated financial statements.

13. Events after the reporting period

Details on events after the reporting period are provided in Note 28 of the consolidated financial statements.