Company Number 09481161

MEREO BIOPHARMA GROUP PLC

Annual Report and Accounts
Year ended December 31, 2023

MEREO BIOPHARMA GROUP PLC
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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 Capital 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, where the "Company" is referred to throughout the consolidated financial statements, this refers to Mereo BioPharma Group plc and its subsidiaries. Where the "Company" is referred to in the company only accounts, this refers to Mereo BioPharma Group plc only), audited company financial statements and auditors’ report for the year ended December 31, 2023.

The Company has also filed with the U.S. Securities and Exchange Commission (the “SEC”) its Annual Report on Form 10-K for the year ended December 31, 2023, which contains additional disclosures regarding some of the matters discussed in this report. In previous years, the Company filed its Annual Report on Form 20-F, as it qualified as a Foreign Private Issuer ("FPI"). On June 30, 2023, the Company determined it would no longer qualify as an FPI and effective January 1, 2024, the Company began complying with and reporting under the SEC rules and Nasdaq listing requirements applicable to U.S. domestic filers.

Business overview and strategy

We are a biopharmaceutical company focused on the development of innovative therapeutics for rare diseases. We have developed a portfolio of late-stage clinical product candidates. Our two rare disease product candidates are setrusumab for the treatment of osteogenesis imperfecta (OI) and alvelestat primarily for the treatment of severe alpha-1 antitrypsin deficiency-associated lung disease (AATD-LD). Setrusumab has received orphan designation for OI from the European Medicines Agency (EMA) and the U.S. Food and Drug Administration (FDA), PRIME designation from the EMA and has rare pediatric disease designation from the FDA. Alvelestat has received U.S. Orphan Drug Designation for the treatment of AATD and Fast Track designation for the treatment of AATD-LD.

Our strategy is to selectively 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 rare diseases and oncology. Four of our six clinical-stage product candidates were acquired from large pharmaceutical companies and two were acquired in the merger with OncoMed Pharmaceuticals in 2019 ("the Merger"). We have successfully completed large, randomized Phase 2 clinical trials for four of our product candidates and the Phase 1b portion of a Phase 1b/2 for a fifth product candidate.

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 rare diseases involve close collaboration with key opinion leaders and investigators, and close coordination with patient organizations. Rare disease patients are typically 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 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 and potentially commercialize our rare disease product candidates.*** Our rare disease product candidates setrusumab and alvelestat have been acquired or in-licensed from pharmaceutical companies following strategic de-prioritization. Prior to this they have received significant investment in preclinical, toxicology, clinical studies and CMC. We have built expertise in the areas of patient identification, clinical study design and regulatory strategy. This combination of prior investment and our expertise has allowed us to rapidly develop our two rare disease product candidates. For example, setrusumab has completed a Phase 2 in adult OI patients and our partner Ultragenyx is now enrolling two Phase 3 studies in pediatric and young adult OI patients, and alvelestat has completed two Phase 2 studies and is now progressing into Phase 3. We may seek to partner our rare disease product candidates for further development where it makes strategic sense to do so. However, as commercialization of rare disease products requires a highly specialized and focused infrastructure, we may seek to commercialize

our rare disease product candidates, once approved, in select markets. For example, as part of our partnership with Ultragenyx, we have the retained the commercial rights to setrusumab in Europe and the U.K.

- ***Explore out-licensing or sale opportunities with third parties for further clinical development and/or commercialization of our non-core and non-rare disease programs.*** Based on the results from the Phase 1b portion of the Phase 1b/2 clinical trial for etigilimab in select solid tumor types and the Phase 2 clinical trial for acumapimod, we plan to enter into one or more strategic relationships with third parties for etigilimab and acumapimod to undertake the next phase of clinical development and, if approved, 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 Feng Biosciences. 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. In December 2023 we entered into an exclusive global license agreement with ReproNovo for the 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 our partnership with Ultragenyx, 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.

Our Pipeline

The following table summarizes our pipeline for our product candidates. We have global commercial rights to alvelestat, etigilimab and acumapimod 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 Feng Biosciences (formerly OncXerna) and global rights for leflutrozole to ReproNovo.

Product candidate	Phase 1	Phase 2	Phase 3	
Setrusumab OI	Orbit (5 - <26 yrs old) Cosmic (2 - <7 yrs old)		ultragenyx pharmaceutical	Orphan drug designation in US and EU, PRIME (EU), Pediatric disease Priority Review Voucher designation
Alvelestat AATD-LD BOS			THE ALPHA-1 PROJECT UAB THE UNIVERSITY OF ALABAMA AT BIRMINGHAM NIH National Center for Advancing Translational Sciences NIH NATIONAL CANCER INSTITUTE	Orphan drug designation (US), Fast track designation (US)
Etigilimab Rare & Gyn-Onc Tumors OCCC**	ACTIVATE EON		FOCUS FUND	**Ovarian Clear Cell Carcinoma

Core Rare Disease Product Candidates

Setrusumab (BPS-804/UX143) for the Treatment of Osteogenesis Imperfecta

Overview

In collaboration with Ultragenyx, we are developing setrusumab for the treatment of OI, a rare genetic disease, which is caused by variants in the COL1A1 or COL1A2 genes, which results in bones that can break easily and is commonly known as brittle bone disease. Setrusumab is a novel, intravenously administered antibody that is designed to inhibit sclerostin, a protein that inhibits the activity of bone-forming cells, known as osteoblasts. We believe that by blocking sclerostin, setrusumab has the potential to induce or increase osteoblast function and maturation of these cells, and to inhibit bone-resorption through osteoclasts, increasing overall bone mass and thereby reducing fractures in OI patients.

Background of Osteogenesis Imperfecta

OI is a genetic disorder characterized by fragile bones and reduced bone mass, resulting in bones that break easily, loose joints and weakened teeth. In severe cases, patients may experience hundreds of fractures in a lifetime. In addition, people with OI often suffer from muscle weakness, early hearing loss, fatigue, curved bones, scoliosis (curved spine), brittle teeth, respiratory problems and short stature. The disease can be extremely debilitating and even fatal in newborn infants with a severe form of the disease. OI is a rare condition that affects an estimated 60,000 people in the U.S. and Europe, according to estimates by Orphanet.

There are eight recognized forms of OI, designated type I through type VIII. Type I is cited to be the least severe form, although patients can still have many fractures and other physical manifestations of the disease, while Type II is the most severe and frequently causes death at or shortly after birth. OI Type I is the most prevalent and estimated to occur in approximately 50% to 60% of OI patients. Type III and Type IV patients may be wheelchair bound and typically have many fractures through their lifetime. Type III and Type IV patients may also have short stature, scoliosis and hearing loss by the time they are young adults. OI is typically diagnosed at birth with most patients being born with a blue or gray tint to the sclera, the part of the eye that is usually white.

Current Treatment Landscape for Osteogenesis Imperfecta

There are no therapies approved by the FDA or EMA for the treatment of OI. The only treatments available to OI patients are the acute management of fractures as they occur and drugs such as bisphosphonates which are typically used to treat osteoporosis and are not approved for OI but are commonly used off-label in children. Bisphosphonates slow down the rate at which osteoclasts resorb bone. These anti-resorptives include Aredia (pamidronate), Fosamax (alendronate) and Reclast (zoledronic acid). Bisphosphonates have not consistently been shown to reduce fractures in OI adult patients and the effect of long-term therapy with these drugs remains unclear in both adults and children.

Current treatment of OI is directed towards management of fractures with casting or surgical fixation. Following either of these, physical therapy will often be required. Preventative surgeries, such as intramedullary, or in-bone, rodding fixation are also undertaken. Supportive care for the disease involves surgery to correct deformities, internal splinting of bones with metal rods, bracing to support weak limbs and decrease pain, physical therapy and muscle strengthening and aerobic conditioning to improve bone mass and strength.

Our Approach

Our product for treating OI is setrusumab, a fully human monoclonal antibody that is designed to inhibit sclerostin. Sclerostin is produced in osteocytes, which are mature bone cells that are thought to be the mechanoreceptor cells that regulate the activity of bone-building osteoblasts and bone-resorbing osteoclasts. Sclerostin inhibits the activity of osteoblasts. We believe that by blocking sclerostin, setrusumab has the potential to induce or increase osteoblast activity and maturation of these cells, increasing overall bone mass, and thereby reducing fractures in OI patients.

In 2016, we obtained orphan drug designation in OI for setrusumab in the U.S. and the EU and, in November 2017, the program 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.

Clinical Development of Setrusumab

Prior to our acquisition of setrusumab, Novartis conducted four clinical trials in 106 patients and healthy volunteers. In 2019 we completed a Phase 2b dose-finding study (ASTEROID) study of setrusumab in 112 adult patients with Type I, III and IV OI. Following the 12-month dosing part of the trial, patients were followed for a further twelve months to examine the off-effects of setrusumab. The results of this Phase 2b trial supported the progression of setrusumab into a pivotal study in OI. Setrusumab was safe and well-tolerated in the study. There were no cardiac-related safety concerns observed in the study.

Top-line Data from Setrusumab Phase 2 Portion of Phase 2/3 Orbit Study

In June 2023, we along with our partner, Ultragenyx, announced successful completion of the Phase 2 portion of the pivotal Phase 2/3 Orbit study in 24 pediatric and young adult patients (5 to <26 years old) for setrusumab in OI, which compared two different doses of setrusumab, 20 and 40 mg/kg, to determine the optimal dose for the Phase 3. The primary endpoint of the Phase 2 study was circulating levels of P1NP, a biomarker reflective of bone formation. The study also evaluated numerous other endpoints, including bone mineral density ("BMD") and annualized fracture rates, PK and safety. Across all patients evaluated at both doses, these data showed statistically significant increases in levels of serum P1NP, a sensitive marker of bone formation, and substantial and significant improvement in BMD by three months. An increase in lumbar spine BMD from baseline of 9.4% at 20 mg/kg (n=10) was observed, with a substantial mean change in the Z-score of +0.65 from -2.12 (n=11) at baseline. There was no significant difference between the two doses tested, accordingly, the 20 mg/kg was selected as the Phase 3 dose. The changes observed in BMD in these younger patients at 3 months are equivalent to the changes following 12 months treatment with setrusumab in adult patients reported from the Phase 2b ASTEROID study. The 24 patients from the Phase 2 portion of the ORBIT study are continuing to receive setrusumab treatment in an open-label extension study.

Additional data from the Phase 2 portion of the Phase 2/3 Orbit study were reported at the annual ASBMR meeting in October 2023 and demonstrated that treatment with setrusumab significantly reduced incidence of fractures in patients with OI with at least 6 months of follow-up and continued to demonstrate ongoing and meaningful improvements in lumbar spine bone BMD. As of the cut-off date and following at least six months of treatment with setrusumab, the annualized fracture rate across all 24 patients in the Phase 2 portion of the study was reduced by 67%. The median annualized fracture rate of 0.72 in the two years prior to treatment was reduced to 0.00 (n=24, p=0.042) during the mean treatment duration period of nine months. These fractures excluded fractures of the fingers, toes, skull and face consistent with the Phase 3 study design. In the two years prior to treatment with setrusumab all patients experienced at least one fracture. Following initiation of treatment with setrusumab, 20 patients experienced no radiographic-confirmed fractures, and 4 patients experienced 7 radiographic-confirmed fractures in 5 separate events. Two of these fractures occurred within the first two months of treatment, a time in which setrusumab-induced increases in BMD may have been suboptimal in reducing fractures.

At the six-month timepoint, treatment with setrusumab resulted in a mean increase in lumbar spine BMD from baseline of 13% at 20 mg/kg (n=11) and 16% at 40 mg/kg (n=8), which represented the same substantial mean improvement in Z-score of +0.85 for both dose groups at 6 months compared to a combined mean baseline Z-score of –1.68. The small apparent difference in BMD change from baseline is likely related to differences in patients assigned to the two treated groups. There was no statistically significant difference in BMD percent change or Z-score change from baseline between the 20 and 40 mg/kg dosing cohorts. As of the data cut-off for our October 2023 announcement, there were no treatment-related serious adverse events observed in the study.
The 24 patients from the Phase 2 portion of the Orbit study are continuing to receive setrusumab treatment at 20 mg/kg in an open label extension study. Additional longer-term Phase 2 data from the Orbit study are expected in the second half of 2024.

Phase 3 Orbit and Cosmic Studies

The Phase 3 portion of the Orbit study is enrolling approximately 150 patients (aged 5 - <26 years old) at 50 sites across 12 countries and is expected to complete enrollment around the end of the first quarter of 2024. Patients are randomized 2:1 to receive setrusumab (20 mg/kg) or placebo, respectively, with a primary efficacy endpoint of a reduction in annualized clinical fracture rate, excluding fingers, toes, skull and face.

A second study, Cosmic, a Phase 3 open-label study in younger children (aged 2 - < 7 years old) is enrolling approximately 60 patients, with enrollment expected to complete around the end of the first quarter of 2024. The Cosmic study is an active-controlled study evaluating the effect of setrusumab compared to intravenous bisphosphonates (IV-BP) therapy (randomized 1:1) on annualized total fracture rate.

We believe the Orbit and Cosmic trials, if successful, will support U.S. and European regulatory filings for the potential approval of setrusumab for the treatment of osteogenesis imperfecta.

Alvelestat (MPH-966) for the Treatment of Severe Alpha-1 Antitrypsin Deficiency (AATD)-Associated Lung Disease:

Overview

We are developing alvelestat for the treatment of severe AATD-associated Lung Disease (AATD-LD). AATD-LD is a potentially life-threatening rare, genetic condition that results in severe debilitating diseases, including early-onset pulmonary emphysema. Alvelestat is a novel, oral small molecule designed to inhibit neutrophil elastase (NE). Scientific data indicate that the increased risk of lung tissue injury in patients with AATD may be due to inadequately controlled NE caused by insufficient alpha-1 antitrypsin (AAT). We believe that by inhibiting NE, alvelestat has the potential to reduce the destruction of lung tissue and stabilize clinical deterioration in patients with severe AATD-LD.

Background of Alpha-1-Antitrypsin Deficiency

AATD is a genetic disease. There are estimated to be 50,000 people in North America and 60,000 in Europe with severe AATD, which we define as AATD in patients with serum AAT levels <11mM, (most commonly either a PiZZ genotype or Null/Null genotype). although there are approximately only 10,000 people diagnosed in North America. The major function of AAT in the lungs is to protect the connective tissue from NE released from triggered neutrophils. The lungs are normally defended from NE attack by AAT, which is a highly effective inhibitor of NE. Severe AATD patients produce ineffective or no AAT and are, therefore, unable to defend against NE attack. As a result, severe AATD patients commonly experience degeneration of lung function, such as early-onset pulmonary emphysema, which significantly affects quality of life and life expectancy. They may require oxygen therapy in order to continue their daily lives and the most severe patients may require lung transplantation.

AATD is the result of a mutation of the SERPINA1 gene. Most people with severe AATD inherit two copies of the defective PiZ allele, or gene variant, of the SERPINA1 gene, resulting in a PiZZ genotype. Patients with a PiZZ genotype have approximately 15% of normal AAT levels. Individuals who inherit two copies of the Null allele, resulting in a Null/Null genotype, do not produce any AAT. These two groups are at very high risk of developing lung disease. AATD patients with the PiZZ genotype experience loss of lung tissue as measured by lung density on computed tomographic (CT) scanning, a decline in FEV1, a standard measure of exhalation and poor quality of life. Respiratory disease can progress to need for chronic oxygen therapy, lung transplant and death. The annual mortality rate in this genotype estimated to be 4%. Given that individuals with the Null/Null genotype do not produce any AAT, we believe that they are likely to experience an even greater annual decline in FEV1.

Current Treatment Landscape for Alpha-1 Antitrypsin Deficiency

AATD patients are monitored by pulmonary functions tests, including spirometry. Treatment involves bronchodilators and inhaled corticosteroid medications and pulmonary rehabilitation, with increased intensity of therapy guided by disease severity. Surgical options include lung volume reduction surgery and lung transplantation. Both are highly invasive, and transplantation is only an option for a portion of patients with end-stage disease despite optimal therapy.

Augmentation therapy is available for AATD, using a partially purified plasma preparation highly enriched for AAT that is administered weekly by intravenous infusion. This therapy was first approved by the FDA in the 1980s based on its biochemical efficacy, meaning its ability to raise blood levels of AAT, but not based on clinical outcome data. Several observational studies have suggested that AAT augmentation therapy may slow the rate of decline in lung function in a subgroup of AATD patients with moderate-to-severe airflow obstruction, but not for those with earlier stages of lung disease. In a randomized, controlled trial of augmentation therapy, patients had some reduction in the progression of emphysema, as assessed by measuring lung density using computed tomography. The study did not show significant slowing in the decline in FEV1.

We believe that current therapies for AATD are inadequate. Surgical options are limited to a few patients, are highly invasive, have variable results, and do not address the underlying pathology of AATD. AAT augmentation therapy, while FDA approved, was not approved on the basis of clinical outcome data. Benefit has not been demonstrated in patients with earlier stages of lung disease where there is an unmet need to reduce progression of irreversible lung tissue loss. In Europe Regulatory approval was on efficacy based on slowing of CT density decline, without effects on other measures such as FEV1 or patient-reported outcomes. Further, AAT augmentation therapy is generally not

reimbursed and thus is not currently available to patients in several jurisdictions, including some key European markets. In addition, AAT augmentation therapy requires potentially inconvenient weekly intravenous infusions.

Our Approach

Our product candidate for treating severe AATD is alvelestat, a potent, specific oral small molecule that is designed to inhibit NE. We believe that by inhibiting NE, alvelestat has the potential to reduce the enzymatic destruction of lung tissue. Furthermore, we believe that convenient oral dosing of alvelestat could provide a significant advantage compared to the current treatments for AATD of surgery or weekly intravenous AAT augmentation therapy. Alvelestat is not being investigated for treatment of the hepatic disease which is due to the damaging effect of accumulated abnormal ZZ protein in the liver, rather than the protein deficiency. Liver disease occurs in approximately 10% cases of severe AATD, predominantly in children.

Alvelestat has received U.S. Orphan Drug Designation for the treatment of AATD and Fast Track designation in AATD-LD.

Clinical Development of Alvelestat

Prior to our license of alvelestat, AstraZeneca conducted 12 clinical trials involving 1,776 subjects, including trials in COPD, bronchiectasis and cystic fibrosis. 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.

Phase 2 Clinical Trials in AATD

In May 2022, we successfully completed a Phase 2, placebo-controlled, 12-week, dose-ranging, proof-of-concept clinical trial (ASTRAEUS) in 99 patients with AATD-LD in the U.S and the EU which demonstrated statistically significant changes in neutrophil elastase activity and biomarkers of disease severity at different time points up to 12 weeks. We enrolled only adult patients with PiZZ or Null/Null genotypes or rare genotypes with severe deficiency of alpha-1 antitrypsin (<11 microMolar) with confirmed emphysema, who had not received AAT augmentation therapy or had undergone a wash-out period following AAT augmentation therapy. The study examined two doses of alvelestat (120 mg and 240 mg) compared to placebo with three primary endpoints along the pathogenic pathway of lung disease in AATD patients. These primary endpoints were plasma desmosine (a biomarker of protease-driven elastin breakdown), Aα-Val360, a specific biomarker of NE proteolytic activity, and neutrophil elastase activity in blood. Secondary endpoints were safety, exacerbation frequency, and pharmacokinetics. Exploratory endpoints were St. Georges Respiratory Questionnaire (SGRQ) which is a patient-reported outcome of Respiratory Health Status and lung function tests, including FEV1.

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 compared to the previous studies conducted by AstraZeneca. The most frequent adverse event was headache which was more frequently observed at the higher doses of alvelestat (120 mg and 240 mg) used in AATD-LD than at the lower doses used in 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. Monitoring for Adverse Events of Special Interest (AESIs) documented a single treatment-emergent adverse event (TEAE) of liver function abnormality (raised hepatic transaminases, without meeting Hy's Law) and one AESI of prolonged QTc, in which study-drug stopping criteria were met were reported in the ASTRAEUS trial. Both events fully resolved on study drug cessation.

In October 2023, the University of Alabama at Birmingham (UAB) and Mereo reported on the ATALANTa study, a multi-center, double-blind, placebo-controlled, proof-of-concept investigator-led study run by Professor Mark Dransfield, Director of the Division of Pulmonary, Allergy and Critical Care, UAB, in collaboration with Mereo. ATALANTa investigated the safety and efficacy of alvelestat 120 mg, or matched placebo, twice daily, for 12 weeks in a broad range of individuals with AATD-LD, including those with less severe phenotypes (Pi*SZ) and earlier stage patients than were enrolled in the Company-sponsored ASTRAEUS Phase 2 study, and those receiving augmentation therapy. The study randomized 63 patients, 32 in the 120 mg alvelestat arm (44% on augmentation therapy) and 31 in the placebo arm (48% on augmentation therapy). The results demonstrated with the 120 mg dose of alvelestat (the lower dose used in the Phase 2 ASTRAEUS study) are consistent with those observed in ASTRAEUS on blood neutrophil elastase activity and changes in the disease-activity biomarkers, desmosine and Aα-val360. The data

demonstrate that the 120 mg dose of alvelestat is safe on top of augmentation and support Mereo's selection of the 240 mg dose to be studied in the planned Phase 3 pivotal trial. Exploratory endpoints in ATALANTa demonstrated statistically significant improvement in SGRQ Activity score (p=0.0106 versus placebo) and a trend to improvement in SGRQ Total score at 12 weeks in patients not receiving augmentation therapy and having earlier stage lung disease (based on their FEV1). The ATALANTa and ASTRAEUS data support the use of the SGRQ Total score in the planed Phase 3 pivotal trial and inclusion of patients with earlier stages of lung disease. Safety in ATALANTa was consistent with the known alvelestat profile and there were no liver or QTc AESIs documented.

Planned Phase 3 Clinical Trial in AATD

In March 2023, we announced the outcome of the end-of-Phase 2 discussions with the FDA and the EMA (Scientific Advice) and the guidance on the Phase 3 endpoints received from both Regulatory Agencies. In the EU, the Company received guidance that lung density by computed tomography (CT) scan with a relaxed p value ($p<0.1$) may be sufficient for full regulatory approval. In the U.S., following additional FDA interactions in the second half of 2023, the Company has aligned on St George's Respiratory questionnaire Total score as the primary endpoint, with a functional assessment as a key secondary endpoint, which, if successful, is expected to support submissions for full regulatory approval in the U.S. Inclusion of patients with earlier and later stage lung disease progression in the planned registrational study could increase the addressable patient population for alvelestat. Based on the guidance from the FDA and the EMA, the Company is designing a single, global, Phase 3 study evaluating the 240 mg dose of alvelestat versus placebo in approximately 220 patients with AATD-LD with two independent primary endpoints to support applications for full marketing approvals in both the U.S. and EU.

The Company continues to evaluate non-dilutive financing options for the development and potential commercialization of alvelestat in AATD-LD while continuing to progress the program to maintain the planned Phase 3 timelines.

Phase 1b/2 Clinical Trial in Bronchiolitis Obliterans Syndrome ("BOS")

BOS is a rare progressive, fibrosing disease of the lungs affecting approximately 6% of the estimated 12,000 stem cell transplants a year in the U.S., often as part of graft versus host disease. For lung transplants, approximately 50% of the patients develop BOS by 5 years, which is the leading cause of retransplant and mortality. There are an estimated 10,000 people living with lung transplant and BOS in the U.S. and Europe. BOS is characterized by neutrophil infiltration in the lung, excess neutrophil elastase and inflammation. The pathology of BOS in stem cell transplant and lung transplant is overlapping.

As BOS is driven 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 we believe our approach using alvelestat to inhibit NE has significant advantages. By inhibiting NE, we believe alvelestat will reduce the accelerating effects of NE-driven inflammation on BOS leading to increased success rate of SCT and lung transplant. The investigator-led clinical program is designed to generate data on clinical endpoints that would potentially support registration and reimbursement in SCT.

An investigator-sponsored open-label Phase1b/2 study in Bronchiolitis Obliterans Syndrome (BOS) following allogeneic stem cell transplant is being conducted. The study uses within patient dose escalation from 60 mg BID up to 240 mg BID, over the initial 8 weeks of study, with treatment continued for up to 6 months. Interim results from 7 patients enrolled in the Phase 1b study 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. Evaluation of the clinical and safety data from 10 patients in the Phase 1b supported the dose to be progressed and expansion into the Phase 2 portion of the study which was initiated in the second half of 2022. No safety signals have been detected in this study.

Etigilimab (MPH-313) for the Treatment of Advanced Solid Tumors

Overview

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 acquired etigilimab in the Merger with Mereo BioPharma 5 (formerly OncoMed Pharmaceuticals, Inc.) in 2019.

Clinical Development of Etigilimab

Our oncology product candidate, etigilimab (an anti-TIGIT antibody), has completed a Phase 1a dose escalation clinical trial in 23 patients with advanced solid tumors and has been evaluated in a Phase 1b study in combination with nivolumab in select tumor types.

In 2023, we completed the Phase 1b portion of an 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, endometrial and ovarian carcinomas and any solid tumor with high mutation burden, all in the recurrent/metastatic setting.

The Phase 1b portion of the ACTIVATE study enrolled 76 patients in total. Data from this study were presented at several major medical conferences (ASCO, 2022; ESMO, 2023). The trial evaluated objective response rate as a primary endpoint and safety, duration of response, pharmacokinetics, anti-drug antibodies, progression-free disease and other endpoints as secondary endpoints. Objective responses were reported for patients with gynecological cancers, rare tumors, and soft-tissue sarcoma with 7 patients remaining on study for at least 335 days. The combination of etigilimab and nivolumab was generally well tolerated with a safety profile qualitatively similar to that of nivolumab alone. The main drug-related safety findings included rash, pruritis, fatigue and headache and the number of Grade 3 events was seven. No Grade 4 or Grade 5 events were reported. Additionally, we have found several intratumoral biomarkers (PVR, TIGIT, and CD226+/CD8 T cells) that, with further testing, might be predictive of response to treatment. At this time, the Company has no plans to conduct and directly fund further clinical studies of etigilimab.

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. Clear cell ovarian cancer is a rare cancer that accounts for approximately 5 to 10% of all ovarian carcinomas in North America. Enrollment is continuing in this investigator-led Phase 1b/2 study of etigilimab plus nivolumab (the EON study) and based on encouraging data from the first 10 patients enrolled, the study has been expanded to enroll an additional 10 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) for Treatment of Ovarian Cancer

Navicixizumab (“Navi”) is a bispecific antibody that inhibits delta-like ligand 4 (DLL4) and vascular endothelial growth factor (VEGF).

We acquired Navi in the Merger. In January 2020, we out-licensed Navi to Feng Biosciences (formerly OncXerna). In addition, Navi is the subject of a contingent value rights agreement between us and Computershare from April 2019 (the "Mereo CVR Agreement") which sets forth certain rights and obligations of us with respect to Navi.

Leflutrozole (BGS-649)

Leflutrozole is an oral inhibitor of aromatase. Excess aromatase in fat tissue reduces testosterone, LH and FSH, leading to HH. In Phase 2 trials, leflutrozole normalized testosterone, increased LH and FSH, improved total sperm count, and was reported to be well-tolerated.

In December 2023, we entered into an exclusive global license agreement with ReproNovo for the development and commercialization of leflutrozole, a non-steroidal aromatase inhibitor. Under the terms of the License Agreement, ReproNovo, a reproductive medicine company, is responsible for all future development and commercialization of leflutrozole. Mereo received an upfront payment and will be eligible to receive up to $64.3 million in future clinical, regulatory and commercial milestones as well as tiered mid-single digit royalties on global annual net sales of leflutrozole.

Our Non-Core Programs Available for Partnering

Following completion of a successful Phase 2 study, we intend to out-license or sell the following program.

Acumapimod (BCT-197) for the Treatment of AECOPD

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.

We intend to out-license or sell acumapimod to third parties for the further development of acumapimod recognizing the need for greater resources to take this product candidate to market.

Financial review
The following table sets forth Mereo's results of operations for the years ended December 31, 2023 and 2022.

	Year ended December 31,		Change	
	2023	2022 (Restated%)		
	£'000s	£'000s	£'000s	%
Revenue	7,914	—	7,914	*
Cost of revenue	(11,935)	936	(12,871)	*
Research and development expenses	(15,445)	(24,962)	9,517	(38)%
Administrative expenses	(13,502)	(19,543)	6,041	(31)%
Operating loss	(32,968)	(43,569)	10,601	(24)%
Finance income	1,710	696	1,014	146%
Finance costs	(1,642)	(2,910)	1,268	(44)%
Changes in fair value of financial instruments	207	7,805	(7,598)	(97)%
Net foreign exchange (loss)/gain	(2,000)	2,033	(4,033)	*
Other income and expenses	46	811	(765)	(94)%
Loss before tax	(34,647)	(35,134)	487	(1)%
Taxation	1,465	1,897	(432)	(23)%
Loss attributable to equity holders of the parent	(33,182)	(33,237)	55	(0)%
Currency translation of foreign operations	1,845	(1,828)	3,673	(201)%
Total comprehensive loss attributable to equity holders of the parent	(31,337)	(35,065)	3,728	(11)%

* Percentage change not meaningful
% See Note 4 in the financial statements for details regarding the restatement as a result of a voluntary change in accounting policy.

Comparison of Years Ended December 31, 2023 and 2022

Revenue
Revenue of £7.9 million for the year ended December 31, 2023 comprised a one-time milestone payment of £7.1 million ($9.0 million) resulting from the achievement of a clinical milestone on setrusumab by Ultragenyx and a £0.8 million ($1.0 million) up-front payment from our global license agreement with ReproNovo for the development and commercialization of leflutrozole. No revenue was recognized in the year ended December 31, 2022.

Cost of revenue
Cost of revenue for the year ended December 31, 2023 was £11.9 million compared to a credit of £0.9 for the year ended December 31, 2022.

Cost of revenue for 2023 was comprised of £9.9 million representing the carrying value of the leflutrozole rights granted to ReproNovo under our global license agreement (see Note 13), and £2.0 million in relation to our 2015 agreement with Novartis, under which we pay a percentage of proceeds resulting from milestone revenue received, subject to certain deductions.

In 2021, we received a £36.5 million ($50 million) upfront payment from Ultragenyx and recognized cost of revenue of £8.4 million reflecting the Company's obligation under our 2015 agreement with Novartis. Pursuant to this agreement, £7.2 million was paid in cash, and £2.4 million was withheld and recognized as a deferred liability within other current liabilities, reflecting anticipated future costs to be incurred which are allowable deductions from amounts owed under the agreement. As these costs were subsequently incurred and recognized in research and development expenses or general and administrative costs, the liability was discharged and released through cost of revenue. In 2022, £0.9 of this liability was discharged and accordingly recognized as a credit to cost of revenue.

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, 2023 and 2022.

	Year ended December 31,		Change	
	2023	2022		
	£'000s	£'000s	£'000s	%
Setrusumab (BPS-804/UX143)	3,743	3,356	387	12%
Alvelestat (MPH-966)	5,597	5,430	167	3%
Etigilimab (MPH-313)	5,832	15,802	(9,970)	(63)%
Leflutrozole (BGS-649)	93	58	35	60%
Acumapimod (BCT-197)	23	50	(27)	(54)%
Other	157	266	(109)	(41)%
Total R&D expenses	15,445	24,962	(9,517)	(38)%

Total R&D expenses decreased by £9.5 million, or 38%, from £25.0 million in 2022 to £15.4 million in 2023.

The decrease was primarily due to a £10.0 million reduction in R&D expenses for etigilimab, partially offset by an increase of £0.4 million in expenses for setrusumab.

The reduction in etigilimab was primarily due to the winding down and completion of the open label Phase 1b/2 basket study in combination with an anti-PD-1 in a range of tumor types. Program expenses for setrusumab are in relation to ongoing activities 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 license and collaboration agreement. Program expenses for alvelestat primarily include the preparatory work for the Phase 3 study, including CMC and drug formulation activities, SGRQ validation activities and regulatory interactions.

Administrative expenses
Administrative expenses decreased by £6.0 million, or 31%, from £19.5 million in 2022 to £13.5 million in 2023.

The decrease in the current year is primarily related to overall reductions in staff costs, professional fees and corporate costs of £1.4 million, along with £2.9 million received from our depositary to reimburse certain expenses incurred by us in respect of our ADR program in the current and prior years and £1.5 million received under a claim on our Directors and Officers insurance policy to reimburse us for certain legal and professional costs incurred in prior years.

Finance income and costs
Total finance costs decreased from £2.9 million in 2022 to £1.6 million in 2023. This decrease is primarily due to the significantly lower average balance of convertible loan notes outstanding in 2023 compared to 2022. This reduction was due to the conversion and repayment of the Private Placement Loan Notes between June and August of 2023, as well as a partial conversion in July 2022.

Total finance income increased £1.0 million from £0.7 million in 2022 to £1.7 million in 2023. The increase is related to higher interest rates on cash and short term deposits.

Changes in fair value of financial instruments
The total change in fair value of financial instruments for 2023 was a gain of £0.2 million, a decrease of £7.6 million compared to an unrealized gain of £7.8 million in 2022. The unrealized gain in 2023 was due to the expiry of the Private Placement warrants, offset by an unrealized loss on the Bank loan warrants as a result of an increase in the market price of our ADSs. The unrealized gain in 2022 primarily resulted from our Private Placement warrants driven by a decline in the market price of our ADSs.

Net foreign exchange (loss)/gain
The net foreign exchange loss for 2023 was £2.0 million compared to a gain of £2.0 million in 2022, a change of £4.0 million. The net foreign exchange loss is primarily related to the impact of the strengthening of the pound sterling on translation of foreign currency balances primarily denominated in U.S. dollars.

Taxation
The income tax benefit for 2023 was £1.5 million compared to a benefit of £1.9 million in 2022, a change of £0.4 million. The income tax benefit is comprised of a £0.4 million cash tax refund in respect of income taxes paid in 2021 and eligible cash rebates of £1.1 million (2022: £1.3 million) 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"). The decrease in R&D tax credits is primarily driven by a decrease in total research and development expenditure.

Currency translation of foreign operations
The currency translation of foreign operations for the year ended December 31, 2023 was a credit of £1.9 million compared to an expense of £1.8 million for the year ended December 31, 2022. The £3.7 million change is primarily related to the strengthening of the pound sterling to the U.S. dollar in 2023 compared to 2022.

Liquidity and Capital Resources
Overview

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 $209 million (£165.3 million), including $12.0 million (£9.3 million) raised in July 2023 through an "at-the-market" offering pursuant to our Open Market Sale Agreement with Jefferies LLC.

We have also received payments under various license and collaboration agreements, including:

- An upfront payment of $50 million (£36.5 million) under the license and collaboration agreement with Ultragenyx for setrusumab in 2021 and a further milestone payment of $9.0 million (£7.1 million) in July 2023.
- An upfront payment of $4.0 million (£3.1 million) under the license and collaboration agreement with Feng Biosciences (formerly OncXerna) for navicixizumab in 2020 and a further milestone payment of $2.0 million (£1.5 million) in 2022.
- An upfront payment of $1.0 million (£0.8 million) under the global license agreement with ReproNovo for leflutrozole in December 2023.

Cash Flows
Comparison of Years Ended December 31, 2023 and 2022
The table below summarizes our cash flows (used in)/from operating, investing and financing activities for the years ended December 31, 2023 and 2022.

	Year Ended December 31,	
	2023	2022
	£'000s	£'000s
Net cash used in operating activities	(17,630)	(38,820)
Net cash from investing activities	1,291	1,497
Net cash from/ (used in) financing activities	5,092	(784)
Net (decrease)/increase in cash and short-term deposits	(11,247)	(38,107)

Operating Activities
Net cash used in operating activities for the year ended December 31, 2023 was £17.6 million, a decrease of £21.2 million from £38.8 million in 2022. The decrease was primarily driven by net cash receipts of £6.1 million for payments received from Ultragenyx and ReproNovo, reductions of £9.5 million in R&D expenses and £6.0 million in administrative expenses, and R&D tax credits and income tax refunds received of £2.5 million compared to a payment made of £1.5 million in the year ended December 31, 2022.

Investing Activities
Net cash from investing activities for the year ended December 31, 2023 was £1.3 million, a decrease of £0.2 million from £1.5 million in 2022. The decrease was primarily driven by payments to acquire intangible assets and receipt of a non-recurring milestone payment from Feng Biosciences (formerly OncXerna) in 2022 under the licensing arrangement for navicixizumab.

Financing Activities
Net cash from financing activities for the year ended December 31, 2023 was £5.1 million, an increase of £5.9 million, compared to cash outflow of £0.8 million in 2022. This increase is primarily due to £8.9 million of net proceeds from a share issuance through an "at-the-market" offering in July 2023, partially offset by payments of £2.6 million in principal and £0.7 million in accrued interest following the modification and redemption of convertible loan notes.

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 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.
- Our future growth and ability to compete depends on retaining our key personnel and recruiting additional qualified personnel.
- 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.
- Unlike in prior years, as of January 1, 2024, we are required to comply with the domestic reporting regime under the Securities and Exchange Act of 1934 and will incur significant legal, accounting and other expenses, and our management will be required to devote substantial additional time to new compliance initiatives and corporate governance matters.
- 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 and Compliance

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 that works with several specialized regulatory advisors to give guidance on regulatory strategy for each of our product candidates. For certain of our product candidates (e.g. setrusumab), our partners are leading the regulatory strategy, providing additional expertise and resource. 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. 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, including most recently to comply with the rules and regulations of the SEC applicable to U.S. domestic filers, which are available for inspection on our website. 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 IP advisor who has worked with 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, 2023 the Group had total cash resources (being cash and short-term deposits) of £45.1 million. The Directors have prepared detailed quarterly cashflow forecasts through December 31, 2025. These forecasts indicate that the Group has a 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 pre-clinical, regulatory and 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.

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, to progress these programs through the different stages of development and to plan for commercialization, whilst also maintaining a lean internal infrastructure.

Across the U.K. and the U.S., we have 33 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 at least on an 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 Directors and employees by gender as at December 31, 2023 is as follows:

Position	Male	Female	Total
Directors of the Company (CEO and Non-Executive)	7	3	10
Executive officers	2	2	4
Employees	12	15	27
Total	**21**	**20**	**41**

Executive officers consist of senior managers, in addition to the CEO, who have responsibility for planning, directing or controlling the activities of the Group. As at December 31, 2023, this includes the Chief Financial Officer, General Counsel and Business Development, Chief Patient Access and Commercial Planning and the Chief Scientific Officer.

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 2023 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.

	2023	2022
Energy used by the company (in KWH)	61,790	68,255
Emissions associated with the reported energy use (tCO2e)	13	13

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

	2023	2022
Tonnes of CO_2e per employee	0.51	0.46

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 have been implemented:

Energy consumption in 2023 was slightly lower than the prior year due to continued hybrid working and ongoing focus on energy efficiency, while the metric tonnes CO2e per employee slightly increased due to the fewer number of employees.

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 14 to16.

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 2023 and 2022.

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 18. In 2023, there has been continued use of video conferencing for a large portion 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 at least on 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
April 25, 2024	April 25, 2024

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, 2023 (the "Report"). We are required to prepare this Report due to the Company's listing in the U.S. on the Nasdaq Capital Market and our UK incorporation.

This Directors' Remuneration Report includes this Annual Statement and the Annual Report on Remuneration for the financial year ended December 31, 2023. The Directors' Remuneration Report will be subject to an advisory shareholder vote at the 2024 Annual General Meeting ("AGM"). The current Directors' Remuneration Policy ("Policy") was approved by shareholders at the AGM on May 22, 2023. The Policy took formal effect from the date of approval and is intended to apply until the 2026 AGM, unless a new version is presented to shareholders in the interim. The full shareholder approved Policy can be found in the Annual Report and Accounts for the year ended December 31, 2022.

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.

In the year ended December 31, 2023, 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 discretion was exercised in relation to directors' remuneration in the year beyond the exercise of the judgment of the Remuneration Committee and to ensure the bonus objectives remained aligned to the Company strategy.

Yours sincerely,

Dr. Anders Ekblom
Chair of the Remuneration Committee

April 25, 2024

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, 2023 and 2022. 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 awards or other types of remuneration (columns c, d and other of the single total figure table). Further information about share awards can be found on page 26.

Year ended December 31,2023 (in £)	(a) Salary/fees (i)	(b) Benefits (ii)	(c) Bonus	(d) Long-term incentives (iii)	(e) Pensions	Other (iv)	2023 Total	Fixed remuneration (a, b and e)	Variable remuneration (c, d and other)
Executive									
Dr. Denise Scots-Knight (1)	443,872	15,504	199,742	—	44,387	—	703,505	503,763	199,742
Non-Executive									
Dr. Jeremy Bender	47,184	—	—	—	—	—	47,184	47,184	—
Dr. Anders Ekblom	60,233	—	—	—	—	—	60,233	60,233	—
Dr. Pierre Jacquet	44,854	—	—	—	—	—	44,854	44,854	—
Dr. Annalisa Jenkins	43,872	—	—	—	—	—	43,872	43,872	—
Dr. Deepa Pakianathan	52,900	—	—	—	—	—	52,900	52,900	—
Justin Roberts (2)	—	—	—	—	—	—	—	—	—
Dr. Daniel Shames	41,286	—	—	—	—	—	41,286	41,286	—
Mike Wyzga	88,776	—	—	—	—	—	88,776	88,776	—
Marc Yoskowitz	36,116	—	—	—	—	—	36,116	36,116	—

(1) Pension figure included in the table above for Dr. Denise Scots-Knight includes payments in lieu of pension of £ 40,387.
(2) Mr. Roberts has waived all remuneration in respect of his appointment as a Non-Executive Director.

Year ended December 31,2022 (in £)	(a) Salary/fees (i)	(b) Benefits (ii)	(c) Bonus	(d) Long-term incentives (iii)	(e) Pensions	Other (iv)	2022 Total	Fixed remuneration (a, b and e)	Variable remuneration (c, d and other)
Executive									
Dr. Denise Scots-Knight (1)	418,747	14,490	251,248	—	41,875	—	726,360	475,112	251,248
Non-Executive									
Dr. Jeremy Bender	47,368	—	—	—	—	—	47,368	47,368	—
Dr. Anders Ekblom	55,912	—	—	—	—	—	55,912	55,912	—
Dr. Peter Fellner (2)	54,342	—	—	—	—	—	54,342	54,342	—
Anne Hyland (3)	30,634	—	—	—	—	—	30,634	30,634	—
Dr. Pierre Jacquet	39,107	—	—	—	—	—	39,107	39,107	—
Dr. Annalisa Jenkins (4)	6,839	—	—	—	—	—	6,839	6,839	—
Dr. Abdul Mullick (3)	14,916	—	—	—	—	—	14,916	14,916	—
Dr. Deepa Pakianathan	45,686	—	—	—	—	—	45,686	45,686	—
Justin Roberts (4)	—	—	—	—	—	—	—	—	—
Dr. Brian Schwartz (2)	36,350	—	—	—	—	—	36,350	36,350	—
Dr. Daniel Shames (4)	6,839	—	—	—	—	—	6,839	6,839	—
Mike Wyzga	80,035	—	—	—	—	—	80,035	80,035	—
Marc Yoskowitz (4)	6,839	—	—	—	—	—	6,839	6,839	—

(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.

(i) 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, life insurance, and income protection during the years ended December 31, 2023 and 2022.
(iii) During the year ended December 31, 2023 equity incentive awards with performance conditions or measures were granted as an equity incentive award to the CEO. No amount has been included for 2023 because none of the performance conditions had been met during the year. In 2024, certain of the performance conditions were met in respect of 282,090 ADSs. The value of PSUs vesting in 2024 will be included in the single total figure of remuneration for the CEO for the year ended December 31, 2024.
(iv) During the years ended December 31, 2023 and 2022, market value options were granted as an equity incentive award to the CEO and to Non-Executive Directors. 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 included in the single figure table is the market value of the underlying shares at the date of grant, less the applicable exercise price. This was nil because the exercise price is equal to the market value of the underlying shares on the date of grant.

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. The amount of bonus payable, including the weighting of achievement of the Company-wide target objectives is at the discretion of the Committee and subject to its review of performance against the short-term performance targets at the end of the performance period (which is aligned with the financial year).

For the 2023 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 75% of target, meaning the bonus pay-out for the 2023 performance period is 45% 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 2023 included the following:

- On setrusumab, positive Phase 2 Orbit data and successful transition to the Phase 3 portion of the Orbit study, along with initiation of the Phase 3 Cosmic study, leading to achievement of a $9 million milestone payment from Ultragenyx. In addition, delivering the agreed key activities under Project SATURN, and in the ongoing activities necessary to lay the groundwork for reimbursement in Europe and the UK;
- On alvelestat, alignment on the design for a single, global Phase 3 study in AATD-LD and agreement on a patient-reported outcomes ("PRO") validation plan following additional interactions with the U.S. FDA;
- On etigilimab, results from the initial 10 patients of the investigator-led Phase 1b/2 study of etigilimab in combination with nivolumab in clear cell ovarian cancer, conducted by a partner, support expansion to 20 patients in the study;
- Successful achievement of a stretch goal of financial savings to budget;
- In manufacturing, successful delivery of a Phase 3 higher dosage tablet and justification accepted by the regulators for alvelestat and additional agreed milestones achieved for setrusumab and etigilimab;
- 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, 2023:

– Equity incentive awards were granted to the CEO 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 vest upon satisfaction of four escalating ADS price threshold performance targets over a two-year vesting period.

– 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, 2023, 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. PSUs that do not vest will lapse permanently at the end of the two-year performance period.

Director	Grant Date	ADSs Underlying Grant	Exercise Price per ADS ($)	Face value ($)	Expiration Date
Dr. Denise Scots-Knight	January 25, 2023	1,150,000	1.01	1,161,500	January 25, 2033
Dr. Jeremy Bender	February 1, 2023	55,000	0.94	51,700	February 1, 2033
Dr. Anders Ekblom	February 1, 2023	55,000	0.94	51,700	February 1, 2033
Anne Hyland	February 1, 2023	55,000	0.94	51,700	February 1, 2033
Dr. Pierre Jacquet	February 1, 2023	55,000	0.94	51,700	February 1, 2033
Dr. Annalisa Jenkins	February 1, 2023	55,000	0.94	51,700	February 1, 2033
Dr. Deepa Pakianathan	February 1, 2023	55,000	0.94	51,700	February 1, 2033
Dr. Daniel Shames	February 1, 2023	55,000	0.94	51,700	February 1, 2033
Mike Wyzga	February 1, 2023	55,000	0.94	51,700	February 1, 2033
Marc Yoskowitz	February 1, 2023	55,000	0.94	51,700	February 1, 2033

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, 2023 that are required to be disclosed.

2.3 Payments for loss of office (audited)
There were no payments made for loss of office to Directors during the financial year ending December 31, 2023 that are required to be disclosed.

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, 2023, 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, 2023, 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	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 with performance conditions 2019 EIP/NED EIP (ADSs, unvested)	Awards Unvested without performance conditions 2019 EIP/NED EIP (ADSs, unvested)
Dr. Denise Scots-Knight	560,414	308,949	1,238,124	470,150	1,881,876
Dr. Jeremy Bender	—	—	249,577	—	14,369
Dr. Anders Ekblom	37,940	43,252	272,949	—	15,807
Dr. Pierre Jacquet	—	—	223,062	—	14,112
Dr. Analisa Jenkins	—	—	118,554	—	13,919
Dr. Deepa Pakianathan	—	—	154,333	—	9,167
Dr. Daniel Shames	—	—	115,282	—	13,662
Mike Wyzga	—	—	361,843	—	18,953
Marc Yoskowitz	—	—	110,795	—	13,492
Justin Roberts[1]	19,942,997	—	—	—	—

(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, 2023, the only unvested equity incentive awards subject to performance conditions are PSUs issued to the CEO in 2023. The table below shows the interests of the Directors in the Company's share options as at December 31, 2023. The underlying grants for the 2015 Plan are in ordinary shares and have been presented here in equivalent ADS.

Director	Equity Award Plan	No. of ADSs outstanding as at December 31, 2022	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, 2023	**Exercise Price Per ADS ($) (1)(2)**	**Grant Date**	**Expiration Date (2)**
Executive										
Dr. Denise	2015 Plan	308,949					308,949	8.63	September 25, 2015	September 25, 2025
Scots-Knight	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
	2019 EIP		1,150,000				1,150,000	1.01	January 25, 2023	January 25, 2033
	2019 EIP		470,150				470,150	—	January 25, 2023	January 25, 2025
Non-Executive										
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	55,000					55,000	1.31	February 1, 2022	February 1, 2032
	2019 NED EIP	38,032					38,032	—	February 1, 2022	—
	2019 NED EIP		55,000				55,000	0.94	February 1, 2023	February 1, 2033
	2019 NED EIP		62,414				62,414	—	February 1, 2023	—
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	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	—	February 1, 2022	—
	2019 NED EIP	1,540					1,540	—	December 1, 2022	—
	2019 NED EIP		55,000				55,000	0.94	February 1, 2023	February 1, 2033
	2019 NED EIP		79,674				79,674	—	February 1, 2023	—
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	—	February 1, 2022	—
	2019 NED EIP	1,583					1,583	—	December 1, 2022	—
	2019 NED EIP		55,000				55,000	0.94	February 1, 2023	February 1, 2033
	2019 NED EIP		59,331				59,331	—	February 1, 2023	—
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	—	December 1, 2022	—
	2019 NED EIP		55,000				55,000	0.94	February 1, 2023	February 1, 2033
	2019 NED EIP		1,340				1,340	—	January 3, 2023	—
	2019 NED EIP		57,020				57,020	—	February 1, 2023	—
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
	2019 NED EIP		55,000				55,000	0.94	February 1, 2023	February 1, 2033
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	—	December 1, 2022	—
	2019 NED EIP		55,000				55,000	0.84	February 1, 2023	February 1, 2033
	2019 NED EIP		893				893	—	January 3, 2023	—
	2019 NED EIP		53,938				53,938	—	February 1, 2023	—
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					46,953	—	February 1, 2022	—
	2019 NED EIP	56,342					56,342	—	June 1, 2022	—
	2019 NED EIP		55,000				55,000	0.84	February 1, 2023	February 1, 2033
	2019 NED EIP		117,430				117,430	—	February 1, 2023	—
Marc	2019 NED EIP	9,167					9,167	0.79	December 1, 2022	December 1, 2032
Yoskowitz	2019 NED EIP	9,946					9,946	—	December 1, 2022	—
	2019 NED EIP		55,000				55,000	0.94	February 1, 2023	February 1, 2033
	2019 NED EIP		47,773				47,773	—	February 1, 2023	—

(1) PSUs do not have an exercise price.
(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 terms of the 2019 EIP, awards 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 2019 EIP, we have granted market value options and PSUs to our CEO, Dr. Denise Scots-Knight. 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. The PSUs may vest at any point during a two year period upon satisfaction of four escalating ADS price performance targets .

– Under the 2015 Plan, we have granted market value options to our CEO. These market value options were fully vested by January 1, 2022. There were no performance conditions attached to share options granted under the 2015 Plan.

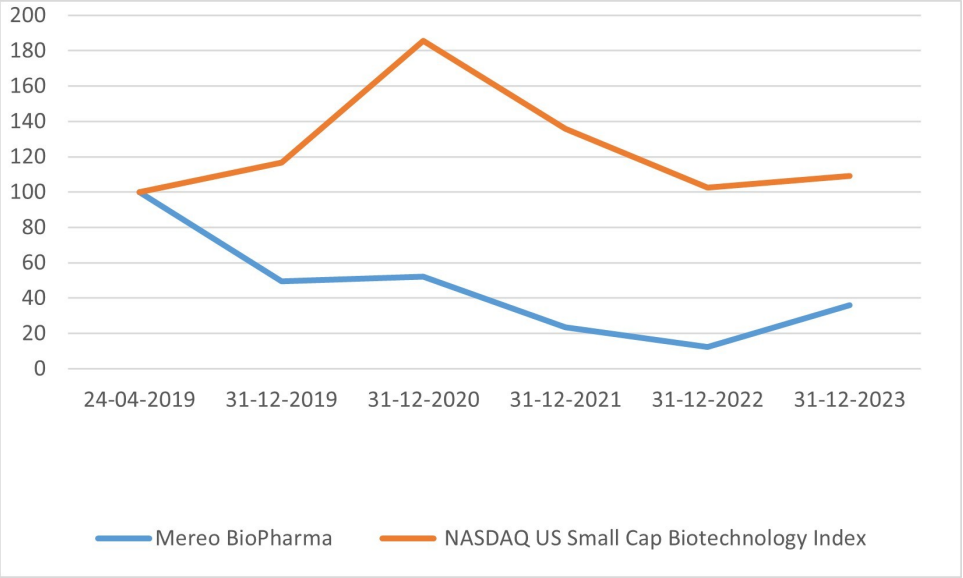
Non-Executive Directors

– 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 installments. There were no performance conditions attached to share options granted under the 2015 Plan.

– Under the 2019 NED EIP, we have granted market value options to all Non-Executive directors and Deferred RSUs ("DRSUs") to directors who elect to receive them instead of cash fees. These other share-based awards vest in equal monthly installments 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.

	2023	2022	2021	2020	2019
Total CEO remuneration (£)	703,505	726,360	705,297	867,888	741,374
CEO bonus (as a % of maximum available)	60%	80%	81%	100%	75%
CEO LTIP(1) vesting (as a % of maximum available)	100%	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 2023, 2022, 2021, 2020 and 2019. As the options granted in 2023, 2022, 2021, 2020 and 2019 are not subject to performance conditions the vesting percentage in respect of these awards has been recorded as 100%. In 2023, PSUs were granted subject to performance conditions. These awards may vest at any point up to January 25, 2025, therefore their impact on the vesting percentage will be calculated in 2025 when the vesting period is completed. The percentage for 2023 is therefore in respect of the market value options only.

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, 2023. Going forward, this disclosure will build up over time to cover a rolling five-year period.

	2023			2022			2021			2020		
	Salary/ fee (%)	Benefits (%)	Annual bonus (%)	Salary/ fee (%)	Benefits (%)	Annual bonus (%)	Salary/ fee (%)	Benefits (%)	Annual bonus (%)	Salary/ fee (%)	Benefits (%)	Annual bonus (%)
Dr. Denise Scots-Knight	6	7	(21)	5	2	5	—	3	(40)	2	3	36
Dr. Jeremy Bender	(0)			17			1			—		
Dr. Anders Ekblom	8			19			(2)			—		
Mike Wyzga	11			62			24			—		
Dr. Pierre Jacquet	15			293								
Dr. Annalisa Jenkins (1)	541			—								
Dr. Deepa Pakianathan	16			3			—			—		
Justin Roberts (1)	—			—								
Dr. Daniel Shames (1)	504			—								
Marc Yoskowitz (1)	428			—								
Average of all employees (other than Directors)	(28)	(33)	(6)	29	(11)	—	1	30	8	2	6	(20)

(1) 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. Mr. Roberts has waived all remuneration in respect of his appointment as a non-executive director.

2.8 Relative Importance of Spend on Pay

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

	2023 £'000s	2022 £'000s	% change
Gross pay to all employees	12,191	14,195	(14)
R&D expenditure	15,445	24,962	(38)

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 is currently comprised of three independent Non-Executive Directors: Dr. Anders Ekblom (Chair), Dr. Deepa Pakianathan, and Justin Roberts. 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, 2023 were £6,456 (excluding VAT) (2022: £11,169), 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 $67,606 (2022: $76,628). The Committee is satisfied that the advice they received from FIT and Compensia was objective and independent.

The Committee met three 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 2023 and the annual bonus plan for the 2023 financial year;
- Reviewed and approved the number of shares available for grant under the 2019 EIP plans;
- Reviewed and approved the grant of market value options and PSUs to the CEO and to employees at seniority level SVP and above under the Company's 2019 Equity Incentive Plan;
- Approved the delegation of authority from the Committee to the CEO in respect of the grant of options and RSUs to employees at seniority level of VP and below;
- Reviewed and approved the grant of market value options and DRSUs under the Company's 2019 Non-Employee Equity Incentive Plan;
- Reviewed and recommended the following policies for approval by the Board of Directors: i) the proposed new Policy for Recovery of Erroneously Awarded Compensation (the "Clawback Policy"), intended to satisfy the Nasdaq listing rules; ii) the amended Remuneration Committee Terms of Reference to comply with the rules and regulations of the SEC applicable to U.S. domestic filers; and iii) the amended Deferred Compensation Plan for Non-Employee Directors.

2.11 Statement of Voting at a general meeting of the Company
The shareholder votes on the non-binding approval of the Directors' Remuneration Report and the binding approval of the Directors' Remuneration Policy at the Annual General Meeting which took place on May 22, 2023 was as follows:

Resolution	Votes for	% for	Votes against (excluding withheld)	% against	Total (excluding withheld)	Withheld
Approval of the Directors' Remuneration Report	288,674,726	87.48%	41,332,110	12.52%	330,006,836	668,420
Approval of the Directors' Remuneration Policy	276,586,051	83.81%	53,425,295	16.19%	330,011,346	653,910

2.12 Statement of Implementation of Remuneration Policy for the Year Ending December 31, 2024

Annual salary
For 2024, the CEO was granted a 4.5% 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 2024 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 2024 performance period. The performance targets will cover key objectives that relate to the achievement

of the Group's wider strategic goals including, for 2024, 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 2024.

On January 25, 2024, equity incentive awards were granted to the Chief Executive Officer under the 2019 EIP. These equity incentive awards included market value options 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.

	ADS options granted	Exercise Price per ADS ($)	Face value ($)
Dr. Denise Scots-Knight	850,000	3.36 (a)	2,856,000 (a)

Non-Executive Directors' fees
Non-Executive Directors may voluntarily elect to convert their annual cash fees into DRSUs (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 2019 Non-Executive Equity Incentive Plan.

In addition to annual cash fees or DRSUs, as elected, on February 8, 2024, equity incentive awards were granted to Non-Executive Directors in line with the 2019 NED EIP. A total of 45,000 equity incentive awards in the form of market value options over ADSs, were granted to each Non-Executive Director at an exercise price of $3.87 per ADS, with a vesting period of one year; vesting is in equal monthly installments over the plan year 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

April 25, 2024

The Directors present their report together with the audited financial statements for the year ended December 31, 2023.

Principal activities
The Strategic Report on pages 3 to 20 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 £31.3 million (2022: £35.0 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, 2023, the Group spent £15.4 million (2022: £25.0 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. Pierre Jacquet
Dr. Annalisa Jenkins
Dr. Deepa Pakianathan
Justin Roberts
Dr. Daniel Shames
Marc Yoskowitz

As at the date of this report, the Directors held shares representing 14.6% 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 21 to 30.

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 18.

Future developments
Details of future developments can be found in the Strategic Report on pages 3 to 20 and form part of this report by cross-reference.

Post-balance sheet events
There are no post-balance sheet events to be reported.

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, 2023, the Company has cash and short-term deposits available of £45.1 million.

The Directors have prepared detailed cash flow forecasts for the period from approval of these consolidated financial statements to December 31, 2025. 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 December 31, 2025. 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 23 of the financial statements for further details on our financial risk management objectives and policies.

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

Political contributions
Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the years ended December 31, 2023 and December 31, 2022.

Share capital
As at the date of this report, the Company had total issued and fully paid up share capital of £2,104,073 representing 701,357,759 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 Capital 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, 2023 (2022: nil). During the year ended December 31, 2023, no ordinary shares were purchased by the EBT (2022: nil). A total of 15,926 ADSs held by the EBT were used in the year-ended December 31, 2023 to satisfy the exercise of options under the Company's share-based incentive schemes (2022: 15,645). As of December 31, 2023, the EBT holds 184,680 ADSs (2022: 206,606) along with £17,241 in cash (2022: £17,741).

Branches outside the U.K.
As at December 31, 2023, 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 23, 2024. 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 Auditors
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 Auditors are 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 Auditors are aware of that information.

Independent auditors
On September 20, 2023, the Company's Board of Directors, following the recommendation of the Audit and Risk Committee, dismissed BDO LLP ("BDO") as its independent auditors and appointed PricewaterhouseCoopers LLP (United Kingdom) ("PwC") as its new independent auditors effective immediately. PwC have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the forthcoming AGM.

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

Effective date
This report was approved by the Board of Directors on April 24, 2024 and signed on its behalf by:

Michael Wyzga
Chairman

April 25, 2024

Charles Sermon
General Counsel and Company Secretary

April 25, 2024

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and the Company financial statements in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The directors have also chosen to prepare the parent company financial statements in accordance with FRS 101 “Reduced Disclosure Framework".

Under company law, 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 company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

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

The directors are responsible for the maintenance and integrity of the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors’ confirmations

In the case of each director in office at the date the directors’ report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group’s and Company’s auditors are 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’s and Company’s auditors are aware of that information.

On behalf of the Board:

Charles Sermon
General Counsel and Company Secretary

April 25, 2024

Independent auditors' report to the members of Mereo BioPharma Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Mereo BioPharma Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2023 and of the group's loss and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated balance sheet and company balance sheet as at 31 December 2023; the consolidated statement of comprehensive (loss)/income, the consolidated statement of cash flows, the consolidated statement of changes in equity, and the company statement of changes in equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Context

Mereo BioPharma Group plc is a public listed company incorporated under the laws of England and Wales and listed on the NASDAQ.

Overview

Audit scope

- The group's headquarters are in the United Kingdom which is also the location of management.
- The company has six directly owned subsidiaries and two indirectly owned subsidiaries. Three subsidiaries are dormant entities.
- We identified two significant components of the group: the company and its four UK based operating subsidiaries; and the US based operating subsidiary. We performed a full scope audit of these two significant components due to their size and risk.
- Taken together, these significant components and the consolidation adjustments, over which we performed audit procedures, accounted for 100% of the loss before tax of the group. Our audit scope provided sufficient, appropriate, audit evidence as a basis for our opinion on the group financial statements.

Key audit matters

- Recoverability of intangible assets (group)
- Recoverability of investments in subsidiaries (company)

Materiality

- Overall group materiality: £1,742,000 based on 5% of adjusted loss before tax.
- Overall company materiality: £2,145,000 based on 1% of total assets.
- Performance materiality: £1,306,000 (group) and £1,608,000 (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Recoverability of intangible assets (group) As disclosed in Notes 13 and 14 to the group financial statements, as at 31 December 2023, the group holds intangible assets for acquired development programs with a net book value of £11.1m. Management has forecast the cash flows for each acquired development program which separately support each intangible asset. Management's impairment assessments are performed through a separate value in use model for each development program, which contain certain key assumptions, such as: drug pricing, market penetration and probability of success, which required significant attention and, for drug pricing and market penetration the involvement of specialists, as part of our audit. Management has assessed the recoverability of each intangible asset under IAS 36, Impairment of Assets, and concluded that the value in use of each intangible was higher than its carrying amount, such that no impairment of intangibles was required.	We performed the following procedures to address the key audit matter: - We assessed the design and implementation of management's controls over impairment assessments; - We evaluated the completeness and accuracy of management's impairment calculations, including the underlying data used; - We obtained audit evidence for those assumptions we identified as key assumptions in each model, such as: drug pricing, market penetration and probability of success, and assessed the reasonableness of management's assumptions. Furthermore, we involved specialists in the audit of drug pricing and market penetration assumptions; and - We evaluated the sufficiency of the disclosure in Notes 13 and 14 to the group's financial statements. Based on the work performed, we conclude that management's impairment assessments support the carrying values of each intangible asset and are appropriately disclosed.

Recoverability of investments in subsidiaries (company) As disclosed in Note 4 to the company's financial statements, as at 31 December 2023, the company holds investments in its subsidiaries which total £164.9 million. Each development program is held in an individual subsidiary and the value of the company's investments is therefore supported by the forecast cash flows of the development program held in each subsidiary. In forming their assessment of impairment triggering events, management considered: the progress of each drug program, external market indicators (such as the group's market capitalisation), and any contradictory evidence identified in the individual drug program value in use calculations maintained by management. Management was required to exercise judgement in concluding that no impairment triggers were identified beyond the derecognition of Leflutrozole and this therefore required significant attention as part of our audit. Management has assessed the recoverability of each investment in subsidiaries under IAS 36, Impairment of Assets, and having derecognised the Leflutrozole development program asset in the year due to its out-licensing, management concluded that a full impairment of £14.3 million in the investment in the relevant subsidiary was required, because the associated cash flows no longer supported the carrying value of the subsidiary. Management identified no other impairment triggering events in the period related to the other investments.	We performed the following procedures to address the key audit matter: - We assessed the design and implementation of management's controls over impairment assessments; - We evaluated external factors which could be indicative of an impairment such as: analyst expectations and the group's market capitalisation, and also assessed based on our knowledge of the business the progress of the drug programs; - We evaluated the completeness of management's impairment trigger assessment; and - We evaluated the sufficiency of the disclosure in Note 4 to the company's financial statements. Based on the work performed, we conclude that the carrying values at which the investments in subsidiaries are recognised are appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group comprises nine companies, of which six are operational. We identified a UK component, comprising five of these companies, including the parent company, and a US component comprising the remaining company. A full scope audit was performed over each component, through which we obtained coverage over 100% of group balances.

We did not utilise component auditors in our audit of the group and our procedures were solely carried out at the group's head office.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the group's and company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the group's and company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Financial statements - group	**Financial statements - company**
Overall materiality	£1,742,000.	£2,145,000.
How we determined it	5% of adjusted loss before tax	1% of total assets
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report and Accounts, adjusted loss before tax is the primary measure used by the stakeholders of the group to measure its financial performance and is a generally accepted auditing benchmark. We have adjusted this to remove the effect of fair value gains as they are not representative of the group's underlying activities and can vary significantly period over period.	Based on the benchmarks used in the Annual Report and Accounts, total assets is the primary measure used by the stakeholders of the company to measure its financial performance and is a generally accepted auditing benchmark for holding companies.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £630,000 and £1,260,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1,306,000 for the group financial statements and £1,608,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £87,000 (group audit) and £107,000 (company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Testing the mathematical accuracy of the cash flow forecast and reconciling this to the Board approved budget;
- Assessing the completeness and accuracy of the data used in the cash flow forecast, including whether any additional risks not considered by management exist based on our understanding of the group, company and industry;
- Evaluating management's assessment of key assumptions contained within the cash flow forecasts; and
- Evaluating the sufficiency of the disclosure in Note 2 to the group's financial statements.

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's and the 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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.
Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report 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 Directors' Report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and 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.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

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.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation and the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the misappropriation of cash and manipulation of the cash runway disclosure contained within Note 2 of the group financial statements. Audit procedures performed by the engagement team included:

- Inquiries of management and the Audit and Risk Committee regarding their knowledge of actual or suspected fraud in the business;
- Identifying and testing journals based on our risk assessment and evaluating whether there was evidence of management bias that represents a material misstatement due to fraud;
- Post period end confirmation of a particular cash balance;
- Consideration of assumptions and judgements made by management in their significant accounting estimates and judgements; and
- Incorporating elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Simon Ormiston (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

25 April 2024

	Note	Year ended December 31, 2023 £'000s	2022 Restated* £'000s
Revenue	6	7,914	—
Cost of revenue	6	(11,935)	936
Research and development expenses		(15,445)	(24,962)
Administrative expenses		(13,502)	(19,543)
Operating loss		(32,968)	(43,569)
Finance income	9	1,710	696
Finance costs	9	(1,642)	(2,910)
Changes in the fair value of financial instruments	9	207	7,805
Net foreign exchange (loss)/gain		(2,000)	2,033
Gain/(loss) on disposal of intangible assets		—	—
Other income and expenses	9	46	811
Loss before tax	7	(34,647)	(35,134)
Taxation	10	1,465	1,897
Loss for the year, attributable to equity holders of the parent		(33,182)	(33,237)
Items that may be reclassified subsequently to profit or loss:			
Currency translation of foreign operations (net of tax)		1,845	(1,828)
Total comprehensive loss for the year, attributable to equity holders of the parent		(31,337)	(35,065)
Basic loss per share for the year (in £)	11	(0.05)	(0.06)
Diluted loss per share for the year (in £)	11	(0.05)	(0.06)

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

** See Note 4 for details regarding the restatement as a result of a voluntary change in accounting policy.*

	Note	Year ended December 31, 2023	2022 Restated*	January 1, 2021 Restated*
Assets		£'000s	£'000s	£'000s
Non-current assets				
Property, plant and equipment	12	1,295	1,831	2,530
Intangible assets	13	11,126	20,156	20,156
		12,421	21,987	22,686
Current assets				
Prepayments		1,440	3,125	2,799
R&D tax credits	10	929	1,296	—
Other taxes receivable	10	—	614	809
Other receivables	15	2,609	762	1,419
Trade receivables		—	—	—
Cash and short-term deposits	16	45,102	56,334	94,296
		50,080	62,131	99,323
Total assets		62,501	84,118	122,009
Equity and liabilities				
Non-current liabilities				
Provisions	18	—	—	—
Convertible loan notes	20	3,916	—	14,384
Warrant liability	19	324	129	8,336
Lease liability	12	711	1,222	1,754
Other liabilities		599	—	80
		5,550	1,351	24,554
Current liabilities				
Trade and other payables	17	2,084	3,078	2,499
Accruals		4,292	4,491	3,826
Current tax liabilities		—	—	1,522
Provisions	18	196	188	—
Convertible loan notes	20	—	11,085	—
Warrant liability	19	—	402	—
Lease liability	12	512	466	622
Other liabilities	6	560	515	1,269
		7,644	20,225	9,738
Total liabilities		13,194	21,576	34,292
Net assets		49,307	62,542	87,717
Equity				
Issued capital	21	2,104	1,875	1,755
Share premium	21	267,770	254,303	247,460
Other capital reserves	21	135,670	131,348	128,503
Employee Benefit Trust shares		(974)	(1,058)	(1,140)
Other reserves		7,401	7,401	7,401
Accumulated losses	21	(362,340)	(329,158)	(295,921)
Translation reserve		(324)	(2,169)	(341)
Total equity		49,307	62,542	87,717

The accompanying notes form an integral part of these consolidated financial statements.
** See Note 4 for details regarding the restatement as a result of a voluntary change in accounting policy.*

The financial statements on pages 41 to 44 were approved by the Board of Directors on April 24, 2024 and signed on its behalf by:

Dr. Denise Scots-Knight (Director)

April 25, 2024

Company number: 09481161 (England and Wales)

MEREO BIOPHARMA GROUP PLC

FINANCIAL STATEMENTS: CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2023	2022 Restated*
		£'000s	£'000s
Operating activities			
Loss before tax		(34,647)	(35,134)
Adjustments to reconcile (loss)/profit before tax to net cash flows:			
Depreciation of property, plant and equipment	12	536	727
Amortization of intangible assets	13	311	—
Share-based payments expense	25	3,991	3,862
Change in fair value of warrants	9	(207)	(7,805)
Net foreign exchange loss/(gain)		2,000	(2,033)
Finance income	9	(1,710)	(696)
Finance costs	9	1,627	2,910
Other non-cash movements		—	647
Loss on out-license of intangible asset		9,886	—
Other income and expenses	9	—	(811)
Changes in operating assets and liabilities:			
Decrease/(increase) in receivables and prepayments		627	695
Decrease/(increase) in trade and other payables and accruals		(1,095)	1,126
Increase/(decrease) in provisions and other liabilities		(24)	(779)
Taxation		1,075	(1,529)
Net cash flows used in operating activities		(17,630)	(38,820)
Investing activities			
Purchase of property, plant and equipment	12	—	(10)
(Proceeds from out-license)/ Purchase of intangible assets	13	(337)	1,484
Payments to CVR holders	9	—	(673)
Interest earned	9	1,628	696
Net cash flows from investing activities		1,291	1,497
Financing activities			
Proceeds from issuance of ordinary shares		9,335	—
Transaction costs on issuance of ordinary shares		(411)	—
Proceeds from financing agreements	22	80	153
Interest paid on convertible loan notes		(711)	—
Payment of lease liabilities	12	(611)	(937)
Transaction costs on conversion of convertible loan notes		(26)	—
Redemption of convertible loan notes		(2,564)	—
Net cash flows from/(used in) financing activities		5,092	(784)
Net decrease in cash and short-term deposits		(11,247)	(38,107)
Cash and short-term deposits at January 1		56,334	94,296
Effect of exchange rate changes		15	145
Cash and short-term deposits at December 31		45,102	56,334

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

** See Note 4 for details regarding the restatement as a result of a voluntary change in accounting policy.*

	Notes	Issued capital	Share premium	Other capital reserves (Restated*)	Employee Benefit Trust shares	Other reserves	Accumulated losses (Restated*)	Translation reserves	Total
At January 1,2022		1,755	247,460	129,835	(1,140)	7,401	(296,968)	(341)	88,002
Effect of change in accounting policy	4			(1,332)			1,047		(285)
At January 1, 2022 (Restated*)		1,755	247,460	128,503	(1,140)	7,401	(295,921)	(341)	87,717
Loss for the year (Restated*)		—	—	—	—	—	(33,237)	—	(33,237)
Other comprehensive loss		—	—	—	—	—	—	(1,828)	(1,828)
Total		—	—	—	—	—	(33,237)	(1,828)	(35,065)
Share-based payments	25	—	—	3,862	—	—	—	—	3,862
Exercise of share options		—	—	(82)	82	—	—	—	—
Convertible loan notes	20, 22	120	6,843	(1,005)	—	—	—	—	5,958
Issuance of warrants	21	—	—	70	—	—	—	—	70
At December 31, 2022		1,875	254,303	131,348	(1,058)	7,401	(329,158)	(2,169)	62,542
Loss for the year		—	—	—	—	—	(33,182)	—	(33,182)
Other comprehensive loss		—	—	—	—	—	—	1,845	1,845
Total		—	—	—	—	—	(33,182)	1,845	(31,337)
Share-based payments	25	—	—	3,991	—	—	—	—	3,991
Deferred restricted stock units awarded		2	—	—	—	—	—	—	2
Exercise of share options		—	—	(84)	84	—	—	—	—
Issuance of ordinary shares		145	8,778	—	—	—	—	—	8,923
Convertible loan notes	20, 22	82	4,689	374	—	—	—	—	5,145
Issuance of warrants	21	—	—	41	—	—	—	—	41
At December 31, 2023		2,104	267,770	135,670	(974)	7,401	(362,340)	(324)	49,307

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

** See Note 4 for details regarding the restatement as a result of a voluntary change in accounting policy.*

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 Capital Market via American Depositary Shares ("ADSs") under the ticker symbol "MREO". 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, 2023 were authorized for issue in accordance with a resolution of the Directors on April 24, 2024. The principal activities of the Company are the development and commercialization of innovative therapeutic pharmaceutical products for rare diseases.

2. Material accounting policies

Basis of preparation

The Company's consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards and the Companies Act 2006.

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.

In the condensed consolidated statement of comprehensive loss for the six months ended June 30, 2023, the Company included amounts received from its depositary within other operating income. These amounts are included within administrative expenses for the year ended December 31, 2023.

Basis of consolidation

The consolidated financial information comprises the financial statements of Mereo BioPharma Group plc and its subsidiaries as at December 31, 2023. 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 benefit trust ("EBT") to facilitate share transactions pursuant to employee share schemes. Although the trust is a separate legal entity from the Company, its assets are considered to be part of the Company's assets 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 by product candidate. 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, 2023, less than £0.1 million (2022: £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 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 or 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, 2023, the Company has cash and short-term deposits available of £45.1 million.

The Company has prepared detailed cash flow forecasts for the period from approval of these consolidated financial statements to December 31, 2025. The Company has 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 December 31, 2025. Therefore, although the Company continues to generate losses, the Company considers 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 Company determined that it is appropriate to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Summary of material 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.

The terms of these arrangements typically include payment to the Company of one or more of the following: nonrefundable, upfront license fees; payments for research and development services; fees upon the exercise of options to obtain additional services or licenses; payments based upon the achievement of defined collaboration objectives; future regulatory and sales-based milestone payments; and royalties on net sales of future products.

Where the Company has performed significant development activities for its product candidates, including the setrusumab and leflutrozole partnerships described in Note 6, receipts from agreements with third parties are considered to be proceeds derived from customers of the Company's ordinary activities and therefore represent revenue within the scope of IFRS 15, Revenue from Contracts with Customers.

When this is not the case and the third parties are not receiving outputs from the Company's ordinary activities , such as in the Navicixizumab ("Navi") partnership described in Note 9, the third parties are not considered to be customers and the Company accounts for receipts from these agreements as other income.

To determine revenue recognition for arrangements that the Company determines are within the scope of IFRS 15, it performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when, or as, the Company satisfies the performance obligations. The Company only applies the five-step model to contracts when it is highly probable that the entity will collect substantially all of the consideration it is entitled to in exchange for the goods or services it transfers to the customer. As part of the accounting for these arrangements, the Company must make significant judgments, including identifying performance obligations

in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation.

Once a contract is determined to be within the scope of IFRS 15, the Company assesses the goods or services promised within the contract and determines those that are performance obligations. Arrangements that include rights to additional goods or services that are exercisable at a customer's discretion are generally considered options. The Company assesses if these options provide a material right to the customer and if so, they are considered performance obligations.

Performance obligations are promised goods or services in a contract to transfer a distinct good or service to the customer. The promised goods or services in the Company's contracts with customers primarily consist of license rights to the Company's intellectual property, research and development services and options to obtain additional licenses, such as a commercialization license for a potential product candidate. Promised goods or services are considered distinct when: (i) the customer can benefit from the good or service on its own or together with other readily available resources, and (ii) the promised good or service is separately identifiable from other promises in the contract. In assessing whether promised goods or services are distinct, the Company considers factors such as the stage of development of the underlying intellectual property, the capabilities of the collaboration partner to develop the intellectual property on their own and whether the required expertise is readily available. In addition, the Company considers whether the customer can benefit from a promise for its intended purpose without the receipt of the remaining promises, whether the value of the promise is dependent on the unsatisfied promises, whether there are other vendors that could provide the remaining promises, and whether it is separately identifiable from the remaining promises.

The Company estimates the transaction price based on the amount of consideration the Company expects to receive for transferring the promised goods or services in the contract. The consideration may include both fixed consideration and variable consideration. At the inception of each arrangement that includes variable consideration, the Company evaluates the amount of the potential payments and the likelihood that the payments will be received. The Company utilizes either the most likely amount method or expected value method to estimate variable consideration to include in the transaction price based on which method better predicts the amount of consideration expected to be received. The amount included in the transaction price is constrained to the amount for which it is highly probable that a significant reversal of cumulative revenue recognized will not occur. At the end of each subsequent reporting period, the Company reevaluates the estimated variable consideration included in the transaction price and any related constraint, and if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis in the period of adjustment. The initial transaction price of a contract does not include amounts associated with customer option payments.

After the transaction price is determined, it is allocated to the identified performance obligations based on the estimated standalone selling price. The Company must develop assumptions that require judgment to determine the standalone selling price for each performance obligation identified in the contract. The Company utilizes key assumptions to determine the standalone selling price, which may include other comparable transactions, pricing considered in negotiating the transaction, probabilities of technical and regulatory success and the estimated costs. Based on the current agreements in effect, there is limited judgment in determining the revenue and transaction price. Certain variable consideration is allocated specifically to one or more performance obligations in a contract when the terms of the variable consideration relate to the satisfaction of the performance obligation and the resulting amounts allocated to each performance obligation are consistent with the amounts the Company would expect to receive for each performance obligation.

The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) each performance obligation is satisfied at a point in time or over time, and if over time, the facts and circumstances of each respective contract will be used to determine the revenue recognitions pattern. The Company currently does not have any revenue that is being recognized over a time period.

Payments to third parties arising as a direct consequence of revenue recognized are also recorded within cost of revenue in the Company's consolidated statement of operations and comprehensive loss. 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.

License revenue
The Company has no approved product candidates and accordingly has not generated any revenue from commercial product sales. Revenue to date has been generated principally from licensing arrangements and collaboration agreements with a small number of the Company's customers.

If a license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenues from non-refundable, upfront fees allocated to the license at such time as the license is transferred to the licensee and the licensee is able to use, and benefit from, the license.

Contingent milestone payments
The Company's licensing arrangements and collaboration agreements may include development, regulatory and sales milestones. IFRS 15 constrains the amount of variable consideration included in the transaction price in that either all, or a portion, of variable consideration should be included in the transaction price. The variable consideration should be included only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Company evaluates the probability of the milestones being reached and estimates the amount to be included in the transaction price using the most likely amount method. The Company evaluates factors such as the scientific, clinical, regulatory, commercial and other risks that much be overcome to achieve the particular milestone in making this assessment. If it is highly probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the Company's control, such as regulatory approvals, are not considered highly probable of being achieved until those approvals are received. At the end of each reporting period, the Company re-evaluates the probability of achievement of such milestones and any related constraints and, if necessary, adjusts the estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch up basis, which would affect revenue and net loss in the period of adjustment.

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.

The Company recognizes interest received on taxes repaid within finance income in the consolidated statement of comprehensive (loss)/income. As of December 31, 2023 and 2022, no material accrued interest is included in the related tax receivable recognized in the consolidated balance sheet.

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 year-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 year, 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 the consolidated statement of comprehensive 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. The only Contingent consideration liabilities are the Company's obligations under the Contingent Value Rights Agreement (the “CVR Agreement”), dated April 23, 2019 which required the Company to make payments if specified milestones are achieved within agreed time periods on the etigilimab and navicixizumab product candidates acquired in the acquisition of Oncomed in 2019. The CVR Agreement expires on April 23, 2024 and the CVR liability was £nil in all periods presented.

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

g) Leases

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

h) Intangible assets

Intangible assets acquired outside a business combination are initially recorded at cost, using the Cost accumulation model. Under this model, the asset is initially recognized, at the date of acquisition, at the cost paid. Variable payments are not included in the carrying amount of the asset at acquisition, and no liability is recognized for the contingent consideration until the related uncertainty is substantially resolved. Subsequent payments made are capitalized as part of the cost of the asset if they are paid as a consequence of the utility of the asset. This is a change in accounting policy for the year ended December 31, 2023 as described in Note 4.

Intangible Assets that have been acquired through a business combination are initially recorded at fair value. The fair value of any contingent consideration is regularly reviewed based on the probability of achieving contractual milestones. Refer to the policy on business combinations above for more information.

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. The only intangible asset currently amortized is the UCB/Amgen License, which is amortized using the straight-line method over its useful economic life (see Note 13).

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.

Interest income, impairment losses or gains from reversal of impairment, are recognized directly in the consolidated statement of comprehensive income. Changes in the fair value of financial assets measured through profit or loss are recognized within the consolidated statement of comprehensive (loss)/income upon each measurement date. Financial assets measured at amortized cost are recognized in the consolidated balance sheet at the gross cost net of accumulated amortization. For financial assets measured at FVOCI, 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.

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 an original maturity of three months or less from the date of deposit, 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.

n) 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 25).

In accordance with IFRS 2 Share-based Payments ("IFRS 2"), charges for these incentives are expensed through the consolidated statement of comprehensive (loss)/income using the accelerated graded-vesting attribution method 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.

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

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

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

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

The EBT holds ADSs to satisfy the exercise of options under the Company's share-based incentive schemes (see Note 25). 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 ADSs and delivery to the EBT. These ordinary shares will be presented as employee benefit trust shares 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.

q) 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

Change in accounting policy

During the year, the Company voluntarily changed its accounting policy for determining how the cost of an intangible asset acquired outside a business combination should be determined where the acquirer may be required to make future contingent payments. This change required the Company to make judgments about whether the new accounting policy would provide reliable and more relevant information to users of the accounts. Details of this judgment and the impact on the financial statements in the current and prior periods are provided in Note 4.

Revenue and cost of revenue

Judgment is required to determine the appropriate accounting for the $9 million (£7.1 million) milestone payment received under the license and collaboration agreements with Ultragenyx Pharmaceutical, Inc. (“Ultragenyx”) and the $1.0 million (£0.8 million) upfront payment received under the license agreement with ReproNovo SA ("ReproNovo").

Management has determined that the upfront proceeds from both agreements represent proceeds from the Company’s ordinary business activities and, therefore, represent revenue within the scope of IFRS 15, Revenue from Contracts with Customers.

Management has also made judgments related to the determination whether the performance obligation has been satisfied on how much of each receipt should be recognized as revenue in the year based on what performance obligations existed in the agreements and the extent to which they were satisfied during the year. Management concluded that it was appropriate to recognize the full amount of both payments in the year These judgments, and the reasons for Management's conclusions, are explained in more detail in Note 5.

Estimates and assumptions

Recoverable amounts of intangible assets

Acquired development programs not yet available for use are assessed annually for impairment. This involves comparing the carrying value of each asset to its recoverable amount. 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 calculation of each asset's recoverable amount involves making a number of significant estimates and assumptions about the cash flows to be generated by the asset including the likelihood of successful product approval, the costs of attaining approval, the estimated useful life of intangible assets following commercialization and the subsequent profitability of the product once approved. further information on the key inputs, valuation techniques and the sensitivity of the balance to the key assumptions is provided in Note 14.

4. Changes in accounting policies

a) Voluntary change in accounting policy

Effective January 1, 2024, the Company began complying with and reporting under the U.S. Securities and Exchange Commission rules and Nasdaq listing requirements applicable to U.S. domestic filers, including preparing financial statements in compliance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). In connection with preparing these financial statements for the first time, the Company reviewed all of its accounting policies and noted that there is no IFRS standard that states how the cost of an intangible asset acquired outside a business combination should be determined where the acquirer may be required to make future contingent payments (“Variable Consideration”). Entities are therefore required to follow IAS 8, ‘Accounting policies, changes in accounting estimates and errors’ (“IAS 8"), to develop an appropriate policy for such items and there is diversity in practice.

The Company historically recorded a liability for Variable Consideration to be paid in cash equal to the present value of the probability-weighted future cash flows, with changes in this amount related to the probability or timing of those cash flows recognized as a revision to the cost of the related intangible asset. Variable Consideration to be paid in equity were recorded at fair value within the share based payment reserve accordance with IFRS 2.

The Company has concluded that a more relevant and reliable view of its financial position and performance would be provided if Variable Consideration was instead recognized using the cost accumulation model as described in Note 2 h) above. The Company believes this revised policy is preferable as it better reflects the way the liability will be discharged, removes considerable estimation uncertainty, and more closely aligns the Company with industry practice.

The Company has therefore made a voluntary change in accounting policy. This involved de-recognizing a portion of the alvelestat intangible asset together with a corresponding reduction of the liability for deferred cash consideration and the share based payment reserve that reflected the deferred cash and deferred equity consideration. Accumulated losses were also reduced to reflect the cumulative movements in the liability that had been recognized in the consolidated statement of comprehensive (loss)/income. Had the accounting policy not been changed, a liability of £4.6 million would have been recorded on the balance sheet at December 31, 2023 related to probable near-term milestone payments. See Note 24 for detail of the total potential commitments in relation to alvelestat.

Each of the affected financial statement line items for the prior periods are shown in the tables below:

Consolidated Balance sheet (extract)	31-Dec-22	Increase/ decrease	31-Dec-22 (Restated)
	£'000s	£'000	£'000
Intangible assets	24,116	(3,960)	20,156
Provisions (Non-current)	4,822	(4,634)	188
Net assets	61,868	674	62,542
Other capital reserves	132,680	(1,332)	131,348
Accumulated losses	(331,164)	2,006	(329,158)
Total equity	61,868	674	62,542

Consolidated Balance sheet (extract)	1-Jan-22	Increase/ decrease	1-Jan-22 (Restated)
	£'000s	£'000	£'000
Intangible assets	24,564	(4,408)	20,156
Provisions (current)	2,803	(2,803)	-
Provisions (Non-current)	1,320	(1,320)	-
Net assets	88,002	(285)	87,717
Other capital reserves	129,835	(1,332)	128,503
Accumulated losses	(296,968)	1,047	(295,921)
Total equity	88,002	(285)	87,717

Consolidated Statement of Comprehensive (Loss)/Income	2022	Increase/ decrease	2022 (Restated)
	£'000s	£'000	£'000
Finance costs	(3,361)	451	(2,910)
Net foreign exchange (loss)/gain	1,525	508	2,033
Loss before tax	**(36,093)**	959	**(35,134)**
Loss for the year attributable to equity holders of the parent	**(34,196)**	959	**(33,237)**
Total comprehensive loss for the year, attributable to equity holders of the parent	**(36,024)**	959	**(35,065)**

There was no impact on Net cash flows used in operating activities, nor any other caption in the Consolidated Statement of Cash Flows or basic or diluted loss per share in any period presented.

b) New standards, interpretations and amendments adopted from January 1, 2023

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, 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements:

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

c) 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, 2025, had not yet been endorsed by the UK Endorsement Board.

Effective January 1, 2024

- Amendments to IFRS 16 – Lease liability in a sale-and-leaseback
- Amendments to IAS 1 – Classification of liabilities as current or non-current
- Amendments to IAS 1 – Non-current liabilities with covenants
- Amendments to IAS 7 and IFRS 7 – Supplier finance arrangements

Effective January 1, 2025

- Amendment to IAS 21 – Lack of exchangeability

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, 2023	% Equity interest December 31, 2022
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 6 Lapp's Quay, Cork, T12 TA48, 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 and Cost of Revenue

Ultragenyx Partnership

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 $50.0 million (£36.5 million) and was eligible to receive up to $254 million (£200 million) in development, regulatory and commercial milestones and tiered double digit percentage royalties on net sales outside of Europe and pay a fixed double digit percentage royalty to Ultragenyx on net sales in Europe . 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.

Two distinct performance obligations were identified as part of the license and collaboration agreement: (i) a promise to grant the license to develop and commercialize setrusumab, and (ii) provision of subsequent clinical supply of setrusumab.

In the year ended December 31, 2023, the Company recognized milestone proceeds of $9.0 million (£7.1 million) as revenue under the license and collaboration agreement with Ultragenyx for setrusumab following achievement of a development milestone. The milestone payments constitute a change in transaction price for the Ultragenyx agreement, to which revenue was first recorded in the year ended December 31, 2021. Pursuant to the terms of the agreement, the Company is entitled to receive milestone payments from Ultragenyx upon the achievement of certain development, regulatory and sales based milestones. The variable consideration relating to future milestones and sales royalties are recognized in the statement of comprehensive income when achievement of the milestones are probable or the underlying commercial sales are made, in the event regulatory approval is achieved. No revenues were recognized in respect of this agreement in the year ended December 31, 2022. proceeds were received in July 2023 and was indicative of meeting the requirements of performance obligation (i) above. No revenue was recognized in respect of this agreement in the year ended December 31, 2022.

As a consequence of the milestone received by the Company under the license and collaboration agreement with Ultragenyx and in accordance with terms of the 2015 asset purchase with Novartis which requires payment of a percentage of the proceeds received, the Company also recognized cost of revenue of £1.9 million in the year ended December 31, 2023.

In 2021, the Company received a $50.0 million (£36.5 million) upfront payment from Ultragenyx which triggered a £9.5 million obligation to Novartis under our 2015 agreement with them. An amount of £2.4 million was deferred from this obligation to reflect future costs that were expected to be incurred. Accordingly, the Company recognized cost of revenue of £9.5 million to reflect both the £7.2 million payment made to Novartis and the recognition of a liability within current other liabilities for this deferral. This liability was subsequently reduced through a credit to cost of revenue as the costs were incurred. Cost of revenue for 2022 was a credit of £0.9 million.

ReproNovo Partnership

On December 13, 2023, the Company and ReproNovo SA. (“ReproNovo”) announced a global licensing agreement for the development and commercialization of leflutrozole. Under the terms of the global licensing agreement, ReproNovo will receive an exclusive worldwide license to develop and commercialize leflutrozole. The Company received an upfront payment of $1.0 million (£0.8 million) in December 2023. ReproNovo will be responsible for all future research, development and commercialization of leflutrozole. Additionally, the Company will be eligible to receive up to $64.3 million (£50.5 million) in future clinical, regulatory and commercial milestones, tiered royalties ranging from the low-to-mid-single digits on global annual net sales of leflutrozole. A single performance obligation was identified in this agreement which is the promise to grant the license to develop and commercialize leflutrozole. As the upfront payment is fixed and non-refundable, and therefore does not represent variable consideration, the performance obligation is satisfied and revenue of $1.0 million (£0.8 million) was recognized at the point in time that ReproNovo gained the right to use the license. The additional potential future milestone and royalty payments represent variable consideration that will be recognized when achievement is determined to be highly probable of not reversing.

As a consequence of the milestone proceeds paid to the Company under the license and collaboration agreement with ReproNovo, and in accordance with the terms of the 2015 asset purchase agreement with Novartis, the Company is also obligated to pay a proportion of cash milestone payments received. The Company therefore accrued for a payment to Novartis of $0.1 million (£0.1 million) at December 31, 2023. No revenues were recognized in respect of this agreement in the year ended December 31, 2022.

The Company's revenue is attributed to the operations of the Company in the U.K.

7. Operating loss

Operating loss is stated after charging:

	Year ended December 31, 2023 £'000s	2022 £'000s
Fees payable to the Company's Auditors for the audit of the consolidated financial statements - current auditor	414	—
Fees payable to the Company's Auditors for the audit of the consolidated financial statements - prior auditor	162	371
Fees payable to the Company's Auditors for other services: Audit of subsidiary financial statements - current auditor	54	—
Fees payable to the Company's Auditors for other services: Audit of subsidiary financial statements - prior auditor	—	49
Audit related assurance services - current auditor	377	—
Audit related assurance services - prior auditor	170	59
Other assurance services - current auditor	2	—
Depreciation of right-of-use assets	399	583
Depreciation (excluding right-of-use assets)	137	144
Amortization of intangible assets	310	—

8. Employees

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

	Year ended December 31, 2023 £'000s	2022 £'000s
By activity:		
Administrative	18	29
Research and development	16	20
Total	34	49

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

	Year ended December 31, 2023 £'000s	2022 £'000s
Included in research and development expenses:		
Salaries	3,393	4,590
Social security costs	580	456
Pension contributions	101	78
Share-based payment expenses	731	1,083
Included in administrative expenses:		
Salaries	3,614	4,478
Social security costs	458	606
Pension contributions	65	124
Share-based payment expenses	3,249	2,779
Total	12,191	14,194

Total compensation costs for Directors during the year was:

	Year ended December 31, 2023 £'000s	2022 £'000s
Salaries and fees	497	534
Benefits in kind	16	9
Pension contributions	44	42
Share-based payment expenses	1,765	1,812
Bonus	200	226
Total	2,522	2,623

During 2023, one Director was a member of a defined contribution pension scheme (2022: one). Further details concerning the remuneration of key management personnel is included in Note 26. In respect of directors' remuneration, amounts are included in the detailed disclosures in the audited section of the Directors' Remuneration report on page 26 , which are ascribed as forming part of these financial statements.

9. Finance income, finance costs, changes in the fair value of financial instruments and other income and expenses

Finance income

	Year ended December 31, 2023 £'000s	2022 £'000s
Interest income on short-term deposits	1,628	696
Gain from modification of private placement loan notes	82	—
Total	1,710	696

Finance costs

	Year ended December 31, 2023 £'000s	2022 £'000s
Interest on convertible loan notes	(1,340)	(2,660)
Interest on lease liabilities	(146)	(209)
Discounting of other liabilities	(74)	—
Other	(82)	(41)
Total	(1,642)	(2,910)

Changes in the fair value of financial instruments

	Year ended December 31, 2023 £'000s	2022 £'000s
Changes in the fair value of warrants – private placement	402	7,593
Changes in the fair value of warrants – bank loan	(195)	212
Total	207	7,805

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

(formerly OncoMed). 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, 2023 £'000s	2022 £'000s
UK corporation tax R&D credit	1,036	1,296
Tax credit	429	601
Total	1,465	1,897

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"). In addition, the U.K. government is currently consulting on the potential replacement of the SME Program and RDEC Program with a single program, operating similarly to the RDEC Program, which may, inter alia, change the present treatment of sub-contracted R&D work and introduce different thresholds and caps on expenditure and relief. If enacted, the new program would be expected to have effect for expenditure incurred from April 2024 onwards, and could have a material impact on the quantum of R&D relief that we are eligible to claim. This announcement also saw the introduction of a higher rate of relief for loss-making R&D-intensive small and medium enterprises, the SME Intensive Scheme.

Companies claiming under the existing SME Intensive Scheme tax relief will be eligible for a higher payable credit rate if they meet the definition for R&D intensity. We will assess if we can claim under the new loss-making R&D-intensive SME Intensive Scheme for the accounting period ending December 31, 2024 and future periods, which will provide benefits consistent with those claimed under the current SME Programs.

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 years presented. As of December 31, 2023, the Company had an uncertain tax position of £2.3 million, representing approximately 20% of these historic R&D tax losses claimed.

Reconciliation of effective tax rate

	Year ended December 31, 2023 £'000s	2022 (Restated*) £'000s
Loss before income tax	(34,647)	(35,134)
Tax on profit at standard U.K rate of 23.52% (19%)	8,149	6,675
Expenses not deductible for income tax purposes (permanent differences)	(518)	(783)
Income not taxable	—	12
Temporary timing differences	—	—
R&D relief uplift	247	558
Tax rate changes	(1)	—
Losses (unrecognized)	(6,203)	(4,810)
Foreign tax	(35)	422
Differences in overseas tax rates	(173)	323
Derecognition of deferred tax	—	—
Effects of carryback loss relief	—	(649)
Adjustments in respect of prior years	538	612
Other	(539)	(463)
Tax credit/(charge) for the year	1,465	1,897

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

	Year ended December 31, 2023 £'000s	2022 (Restated*) £'000s
Losses	51,817	47,321
Loan relationships	443	443
U.S tax credits	11,715	12,206
R&D capitalization	3,568	3,001
Fixed assets	14	—
Share options	1,039	434
Other	19	—
Temporary differences	10	51
Deferred tax asset (unrecognized)	68,625	63,456

The movement of recognized deferred tax is set out below:

	Intangible assets and right-of-use asset £'000s	Tax losses £'000s	Total £'000s
At January 1, 2023 (Restated*)	60	(60)	—
Recognized in income	(34)	34	—
Net deferred tax asset/(liability)	26	(26)	—

*See Note 4 for details regarding the restatement as a result of a voluntary change in accounting policy.

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 taxable 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 23.52% (2022: 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. The standard rate of corporation tax 23.52% is the U.K. corporation tax rate of 19% from January 1, 2023 through April 1, 2023, and U.K. corporation tax rate of 25% for the remainder of 2023. U.K. deferred tax assets and liabilities have been measured at a rate of 25%.

At December 31, 2023, the Company had U.K. tax losses to be carried forward of approximately £51.7 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 (formerly OncoMed), 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, 2023, the Company had U.S. federal tax losses to be carried forward of approximately £52.0 million, of which £14.3 million can be carried forward indefinitely and £37.7 million which will begin to expire in 2024. At December 31, 2023, the Company had U.S. state tax losses to be carried forward of approximately £0.1 million which begin to expire in 2027.

11. Loss per share

Basic loss per share is calculated by dividing the loss attributable for the year to ordinary equity holders of the Company 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, 2023	2022 Restated*
Numerator – Basic earnings per share (£'000s):		
Loss attributable to equity holders of the parent	(33,182)	(33,237)
Denominator – Basic earnings per share:		
Weighted average number of ordinary shares	659,453,921	603,196,403
Loss per share – basic (£)	(0.05)	(0.06)
Numerator – Diluted earnings per share (£'000s):		
Loss attributable to equity holders of the parent	(33,182)	(33,237)
Effect of dilutive ordinary shares	—	—
Numerator – Diluted earnings per share	(33,182)	(33,237)
Denominator – Diluted earnings per share:		
Number of ordinary shares used for basic earnings per share	659,453,921	603,196,403
Weighted average effect of dilutive ordinary shares	—	—
Weighted average number of diluted ordinary shares outstanding	659,453,921	603,196,403
Loss per share – diluted (£)	(0.05)	(0.06)

*See Note 4 for details regarding the restatement as a result of a voluntary change in accounting policy.

For the years ended December 31, 2023 and 2022, share options, restricted stock units, performance stock units, 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.

	Year ended December 31,	
	2023	2022
Stock options to purchase ordinary shares	54,751,240	38,864,740
Restricted stock units	2,446,125	—
Performance stock units	6,690,750	—
Convertible loan notes (as converted to ordinary shares)	15,657,825	17,010,137
Convertible loan notes - private placement (as converted to ordinary shares)	—	41,048,784
Warrants to purchase ordinary shares (as converted to ordinary shares)	2,487,816	147,431,351

12. Property, plant and equipment

	Right-of-use asset (buildings) £'000s	Leasehold improve-ments £'000s	Office equipment £'000s	IT equipment £'000s	Total £'000s
Cost					
At January 1, 2023	2,465	557	164	173	3,359
Additions	—	—	—	—	—
Disposals	—	—	—	—	—
Currency translation effects	—	—	—	—	—
At December 31, 2023	2,465	557	164	173	3,359
Accumulated depreciation					
At January 1, 2023	(1,088)	(219)	(76)	(145)	(1,528)
Disposals	—	—	—	—	—
Depreciation for the year	(399)	(95)	(21)	(21)	(536)
At December 31, 2023	(1,487)	(314)	(97)	(166)	(2,064)
Net book value					
At December 31, 2022	1,377	338	88	28	1,831
At December 31, 2023	978	243	67	7	1,295

	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						
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
Accumulated 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 December 31, 2021	1,878	64	433	104	51	2,530
At December 31, 2022	1,377	—	338	88	28	1,831

In August 2022, the Company’s lease for office space in Redwood City, California expired, and certain equipment was disposed.

The Company leases office space and equipment for use in administrative and research and development activities. In the year-ended December 31, 2023, the Company made lease payments of £0.6 million (2022: £0.9 million). The maturity of lease liabilities as of December 31, 2023 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	512	711	—	—	1,223

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 22.

13. Intangible assets

	Acquired development programs £'000s
Cost	
At January 1, 2022 (restated*)	20,156
At December 31, 2022 (restated*)	20,156
Additions	1,166
Disposals	(9,886)
At December 31, 2023	11,436
Accumulated amortization	
At January 1, 2022	—
At December 31, 2022	—
Amortization charge in the year	(310)
At December 31, 2023	(310)
Net book value	
At December 31, 2022 (restated*)	24,116
At December 31, 2023	11,126

*See Note 4 for details regarding the restatement as a result of a voluntary change in accounting policy.

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

An intangible asset of £1.2 million was recognized for the UCB/Amgen License in the year ended December 31, 2023 reflecting payments under the agreement that are not contingent. A corresponding liability of £1.2 million was also recognized. The license is amortized on a straight-line basis over its useful economic life. During the year ended December 31, 2023, amortization expense of £0.3 million (2022: £nil) has been recorded within administrative expenses in the consolidated statement of comprehensive (loss)/income.

On December 13, 2023, the Company and ReproNovo announced a global licensing agreement for the development and commercialization of leflutrozole. Under the terms of the global licensing agreement, ReproNovo will receive an exclusive worldwide license to develop and commercialize leflutrozole. As a result of the agreement, the Company derecognized the £9.9 million intangible asset related to leflutrozole, which was recorded as cost of revenue in the consolidated statement of comprehensive (loss)/income.

With the exception of the UCB/Amgen License which is amortized, the intangible assets remain under development and no amortization charge has been recognized.

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,	
	2023 £'000s	2022 Restated* £'000s
BPS-804/UX143 (setrusumab)	3,015	2,159
MPH-966 (alvelestat)	3,800	3,800
BGS-649 (leflutrozole)	—	9,886
BCT-197 (acumapimod)	4,311	4,311
Total	11,126	20,156

*See Note 4 for details regarding the restatement as a result of a voluntary change in accounting policy.

The carrying amount of setrusumab intangible asset includes the UCB/Amgen License as described in Note 13.

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, 2023. Management believes that the likelihood of a materially different outcome using different reasonably possible assumptions for setrusumab and alvelestat is remote given the substantial headroom on these assets.

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 post-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 post-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% (2022: 15.0%).

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.

15. Other receivables

	December 31, 2023 £'000s	2022 £'000s
Lease deposits	482	293
Insurance claim receivable	1,532	—
VAT recoverable	471	362
Other	124	107
Total	2,609	762

16. Cash and short-term deposits

	December 31, 2023 £'000s	2022 £'000s
Cash	2,741	5,230
Short-term deposits	42,361	51,104
Total	45,102	56,334

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

17. Trade and other payables

	December 31, 2023 £'000s	2022 £'000s
Trade payables	1,842	2,886
Social security and other taxes	220	167
Other payables	22	25
Total	2,084	3,078

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

18. Provisions

	December 31, 2023 £'000s	December 31, 2022 (Restated*) £'000s
Social security contribution on share options	196	9
Restructuring	—	179
Total	196	188

*See Note 4 for details regarding the restatement as a result of a voluntary change in accounting policy.

	Social security contribution on vested share options £'000s	Restructuring £'000s
At January 1, 2022	—	—
Arising during the year, net	9	179
Increase in provisions due to the unwinding of the time value of money	—	—
Increase due to changes in foreign exchange rates	—	—
Decrease due to a change in estimates relating to timelines and probabilities of contractual milestones being achieved (revision to intangible asset, see Note 13)	—	—
At December 31, 2022	9	179
Arising/(released) during the year, net	187	—
Utilized during the year, net	—	(179)
Increase in provisions due to the unwinding of the time value of money	—	—
Decrease due to changes in foreign exchange rates	—	—
Decrease due to a change in estimates relating to timeline and probabilities of contractual milestones being achieved (revision to intangible asset, see Note 13)	—	—
At December 31, 2023	196	—

The provision for social security contributions on share options is calculated based on the number of vested options outstanding at the balance sheet date. The timing of option exercises for vested options is at the discretion of the grantee. Cash outflows related to the provision would occur in the same period that an option is exercised. As the Company does not have an unconditional right to defer settlement of the liability, the provision has been classified as current. As the timing of cash outflows is dependent on the period in which employees exercise vested options, there is a degree of uncertainty as to when actual cash outflows will occur. 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.

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 of £0.2 million was paid in 2023. Actual and expected timings of cash outflows were based on the details of the targeted reduction, with key assumptions consisting of estimated percentage of the reduction of the employee base.

19. Warrant liability

	December 31, 2023 £'000s	2022 £'000s
At January 1	531	8,336
Fair value changes during the year	(207)	(7,805)
At December 31	**324**	**531**

	December 31, 2023 £'000s	2022 £'000s
Current	—	402
Non-current	324	129
Total	**324**	**531**

The change in fair value of the warrant liability represents an unrealized gain in the years ended December 31, 2023 and 2022.

Warrants – private placement
On June 3, 2020, the Company completed a £56 million private placement transaction which involved the issuance of ordinary shares, convertible loan notes and conditional warrants to subscribe for 161,048,366 ordinary shares (the "Warrants") at a price of £0.348 per ordinary share.

The ordinary shares, the convertible loan notes and the Warrants were recognized as separate financial instruments. 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 warrants at inception was £4.1 million. The Warrants allowed for the exercise on a cash or cashless basis at the discretion of the warrant holder.

As the Warrants expired on June 30, 2023, the fair value of the warrant liability was £nil as of December 31, 2023 (£0.4 million as of December 31, 2022). The decrease in the fair value of £0.4 million was recognized as a gain in the consolidated statement of comprehensive (loss)/income. During the year-ended December 31, 2023, no warrants were exercised (2022: nil).

Warrants – bank loan
As of December 31, 2023 and 2022, 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. The warrants can be exercised on a cash or cashless basis at the discretion of the warrant holder; therefore the number of shares purchased might vary if the cashless alternative is taken.

At December 31, 2023, the fair value of these warrants was £0.3 million (2022: £0.1 million). The increase in the fair value of £0.2 million was recognized as a loss in the consolidated statement of comprehensive (loss)/income. During the year ended December 31, 2023, no warrants were exercised (2022: nil).

Total outstanding warrants
At December 31, 2023, a total of 2,487,816 liability-classified warrants are outstanding (2022: 147,431,351). The warrants outstanding are equivalent to 0.4% of the issued ordinary share capital of the Company (2022: 24%).

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

	December 31, 2023	2022
Expected volatility (%)	102	95
Risk-free interest rate (%)	3.36	3.99
Expected life of warrants (years)	5.2	0.5
Market price of ADS ($)	2.31	0.75
Model used	Black-Scholes	Black-Scholes

20. Convertible loan notes

	December 31, 2023 £'000s	2022 £'000s
Novartis Loan Note	3,916	4,449
Loan Notes – private placement	—	6,636
Total	**3,916**	**11,085**
Current	—	11,085
Non-current	3,916	—

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 a fixed price of £0.265 per ordinary share and originally bore an interest rate of 6% per annum with a maturity date of February 2023. Effective February 10, 2023, the maturity date of the Novartis Loan Note was extended to February 10, 2025 and the interest rate amended to 9%. The conversion feature was also extended to February 10, 2025 on the same terms. Interest accrued to the amendment date of £0.7 million and was paid in cash. In addition, warrants to purchase 2,000,000 ordinary shares were issued as additional consideration for amending the terms of the convertible loan (see Note 21).

The amendments to the Novartis Loan Note have been treated as the extinguishment of the original instrument and the issuance of a new instrument. On the extinguishment date, the carrying value of the liability component of the original instrument of £3.8 million was derecognized. At the same time, a new liability of £3.5 million was recognized which represents the fair value of the liability component of the new Novartis Loan Notes, net of fees and £0.3 million was recorded in equity to reflect the warrants and the conversion option embedded in the new Novartis Loan Notes.

Loan Notes – private placement
Loan Notes in an aggregate principal amount of £40.5 million were issued on June 3, 2020 as part of the private placement transaction (the "Private Placement Loan Notes") and became convertible upon the passing of the Resolutions. The Private Placement Loan Notes were classified as a financial liability on initial recognition. Non-closely related embedded derivatives relating to the conversion feature, a 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 Private Placement Loan Notes bore interest at a rate of 6% per annum and had an initial maturity date of June 30, 2023. The Private Placement Loan Notes were convertible into ordinary shares at the discretion of the holder at a fixed price of £0.174 per ordinary share and, if not converted by the initial maturity date, could have been extended for an additional seven years, but would have ceased to bear interest from any extension date. The Private Placement 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).

In 2020, between initial recognition and the passing of certain resolutions at the Company's General Meeting in 2020 , 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 Private Placement Loan Notes were not convertible until these resolutions were passed. Following the passing of the resolutions, Private Placement Loan Notes in an aggregate principal amount of £21.8 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 Private Placement 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.

During the year ended December 31, 2022, the Company issued and allotted 40,020,280 ordinary shares at a price of £0.174 per share on conversion of the Private Placement Loan Notes.

On May 31, 2023, the maturity date of the Private Placement Loan Notes was extended to August 3, 2023, with all other terms remaining unchanged. The maturity date extension was treated as a modification with a modification gain of £0.1 million recognized within finance income (see Note 3).

During the year ended December 31,2023, the Company issued and allotted 27,420,095 ordinary shares at a price of £0.174 per share on conversion of the Private Placement Loan Notes. On the revised maturity date on August 3, 2023, the Company paid £2.6 million to fully settle the outstanding principal and accrued interest balance on the Private Placement Loan Notes.

The movements in the carrying value of the liability component of the Loan Notes is included in the table below. Refer to Note 21 for details of Loan Notes converted to equity.

	December 31, 2023 £'000s	2022 £'000s
January 1	6,636	10,613
Interest charge	826	1,981
Converted to equity	(4,805)	(5,958)
Redeemed	(2,564)	—
Modification gain	(82)	—
Capitalization of fees	(11)	—
December 31	**(0)**	**6,636**

21. Issued capital and reserves

	Ordinary shares Number	Ordinary share capital £'000s	Share premium £'000s
At January 1, 2022	**584,908,239**	**1,755**	**247,460**
Issued during the year	40,020,280	120	6,843
At December 31, 2022	**624,928,519**	**1,875**	**254,303**
Issued during the year	76,288,570	229	13,467
At December 31, 2023	**701,217,089**	**2,104**	**267,770**

Since January 1, 2022, 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.

- 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.
- During the year ended December 31, 2023, the Company issued and allotted 501,380 ordinary shares upon the vesting of equity awards.
- During the year ended December 31, 2023, the Company issued and allotted 27,420,095 ordinary shares of £0.003 in nominal value in the capital of the Company, at an exercise price of £0.174 per ordinary share on non-cash conversion of Private Placement Loan Notes.
- During the year ended December 31, 2023, the Company issued and allotted 48,367,095 ordinary shares of £0.003 in nominal value in the capital of the Company for aggregate gross proceeds of $12.0 million (£9.3 million) through an “at-the-market” offering pursuant to an Open Market Sale Agreement with Jefferies LLC.

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, 2022 (restated*)	**21,694**	**32,843**	**44**	**40,818**	**33,104**	**128,503**
Share-based payments expense during the year	3,862	—	—	—	—	3,862
Share options exercised	(82)	—	—	—	—	(82)
Issuance of warrants	—	—	70	—	—	70
Convertible loan notes	—	(1,005)	—	—	—	(1,005)
At December 31, 2022 (restated*)	**25,474**	**31,838**	**114**	**40,818**	**33,104**	**131,348**
Share-based payments expense during the year	3,991	—	—	—	—	3,991
Share options exercised	(84)	—	—	—	—	(84)
Issuance of warrants	—	—	41	—	—	41
Convertible loan notes	—	374	—	—	—	374
At December 31, 2023	**29,381**	**32,212**	**155**	**40,818**	**33,104**	**135,670**

*See Note 4 for details regarding the restatement as a result of a voluntary change in accounting policy.

Share-based payments
The Company has one principal share-based incentive scheme under which options at market value to subscribe for the Company's shares, restricted stock units ("RSUs") and performance share units ("PSUs") have been granted to certain executives, non-executive directors ("NEDs") and employees, including key management personnel, as part of their remuneration.

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 25 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, 2023 is £1.4 million (December 31, 2022: £1.1 million).

On June 30, 2020, the Private Placement 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 20).

Other warrants issued

On October 8, 2018, the Group entered into a funding agreement with The Alpha-1 Project ("TAP"), which provided total payments of $0.4 million (£0.3 million), of which the final installment of $0.1million (less than £0.1 million) was received in May 2023. In exchange for funding, the Company issued warrants allowing TAP to subscribe for ordinary shares in the company. In 2023, the Company issued 408,730 warrants over ordinary shares and received funding of £0.1 million, of which less than £0.1 million was allocated to the 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, 2023 is £0.2 million (2022: £0.1 million).

Under the agreement, TAP is potentially entitled to receive a payment equivalent to amounts received by Mereo (up to a maximum of $400,000) conditional on and within thirty days of the first regulatory approval for MPH-966. The agreement is accounted for as a compound instrument that includes both debt and equity components. For each tranche of funding received, the consideration was allocated by calculating the fair value of the liability component and allocating the residual amount to the warrants . The amount allocated to the liability component is accreted back to the face value

over the period to the earliest reasonable repayments date using the effective interest method. The amount allocated to the warrants was recognized in equity and is not subsequently remeasured.

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.

Other reserves and accumulated losses

	Year ended December 31,	
	2023	2022 (Restated*)
	£'000s	£'000s
Other reserves	7,401	7,401
Accumulated losses	(362,340)	(329,158)

*See Note 4 for details regarding the restatement as a result of a voluntary change in accounting policy.

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." There have been no further amounts recognized in other reserves in 2023 or 2022.

22. Changes in liabilities arising from financing activities

	Lease liability	Novartis loan Note	Warrant liability	Loan notes – private placement	Other	Total
Carrying value at January 1, 2022	2,376	3,771	8,336	10,613	80	25,176
Financing cash flows	(937)	—	—	—	153	(784)
Non-cash changes						
Converted during the year	—	—	—	(5,958)	—	(5,958)
Interest expense	209	678	—	1,981	19	2,887
Issuance of warrants	—	—	—	—	(70)	(70)
Changes in fair value	—	—	(7,805)	—	—	(7,805)
Changes in foreign exchange	40	—	—	—	—	40
Carrying value at December 31, 2022	**1,688**	**4,449**	**531**	**6,636**	**182**	**13,486**
Financing cash flows	(611)	(711)	—	(2,564)	79	(3,807)
Non-cash changes						
Converted during the year	—	—	—	(4,805)	—	(4,805)
Interest expense	146	514	—	826	—	1,486
Issuance of warrants	—	(336)	—	—	(40)	(376)
Capitalization of fees	—	—	—	(11)	—	(11)
Modification gain	—	—	—	(82)	—	(82)
Changes in fair value	—	—	(207)	—	—	(207)
Changes in foreign exchange	—	—	—	—	—	—
Carrying value at December 31, 2023	**1,223**	**3,916**	**324**	**—**	**221**	**5,684**

23. 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 21. The Company's convertible loans are disclosed in Note 20. 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 25).

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. Financial instruments that subject the Company to credit risk consists primarily of cash and cash equivalents. The Company places cash and cash equivalents with established financial institutions with strong credit ratings The Company's maximum exposure to credit risk for the components of the balance sheet at December 31, 2023 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, 2023:

	Within 1 year £'000s	Between 1 and 3 years £'000s	Between 3 and 5 years £'000s	Over 5 years £'000s	Total £'000s
Leases	611	764	—	—	1,375
Trade and other payables	2,084	—	—	—	2,084
Accruals	4,292	—	—	—	4,292
Other liabilities	560	599	—	—	1,159

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
Other liabilities	515	—	—	—	515

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 and asset purchase agreements with Novartis, AstraZeneca, and UCB/Amgen. Due to the uncertainty of the achievement and timing of the events requiring payment under these agreements, the amounts to be paid are contingent at this time and no such amounts are included herein.

The contingent amounts included in the 2015 asset purchase with Novartis comprise 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) of products that include the assets acquired under the agreement. Additionally, the Company 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 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.

The contingent amounts included in the license agreement with AstraZeneca consist of up to $115.5 million and the issuance of additional 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.

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 (formerly OncoMed). 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 2023, 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 year-end cash and short-term deposits balances by currency:

	December 31, 2023 £'000s	2022 £'000s
Pound sterling	27,346	52,812
U.S. dollars	17,732	2,484
Euro	20	1,029
Swiss francs	4	9
Total	**45,102**	**56,334**

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, 2023 £'000s	2022 £'000s
Net foreign currency assets/(liabilities)		
U.S. dollars	16,914	872
Euro	(257)	768
Swiss francs	(12)	(179)
Total	**16,645**	**1,461**

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, which the Company determined was an appropriate reasonably possible movement, in the year-end rate in the U.S. dollar and the Euro against pound sterling:

December 31, 2023	U.S. dollar £'000s	Euro £'000s
Loss before tax	(1,538)	23
Equity	(1,538)	23

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

Financial instruments by category

	Fair value through profit or loss December 31,		Amortized cost December 31,	
	2023 £'000s	2022 Restated* £'000s	2023 £'000s	2022 £'000s
Financial assets				
Cash and short-term deposits	—	—	45,102	56,334
Other receivables	—	—	606	400
Total financial assets	—	—	45,708	56,734
Financial liabilities				
Provisions	—	—	196	187
Other liabilities	—	—	611	—
Convertible loan notes	—	—	—	11,085
Warrant liability	324	531	—	—
Trade and other payables	—	—	1,864	2,911
Accruals	—	—	4,292	4,491
Lease liability	—	—	1,223	1,688
Total financial liabilities	324	531	8,186	20,362

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

	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities measured at fair value		£'000s	£'000s	£'000s	£'000s
Warrant liability (Note 19)	December 31, 2023	324	—	324	—

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
Warrant liability (Note 19)	December 31, 2022	531	—	129	402

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2023 and 2022.

Management assessed that the fair values of cash and short-term deposits, other receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following table presents the changes in Level 3 items for the years ended December 31, 2023 and December 31, 2022.except for the CVR liability, which was £nil in all periods presented.

	Warrant liability £'000s
January 1, 2022	7,995
Change in fair value	(7,593)
December 31, 2022	**402**
Change in fair value	(402)
December 31, 2023	**—**

Warrant liabilities

The fair value of 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.

CVR liability

The fair value of the CVR liability is estimated by discounting the expected future cash flows under the agreement. At December 31, 2023, the Company estimates the fair value of the CVR liability to be nil (2022: 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 fair value 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 (formerly OncoMed) under the CVR arrangement is considered. The estimate will not change over time as the agreement expires on April 23, 2024.

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, 2023 and 2022 are as follows:

	Valuation technique	**Significant unobservable inputs**	**Input range (weighted average)**	**Sensitivity of the input to fair value**
CVR liability	Discounted cash flow	Ongoing uncertainty in the clinical development of the Navi product		Total potential future payments relating to the contingent consideration liability on a gross, undiscounted basis are approximately $80 million

		Regulatory approval and commercial-ization risks		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, the CVR arrangement is near expiry, and therefore the probability in respect of any milestone and royalty payments under the license agreement is assumed to be zero.
Warrant liability related to the private placement	Black-Scholes model	Expected volatility	2023: n/a	The warrants expired during 2023, therefore the value was £nil.
			2022: 95.5%	Volatility was estimated by reference to the 0.4 years 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.

24. 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. In accordance with the accounting polices described in Note 2, no liability is recognized within the consolidated balance sheet related to potential future payments to Novartis. If any amounts become due in the future, they will be recognized as a liability within the consolidated balance sheet.

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 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 £3.3 million as of December 31, 2023 (2022: £0.9 million).

25. Share-based payments

The Company makes share based compensation awards through two currently active approved plans, although fully vested awards made under previous plans are still outstanding. Share-based compensation expense arises solely in respect of awards made under these two active plans as follows:

	Year ended December 31,	
	2023	2022
	£'000s	£'000s
2019 Equity Incentive Plan	3,295	3,149
2019 NED Equity Incentive Plan	696	713
Total	**3,991**	**3,862**

The majority of awards that were exercised in 2023 and 2022 were net share settled such that the Company withheld shares with a value equivalent to the exercise price and the employees' obligation for the applicable income and other employment taxes, and remitted these amounts to the appropriate tax authorities. The remaining shares delivered upon exercise by employees were satisfied by delivering shares from the Employee Benefit Trust. Shares delivered upon exercises by non-executive directors were satisfied by issuing new shares.

2019 Equity Incentive Plan ("EIP")

The 2019 EIP was adopted on April 4, 2019, and subsequently amended on February 3, 2020 and January 15, 2021. The EIP authorizes the grant of a variety of types of share awards over the Company's ADSs to executives and employees. The Company has chosen to award the following instruments under the EIP:

Market Value Options ("Options")
Options permit the recipient to purchase ADSs at an exercise price equal to the market price of the underlying ADSs

on the date of grant. Options issued under the EIP have a contractual term of 10 years and vest over four years, with one-fourth of the award vesting on the first anniversary of the grant date and the remainder vesting in equal monthly installments over the three-year thereafter. No performance conditions apply to such Options.

A summary of the Company's Options activity and related information under the EIP for 2023 and 2022 is as follows. All outstanding Options are expected to vest:

	2023		2022	
	Number of options (ADSs)	Weighted Average Exercise Price ($)	Number of options (ADSs)	Weighted Average Exercise Price ($)
At January 1	6,857,861	2.15	3,943,702	2.88
Granted	4,874,300	1.03	4,126,400	1.38
Forfeited	(1,324,809)	1.42	(1,164,197)	1.83
Expired	(751,672)	2.82	(48,044)	3.97
Exercised	(60,519)	1.57	—	—
At December 31	**9,595,161**	**1.63**	**6,857,861**	**2.15**
Exercisable at December 31	3,425,209	2.27	2,082,027	2.95

Options outstanding as of December 31, 2023 had an exercise price of between $0.51 and $5.40 per ADS.

At December 31, 2023, the weighted average contractual life of options outstanding was 8.1 years (2022: 7.9 years) and for vested options was 7.1 years (2022: 6.2 years).

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model based on the following weighted average assumptions:

	2023	2022
Market price of ADSs ($)	1.03	1.38
Risk-free interest rate (%)	3.48	1.83
Expected life (years)	10	10
Expected volatility (%)	98	96
Expected dividends	—	—

The expected volatility assumption is calculated by reference to the historical volatility of an appropriate peer group of companies for a period equal to the expected term of the Option. The grant date fair value is recognized over the requisite service period using the accelerated graded-vesting attribution method.

Restricted Stock Units ("RSUs")
RSUs were first awarded in 2023 and each RSU entitles the holder a conditional right to receive an ADS at no cost upon the completion of the applicable vesting period. RSUs granted under the EIP vest over three years with one-third of the awards vesting on the first anniversary of the grant date and the remainder vesting in four equal six-monthly installments thereafter. Upon vesting of the RSUs, the Company issues the requisite ADSs, a portion of which are sold to satisfy the resulting withholding tax obligations, and the remaining ADSs are delivered to the holder. RSUs have a maximum contractual life of 3.0 years.

A summary of the Company's RSU activity and related information under the EIP for 2023 is as follows. As at December 31, 2023 no RSUs were vested but all outstanding RSUs are expected to vest:

	Number of RSUs (ADSs)	Weighted Average Grant Date Fair Value ($)
At January 1, 2023	—	—
Granted	679,225	1.03
Cancelled	(190,000)	1.01
At December 31, 2023	**489,225**	**1.03**

At December 31, 2023, the weighted average remaining period of RSUs outstanding was 2.1 years.

The fair value of each RSU was calculated by reference to the value of the shares awarded. The grant date fair value is recognized over the vesting period using the accelerated graded-vesting attribution method.

Performance Share Units (PSUs)
PSUs were first awarded in 2023 and each PSU entitles the holder a conditional right to receive an ADS at no cost upon satisfaction of four escalating ADS price performance targets over a two year performance period following the date of grant. A summary of the Company's PSU activity and related information under the EIP for 2023 is as follows. At December 31, 2023 no PSUs were vested.

	Number of PSUs (ADSs)	Weighted Average Grant Date Fair Value ($)
At January 1, 2023	—	—
Granted	1,543,150	0.61
Cancelled	(205,000)	0.61
At December 31, 2023	**1,338,150**	**0.61**

At December 31, 2023, the weighted average contractual life of PSUs outstanding was 1.1 years. These awards were valued using a Monte Carlo model with the following key inputs:

	2023
Market price of ADSs ($)	1.01
Risk-free interest rate (%)	4.14
Expected life (years)	1
Expected volatility (%)	106
Expected dividends	—

The grant date fair value is recognized over the expected life using the straight-line attribution method.

2019 Non-Executive Director Equity Incentive Plan ("NED EIP")

The 2019 NED EIP was adopted on April 4, 2019, and subsequently amended on February 3, 2020 and January 15, 2021. The NED EIP authorizes the grant of a variety of types of share awards over the Company's ADSs to non-executive directors. The Company has chosen to award the following instruments under the EIP:

Options
Options permit the recipient to purchase ADSs at an exercise price equal to the closing price of the Company's ADSs on the previous trading day. Options issued under the NED EIP have a contractual term of 10 years and vest monthly over one year. There are no performance conditions. A summary of the Company's Option activity and related information under the NED EIP for 2023 and 2022 is as follows, all outstanding Options are expected to vest:

	2023		2022	
	Number of options (ADSs)	Weighted Average Exercise Price ($)	Number of options (ADSs)	Weighted Average Exercise Price ($)
At January 1	915,087	2.00	421,791	2.90
Granted	440,000	0.94	535,488	1.22
Cancelled	—	—	(42,192)	1.01
At December 31	**1,355,087**	**1.66**	**915,087**	**2.00**
Exercisable at December 31	1,281,751	1.70	832,584	2.09

Options outstanding as of December 31, 2023 had an exercise price of between $0.51 and $5.40 per ADS.

At December 31, 2023, the weighted average contractual life of options outstanding was 8.0 years (2022: 8.5 years) and for vested Options was 7.9 years (2022: 8.4 years).

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model based on the following weighted average assumptions:

	2023	2022
Market price of ADSs ($)	0.94	1.22
Risk-free interest rate (%)	3.36	1.96
Expected life (years)	10	10
Expected volatility (%)	98	96
Expected dividends	—	—

The Expected volatility assumption is calculated by reference to the historical volatility of an appropriate peer group of companies for a period equal to the expected term of the Option. The grant date fair value is recognized over the vesting period using the accelerated graded-vesting attribution method.

Deferred Restricted Stock Units ("DRSUs")
DRSUs were granted to NEDs who elected to receive them instead of annual cash compensation for the year. Each DRSU entitles the holder to receive an ADS at no cost upon the completion of the vesting period. DRSUs granted under the NED EIP vest in equal monthly installments over the plan year. Upon vesting, DRSUs may not be exercised until 180 days after separation of service but have no specified contractual term.

A summary of the Company's DRSU activity and related information under the EIP for 2023 and 2022 is as follows. At December 31, 2023 all DRSUs are expected to vest:

	Number of DRSUs (ADSs)
At January 1, 2022	—
Granted	348,044
At December 31, 2022	**348,044**
Granted	482,214
Issued	(100,276)
At December 31, 2023	**729,982**
Issuable	689,837

The fair value of each DRSU was calculated by reference to the value of the shares awarded. The grant date fair value is recognized over the vesting period using the straight-line method.

Previous Share Option Plans

Mereo previously granted options to employees under two separate plans, the Mereo BioPharma Group Limited Share Option Plan (the "2015 Plan") and the Mereo Share Option Plan (the "Share Option Plan"). No awards have been granted under either of these plans since 2017 and following the introduction of the EIP and the NED EIP, no further awards are envisaged.

All awards made under these plans became fully vested, with all compensation cost fully recognized, before December 31, 2021. A summary of the awards still outstanding under the plans is as follows:

	Number of options (ADSs)	Weighted Average Exercise Price ($)
At January 1, 2021	1,924,331	10.45
Expired	(240,776)	16.31
At December 31, 2022	1,683,555	9.63
Expired	(111,197)	15.94
At December 31, 2023	**1,572,358**	**9.22**

Options outstanding as of December 31, 2023 had an exercise price of between $8.63 and $21.75 per ADS.

At December 31, 2023, the weighted average contractual life of options outstanding and vested was 1.8 years (2022: 2.4 years).

26. 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, 2023 £'000s	2022 £'000s
Short-term benefits	3,033	3,699
Post-employment benefits	118	158
Share-based payment charge	1,958	3,043
Total	**5,109**	**6,900**

The amounts disclosed in the table above are the amounts recognized as an expense during each reporting period for individuals who were deemed to be key management personnel for the period they were deemed to be key management personnel.

During 2023, key management personnel included the executive director (the Chief Executive Officer), non-executive directors, the Chief Financial Officer, the General Counsel, the 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.

As of December 31, 2023, the key management personnel of the Company consisted of the executive director (the Chief Executive Officer), non-executive directors, the Chief Financial Officer, the General Counsel, the Chief Scientific Officer, and the Chief Patient Access and Commercial Planning.

Employee Benefit Trust

In 2016 the Company set up an Employee Benefit Trust ("EBT"). The EBT holds ADSs' to satisfy the exercise of options under the Company's share-based incentive schemes (see Note 25).

No funding was loaned to the EBT by the Company during the year ended December 31, 2023 or 2022. During the years ended December 31, 2023 and 2022, no ordinary shares were purchased by the EBT. A total of 15,926 ADSs held by the EBT were used in the year-ended December 31, 2023 to satisfy the exercise of options under the Company's share-based incentive schemes (2022: 15,645). As of December 31, 2023, the EBT holds 184,680 ADSs (2022: 200,606) along with £17,241 in cash (2022: £17,741).

		As at December 31,	
		2023	2022
Assets	Notes	£'000s	£'000s
Non-current assets			
Property, plant and equipment	6	1,294	1,823
Investments	4	164,856	172,369
		166,150	174,192
Current assets			
Prepayments		1,169	2,092
Other receivables		2,296	656
Cash and short-term deposits		44,969	56,098
		48,434	58,846
Current liabilities			
Trade and other payables		1,567	2,696
Current tax liabilities		—	418
Intercompany payable	5	10,736	16,441
Accruals		3,097	2,465
Lease liability		512	466
Provisions	8	182	9
Convertible loan notes	7	—	11,085
Warrant liability	9	—	402
Other liabilities		19	—
		16,113	33,982
Net current liabilities		32,321	24,864
Total assets less current liabilities		198,471	199,056
Non-current liabilities			
Convertible loan notes	7	3,916	—
Warrant liability	9	324	129
Lease liability		711	1,222
Provisions		—	—
Other liabilities		221	182
		5,172	1,533
Net assets		193,299	197,523
Equity			
Share capital	10	2,104	1,875
Share premium	10	267,770	254,303
Other capital reserves	10	137,001	132,680
Other reserves	10	7,401	7,401
Employee Benefit Trust shares	12	(974)	(1,058)
Accumulated losses		(220,003)	(197,678)
Total equity shareholders' funds		193,299	197,523

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, 2023 was £22.3 million (2022: loss of £38.0 million).

The financial statements on page 85 to 86 were approved by the Board of Directors on April 24, 2024 and signed on its behalf by:

Dr. Denise Scots-Knight
Director
April 25, 2024
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, 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	—	—	—
Convertible 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
Loss for the year	—	—	—	—	—	(22,325)	(22,325)
Share-based payments	—	—	3,991	—	—	—	3,991
Vesting of deferred restricted stock units	2	—	—	—	—	—	2
Exercise of share options	—	—	(84)	84	—	—	—
Issuance of ordinary shares	145	8,778	—	—	—	—	8,923
Convertible loan notes	82	4,689	373	—	—	—	5,144
Issuance of warrants	—	—	41	—	—	—	41
At December 31, 2023	2,104	267,770	137,001	(974)	7,401	(220,003)	193,299

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

1. Material accounting policies

1.1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006.

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 set out below where 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, 2023.

There were a number of narrow scope amendments to existing standards which were effective from January 1, 2023. None of these had a material impact on the Company.

1.3 Summary of material accounting policies
The Company's accounting policies are consistent with those described in the consolidated financial statements 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 year end in accordance with IAS 36 (Impairment of Assets).

2. Significant accounting judgments, estimates and assumptions
The preparation of the Company 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.

Impairment of investments in subsidiaries
The Group's investment in subsidiaries is correlated to the clinical assets which are recorded as intangible assets in the consolidated financial statements as the subsidiaries hold the rights to the respective clinical assets.

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, 2023. 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.

As described in note 13 of the consolidated financial statements, in December 2023 the Group derecognized the £9.9 million intangible asset related to leflutrozole. The derecognition of this intangible asset served as an indicator of impairment. Upon review of the recoverable amount of the investment in subsidiary associated with leflutrozole, it was determined that the carrying amount was greater that the recoverable amount and as such an impairment loss was recorded. The investment is fully written off (see Note 4).

3. Loss for the year
The Company's loss for the year was £22.3 million (2022: loss of £38.0 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 27 (2022: 35). The average number of employees during the year by activity was 17 administrative employees (2022: 23) and 10 research and development employees (2022: 12). Total compensation costs for persons employed by the Company (including Executive Directors) during the year was £6.5 million (2022: £6.3 million), comprised of salaries of £2.8 million (2022: £3.3 million), social security costs of £0.5 million (2022: £0.5 million), pension contributions of £0.1 million (2022: £0.1 million) and share-based payments expenses of £3.1 million (2022: £2.4 million). Further information about share-based payment transactions is provided in Note 25 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 28, which are ascribed as forming part of these financial statements.

4. Investments

4.1 Investments in subsidiaries

Cost	£'000s
At January 1, 2022	**212,545**
Additions in the year	8,406
At December 31, 2022	**220,951**
Additions in the year	6,772
At December 31, 2023	**227,723**
Provision for impairment at January 1, 2022	**20,835**
Charge during the year	27,747
At December 31, 2022	**48,582**
Charge during the year	14,285
Provision for impairment at December 31, 2023	**62,867**
At December 31, 2023	**164,856**
At December 31, 2022	172,369

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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, 2023, an impairment loss of £14.3 million was recorded to fully impair the investment in Mereo BioPharma 2 Limited (2022: £27.7 million). 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% (2022: 15%).

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 6 Lapp's Quay, Cork, T12 TA48, 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 £6.8 million (2022: £8.4 million) by Mereo BioPharma Group plc to its subsidiaries was recorded in the year ended December 31, 2023 for the granting of employees' share options for services rendered by the employees to the subsidiaries and the conversion of intercompany balances at original cost.

As at December 31, 2023, total capital contributions of £179.4 million (2022: £172.6 million) by Mereo BioPharma Group plc to its subsidiaries has been recorded.

5. Intercompany payable

As at December 31, 2023, amounts owed by the Company to Group undertakings is £10.7 million (2022: £16.4 million). These amounts are repayable on demand and bear an interest rate between 0% and 5.30%.

6. Property, plant and equipment

As at December 31, 2023, the net book value of right-of-use assets is £1.0 million which relates to a building.

	Right-of-use asset (building) £'000s	Leasehold improvements £'000s	Office equipment £'000s	IT equipment £'000s	Total £'000s
Cost					
At January 1, 2023	2,464	557	148	137	3,306
Additions	—	—	—	—	—
Disposals	—	—	—	—	—
Currency translation effects	—	—	—	—	—
At December 31, 2023	**2,464**	**557**	**148**	**137**	**3,306**
Accumulated Depreciation					
At January 1, 2023	(1,088)	(219)	(59)	(117)	(1,483)
Disposals	—	—	—	—	—
Depreciation for the year	(399)	(96)	(22)	(12)	(529)
At December 31, 2023	**(1,487)**	**(315)**	**(81)**	**(129)**	**(2,012)**
Net book value					
At December 31, 2022	1,376	338	89	20	1,823
At December 31, 2023	**977**	**242**	**67**	**8**	**1,294**

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 20 of the consolidated financial statements.

8. Provisions

	Year ended December 31, 2023 £'000s	2022 £'000s
At beginning of year	**9**	**—**
Arising during the year	173	9
Released	—	—
At ending of the year	**182**	**9**
Current	182	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 19 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 21 of the consolidated financial statements.

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

	Year ended December 31, 2023 £'000s	2022 £'000s
2019 Equity Incentive Plan	1,779	1,681
2019 NED Equity Incentive Plan	881	713
	2,660	**2,394**

Details on the share-based payments of the Company, including deferred equity consideration, are provided in Note 25 of the consolidated financial statements.

12. Related party disclosures
Details on related parties are provided in Note 26 of the consolidated financial statements.