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Mereo BioPharma Group plc
("Mereo" or the "Company" or the "Group")

Unaudited interim results for the period ended 30 June 2017

Strong progress across all programmes, top line data for Acumapimod and BGS 649 expected within the next 6 months

London, 8 August 2017 – Mereo BioPharma Group plc (AIM: MPH), a clinical stage, UK-based, biopharmaceutical company focused on rare and specialty diseases, is pleased to announce its unaudited interim results for the six months ended 30 June 2017.

Operational highlights

BPS-804

- Initiation of ASTEROID, a Phase 2b, potentially pivotal study of BPS-804 in 120 adult patients with the orphan disease osteogenesis imperfecta (OI), (brittle bone disease) in the US and Europe. Top-line data expected in mid-2018
- Accepted onto the Adaptive Pathway process by the EMA
- Initiation of the paediatric programme expected towards the end of 2017

BGS-649

- Expected completion of enrolment (268 patients) in the coming weeks, of a Phase 2b dose-confirmation study for the treatment of hypogonadotropic hypogonadism (HH) in obese men
- Top-line data expected Q1 2018
- Independent Data Monitoring Committee recommended in March the continuation of all three dosing arms following a blinded interim review of safety and efficacy data from 93 patients who had completed at least one month of treatment
- Follow-on six-month Phase 2b safety extension study recruiting well with approximately 65-70% of patients opting to continue treatment

Acumapimod

- Successful completion of enrolment of 282 patients into AETHER, a Phase 2 dose-ranging study for treatment of patients with acute exacerbations of COPD (AECOPD)
- Top-line data expected Q4 2017

Corporate

- Increased intellectual property protection across the portfolio, with new patent applications being pursued and allowance and grant of additional patents for all three products in the US, EU and elsewhere
- Further strengthened operational team
    - Richard Jones appointed CFO and Executive Director in January 2017
    - Jerome Dauvergne appointed Head of Pharmaceutical Development in May 2017
    - Additional hires in clinical development bring total current headcount to 28
- Continued assessment of strong pipeline of additional new product opportunities in orphan and rare diseases from large pharmaceutical and large biotechnology companies

Financial highlights

- Raised £15m (gross) via a placing of new shares.
    - Subsequent conversion of £1.4 million of a loan note held by Novartis resulting in a balance of loan note as at 30 June 2017 of £2.3 million
- Loss after tax of £22.7 million (2016: £14.7 million) or 34 pence per ordinary share (2016: 59 pence per ordinary share)

- Net cash and investment balance of £56.6 million at 30 June 2017, includes a net cash movement of £3.0 million after net operating and investing outflows of £11.3 million and gross financing inflows of £14.3 million
- Total development spend of £21.4 million (2016 £11.1 million) reflecting increased clinical development activity in the period, including the commencement of the Phase 2b study for BPS-804
- New £20 million debt facility agreed with Silicon Valley Bank and Kreos Capital both having significant experience in the sector
    - £10 million of this facility is expected to be drawn down shortly
    - Funds received will increase operational and development flexibility

Dr Denise Scots-Knight, Chief Executive Officer of Mereo BioPharma Group plc commented:

"During the period we continued to make strong progress in the development of our portfolio and look forward to delivering the top-line data on our two Phase 2 studies for AECOPD and hypogonadotropic hypogonadism within the next six months. Our orphan candidate for OI is one of a small number of programmes that has been selected by the EMA for the Adaptive Pathway process. Through this we hope to accelerate the access of BPS-804 for patients in Europe. The phase 2b study in adult patients is recruiting and the paediatric study is expected to start at the end of the year. We also continue to seek and actively evaluate a number of opportunities in rare and orphan diseases to expand and further diversify our product portfolio. We remain focussed on building a leading commercial business in rare and orphan diseases."

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About Mereo

Mereo BioPharma is an innovative biopharma company established to address the development and financial challenges faced by an increasing number of large pharma and biotech companies. Mereo focuses on developing and optimising the value of novel medicines acquired from large pharma and biotech designed to address significant unmet medical needs in rare and specialty disease areas.

Mereo is comprised of a strong team with broad operational capabilities and the financial resources to conduct comprehensive clinical studies. The Company plans to build a rare and orphan commercial business combined with plans to partner products where appropriate.

Mereo's initial portfolio consists of three mid-late stage clinical assets that were acquired from Novartis in July 2015 each with proof of concept data in the indication that Mereo is now developing. BPS-804 is being developed for the treatment of osteogenesis imperfecta (brittle bone disease); acumapimod (BCT-197), is being developed to treat inflammation in patients with an AECOPD; and BGS-649 is a once-weekly oral novel therapy that restores the patient's own testosterone in men with hypogonadotropic hypogonadism. In H1 2016 the Company initiated a Phase 2 study with acumapimod and a Phase 2b study with BGS-649. Mereo recently announced commencement of the first potentially pivotal trial for BPS-804 and completion of enrolment of the acumapimod Phase 2 study.

Additional product opportunities, from a range of large pharmaceutical and biotechnology companies, are under active evaluation and these are focussed on orphan and rare diseases.

Chairman and CEO's statement

Introduction

The Group's strategy is to build a portfolio of rare and orphan disease products acquired from pharmaceutical companies and to develop these through regulatory approval and subsequent commercialisation.

Products for use in orphan indications represent an attractive development and commercialisation opportunity for the Company, since they typically require smaller clinical trials and, due to the lack of existing treatments, can often be fast-tracked to the market. Development of orphan products often involves close co-ordination with patient organisations and a limited number of treatment sites allowing for relatively easy identification of the patient population and a small sales infrastructure.

For our speciality programmes the Group plans to partner or sell the products upon completion of additional clinical studies. This may be following dose-ranging optimisation for example a Phase 2 or Phase 2b or, in certain cases, following the Phase 3 studies required for product approval and registration.

We have made significant progress across all of our existing programmes in the first half of 2017. We also completed a successful fundraising specifically to expand the development of our orphan drug programme, BPS-804 for OI, in the paediatric population. The availability of this product to patients has potentially been accelerated in Europe following acceptance into the Adaptive Pathway process.

We are also continuing to review a range of opportunities from large pharmaceutical and biotechnology companies to expand our existing portfolio of assets, which is an important component of our business model.

Business Overview

BPS-804

BPS-804 is a treatment for OI, also known as brittle bone disease. We have made significant progress across regulatory, clinical and manufacturing operations with this product including initiating a potentially pivotal Phase I2b trial during the period, the ASTEROID study (**www.asteroidstudy.com**).

Following the grant of Orphan Drug Designation in the US and EU last year, BPS-804 was accepted into the European Medicine Agency's (EMA) Adaptive Pathways programme during the period. The adaptive pathway approach is part of the EMA's efforts to improve timely access for patients to new medicines through the use of biomarker driven studies, primarily in areas of high unmet medical need. Since being accepted into the Adaptive Pathway we have had a regular dialogue with the EMA and this will continue as we seek a conditional marketing approval in Europe based on the outcome of the adult Phase 2b study.

The ASTEROID study is in 120 adult patients with OI with a novel bone scanning biomarker, using High Resolution peripheral Quantitative Computed Tomography (HRpQCT) to measure the primary end point. We anticipate announcing the primary top line data during 2018, which will be based on six months treatment. The patients in the study will continue to be treated for an additional six months with a further HRpQCT measurement taken following 12 month's total treatment.

We will submit a Paediatric Investigator Plan (PIP) to the Paediatric committee of the European Medicines Agency (PDCO), and plan to commence the paediatric study around the end of 2017.

BGS-649

BGS-649 is a once a week oral treatment for hypogonadotropic hypogonadism (HH) in obese men, that restores a patient's own testosterone. It is a novel aromatase inhibitor that inhibits conversion of the patients' own testosterone to oestradiol, thereby increasing testosterone levels. We initiated a Phase 2b dose optimisation study in 268 patients during the first six months of 2016. Enrolment is nearing completion with top-line data expected in early 2018, a slight delay from our original expectations of Q4 2017. A six-month extension study in 120 patients to confirm the safety of long term treatment is well underway and is enrolling well with approximately 65-70% of patients opting to continue treatment.

Earlier this year we announced a positive outcome to a blinded interim review of the safety and efficacy of the Phase 2b study based on 93 patients who had received at least one month's treatment. The Independent Data Monitoring Committee (IDMC) recommended to continue with all three dosing arms.

BGS-649 is highly differentiated from the current products on the market (and those in development) which are based on treatment with exogenous testosterone. Whilst we do not anticipate Mereo commercialising BGS-649, in order to maximise shareholder value we believe we are well placed to continue its development into Phase 3. We will look to clarify the regulatory path to registration for approval in 2018.

Acumapimod

Acumapimod is an oral inhibitor of p38 MAP kinase that is aimed at treating the inflammation associated with Acute Exacerbations of Chronic Obstructive Pulmonary Disease (AECOPD). The standard of care for AECOPD has changed little in the past 20 years despite the fact that the acute exacerbations are responsible for 62.5% of all hospital admissions relating to COPD.

Earlier this year we announced the completion of enrolment of AETHER, a Phase 2 dose optimisation study in 282 patients which is exploring two different dosing regimens versus placebo (on top of standard of care) in patients undergoing an acute exacerbation of their COPD. The study aims to demonstrate the most biologically active dose regime of acumapimod based on a primary end point of forced expiratory volume in one second (FEV1). We expect to announce preliminary top-line data from this study in Q4 2017.

We plan to open discussions with potential partners for acumapimod in 2018 following complete analysis of the Phase 2 data.

New Product Opportunities

The Group continues to seek opportunities to acquire additional products to continue to expand and grow our existing product portfolio with the aim of becoming a leading player in the development and commercialisation of novel therapies for rare and speciality diseases and in line with our stated long-term goal of having between five and seven products under development.

During the period, we have seen strong interest from a range of pharmaceutical companies to partner with us and as a result we have reviewed a significant number of new product opportunities. We remain in active discussion on a number of these opportunities which are focussed on rare and orphan diseases with robust data packages and a strong scientific rationale in the indication of interest.

Financial Review

During the period, R&D expenditure rose by £10.3 million to £21.4 million compared to the same period in 2016 largely due to the commencement of the BPS-804 study in addition to the ongoing costs associated with the BGS-649 and acumapimod programmes. After accounting for administrative expenses of £5.0 million (2016: £7.0 million), together with the positive impact of R&D tax credits and interest, the net loss for the period was £22.7 million (2016 £14.7 million).

The loss per share for the period was 34 pence (2016: 59 pence). Adjusted loss per share after taking account of certain non-cash and one-off items (see note 4) was 28 pence per share (2016: 42 pence). On a proforma basis, taking account of the issue of shares in the respective periods, proforma adjusted loss per share was 27 pence (2016: 16 pence).

The Group started the year with net cash of £53.6m. In April 2017, a cash placing was completed that raised £15 million (gross) and £14.3 million net of expenses. Taken together with the net operating outflows of £11.6 million, and investing inflows of £0.3 million, the net cash and investments at the end of the period were £56.6 million. Of this, £4.5 million (2016 £nil) was classified as short-term investments as it represented bank term deposits with a maturity of between three months and a year, with the balance of £52.1 million being classified as cash and short-term deposits.

Following the cash placing, Novartis converted £1.4 million of a convertible loan note. At the period end, and after accounting for this conversion together with interest in the period, the loan balance was £2.3

million. This loan is convertible at any time up to 2nd March 2021 at which date any amounts unconverted will be redeemable.

On 7 August 2017 the Group finalised a new £20 million debt facility with Silicon Valley Bank and Kreos Capital, both having significant experience in the sector. It is expected that £10 million of this facility will be drawn down shortly with the balance available until 30 April 2018 with certain conditions. The funds will be used to increase our operational and development flexibility.

The terms are typical for facilities of this type and include an interest only period to 30 September 2018, a thirty-month capital and interest repayment period thereafter, a competitive high single digit headline interest rate and customary security over all assets of the Mereo Group. On first drawdown, the Company will issue warrants giving the lenders the right to subscribe for shares representing 11% of the value of the drawn amount which is currently equivalent to approximately 0.5% of the issued share capital of the group. These warrants, when issued, will be capable of exercise until 7th August 2027. Additional warrants may be issued, with similar terms, conditional on a further drawdown, over shares representing 11% of the value of the subsequent drawdown.

With our existing strong cash position, together with the initial drawdown from our new debt facility, Mereo has a strong balance sheet and significant funding to continue to support the ongoing development activities of the Group and our general corporate overheads beyond the next major milestones for each of its current programmes.

Outlook

We have made significant progress during the two years since we launched Mereo with the acquisition of our first three products from Novartis. Our early focus was on the recruitment of high calibre individuals with expertise in clinical development, clinical operations, manufacturing and intellectual property. Combined with the robust clinical and preclinical data and CMC packages we acquired from Novartis, this enabled us to make rapid progress in moving these products through the clinic, and to developing the regulatory strategy for each of the programmes. We are delighted with progress to date. We now look forward to delivering key data points from all three programmes at the end of 2017 and into 2018 and to continuing to develop the pathway for approval of our orphan products.

Dr Peter Fellner **Dr Denise Scots-Knight**
Chairman ***Chief Executive Officer***
7th August 2017

Consolidated statement of comprehensive loss

for the six months ended 30 June 2017

	Notes	**Six months ended 30 June 2017 Unaudited £**	Six months ended 30 June 2016 Unaudited £	Year ended 31 December 2016 Audited £
Research and development expenses	4	**(21,406,625)**	(11,121,516)	(24,562,502)
Administrative expenses		**(5,040,586)**	(7,010,126)	(11,616,816)
Operating loss		**(26,447,211)**	(18,131,642)	(36,179,318)
Net finance income		**199,443**	8,794	195,141
Net foreign exchange (Loss)/gain		**(1,040,139)**	1,225,578	2,262,626
Loss before tax		**(27,287,907)**	(16,897,270)	(33,721,551)
Taxation		4,545,613	2,170,849	5,331,271
Loss for the period, attributable to equity holders of the parent		**(22,742,294)**	(14,726,421)	(28,390,280)
Other comprehensive income for the period, net of tax		**—**	—	—
Total comprehensive (loss) for the period, net of tax and attributable to the equity holders of the parent		**(22,742,294)**	(14,726,421)	(28,390,280)
Basic and diluted loss per share for the period	5	**(0.34)**	(0.59)	(0.63)
Non-GAAP measure				
Adjusted loss per share	5	(0.28)	(0.42)	(0.51)
Proforma adjusted loss per share	5	(0.27)	(0.16)	(0.36)

Consolidated balance sheet

as at 30 June 2017

	Notes	**30 June 2017 Unaudited £**	30 June 2016 Unaudited £	31 December 2016 Audited £
Assets				
Non-current assets				
Property, plant and equipment		**168,263**	189,191	173,869
Intangible assets		**25,812,941**	25,812,941	25,812,941
		25,981,204	26,002,132	25,986,810
Current assets				
Prepayments		**2,138,355**	749,377	1,102,146
R&D tax credits		**4,545,613**	3,117,530	5,331,271
Other receivables		**485,170**	713,791	767,009
Short-term investments		**4,500,000**	—	—
Cash and short-term deposits		**52,075,455**	70,177,639	53,577,571
		63,744,593	74,758,337	60,777,997
Total assets		**89,725,797**	100,760,469	86,764,807
Equity and liabilities				
Equity				
Issued capital	7	**211,813**	193,022	193,022
Share premium	7	**116,708,428**	100,073,792	99,975,399
Other capital reserves	7	**13,374,992**	10,534,362	12,667,562
Accumulated losses		**(56,259,160)**	(19,915,382)	(33,579,241)
Total equity		**74,036,073**	90,885,794	79,256,742
Non-current liabilities				
Provisions		**1,816,000**	1,102,836	1,172,424
Convertible loan	6	**1,943,748**	2,957,009	3,126,526
		3,759,748	4,059,845	4,298,950
Current liabilities				
Trade and other payables		**11,929,976**	5,814,830	3,209,115
Total liabilities		**15,689,724**	9,874,675	7,508,065
Total equity and liabilities		**89,725,797**	100,760,469	86,764,807

Consolidated statement of cash flows

for the six months ended 30 June 2017

	Notes	**Six months ended 30 June 2017 Unaudited £**	Six months ended 30 June 2016 Unaudited £	Year ended 31 December 2016 Audited £
Operating activities				
Loss before tax		**(27,287,907)**	(16,897,270)	(33,721,551)
Adjustments to reconcile loss before tax to net cash flows from operating activities:				
– Depreciation and impairment of property, plant and equipment		**17,469**	16,651	32,940
– Share-based payment expense		**1,999,009**	4,360,818	6,494,018
– Provision for social security contributions on employee share options		**643,576**	961,525	1,031,109
– Interest received		**(268,913)**	(19,042)	(374,906)
– Interest on convertible loan		**69,470**	10,248	179,765
Working capital adjustments:				
– Increase in receivables		**(754,370)**	(813,220)	(1,219,202)
– Increase / (decrease) in payables		**8,720,861**	1,837,313	(768,402)
– Tax received		**5,331,270**	—	946,681
Net cash flows from operating activities		**(11,529,535)**	(10,542,977)	(27,399,548)
Investing activities				
Purchase of property, plant and equipment		**(11,863)**	(1,325)	(3,467)
Disposal of property, plant and equipment		**—**	—	1,175
Interest received		**268,913**	19,042	374,906
Net cash flows received / (used) in investing activities		**257,050**	17,717	372,614
Financing activities				
Proceeds from issue of ordinary shares	7	**15,000,000**	67,888,820	67,888,820
Transaction costs on issue of shares		**(729,631)**	(2,897,470)	(2,995,864)
Proceeds from issue of convertible loan	6	**—**	3,463,563	3,463,563
Short-term investments		**(4,500,000)**	—	—
Net cash flows from financing activities		**9,770,369**	68,454,913	68,356,519
Net (decrease) / increase in cash and cash equivalents		**(1,502,116)**	57,929,653	41,329,585
Cash and cash equivalents at the beginning of the period		**53,577,571**	12,247,986	12,247,986
Cash and cash equivalents at the end of the period		**52,075,455**	70,177,639	53,577,571

Consolidated statement of changes in equity

for the six months ended 30 June 2017

	Issued capital (note 7) £	Share premium (note 7) £	Other capital reserves (note 7) £	Accumulated losses £	Total equity £
As at 1 January 2016	59,221	26,212,880	21,660,105	(12,188,961)	35,743,245
Loss for the period	—	—	—	(14,726,421)	(14,726,421)
Issue of share capital	107,709	67,781,111	—	—	67,888,820
Share-based payments	—	—	4,360,818	—	4,360,818
Issuance of shares to be issued	26,092	15,977,271	(16,003,363)	—	—
Equity element of convertible loan (note 6)	—	—	516,802	—	516,802
Share capital reduction	—	(7,000,000)	—	7,000,000	—
Transaction costs on issuance of share capital	—	(2,897,470)	—	—	(2,897,470)
At 30 June 2016 – unaudited	**193,022**	**100,073,792**	**10,534,362**	**(19,915,382)**	**90,885,794**
Loss for the period	—	—	—	(13,663,859)	(13,663,859)
Share-based payments	—	—	2,133,200	—	2,133,200
Transaction costs on issuance of share capital	—	(98,393)	—	—	(98,393)
At 31 December 2016 – audited	**193,022**	**99,975,399**	**12,667,562**	**(33,579,241)**	**79,256,742**
Loss for the period	—	—	—	(22,742,294)	(22,742,294)
Issue of share capital (note 7)	15,127	14,984,873	—	—	15,000,000
Share-based payments	—	—	1,999,009	—	1,999,009
Issuance of shares to be issued	1,764	1,081,135	(1,082,899)	—	—
Conversion of convertible loan (note 6)	1,900	1,396,654	(208,680)	62,375	1,252,249
Transaction costs on issuance of share capital (note 7)	—	(729,633)	—	—	(729,633)
At 30 June 2017 – unaudited	**211,813**	**116,708,428**	**13,374,992**	**(56,259,160)**	**74,036,073**

Notes to the interim report

1. Corporate information

The interim condensed consolidated financial statements of Mereo BioPharma Group plc and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2017 were authorised for issue in accordance with a resolution of the Directors on 7 August 2017. Mereo BioPharma Group plc (the "Company" or the "parent") is a public limited company incorporated and domiciled in the United Kingdom and whose shares are publicly traded on the AIM Market of the London Stock Exchange. The registered office is located at Fourth Floor, 1 Cavendish Place, London W1G 0QF.

The Group is principally engaged in the research and development of novel pharmaceuticals.

2. Basis of preparation

The interim condensed consolidated financial statements for the six month period ended 30 June 2017 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the statutory financial statements, and should be read in conjunction with the Group's financial statements as at 31 December 2016.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2016, except for the new accounting polices described in note 3 below. The financial information is presented in Sterling.

These condensed half-yearly financial statements are unaudited and do not constitute statutory accounts of the Group as defined in section 434 of the Companies Act 2006.

The financial information for the year ended 31 December 2016 has been extracted from the Group's published financial statements for that year, and a copy of the statutory accounts for that financial year has been delivered to the Registrar of Companies. The auditors reported on those accounts and their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

3. Summary of changes or new significant accounting policies

3.1 Cash and short-term deposits

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

3.2 Short-term investments

Cash on deposit for terms greater than three months are recognised at fair value in the balance sheet..

4. Segment information

For management purposes, the Group is organised into business units based on its products and has three reportable segments, as follows:

- Respiratory Unit, which develops drugs to treat respiratory diseases
- Endocrinology Disorders Unit, which develops drugs to treat endocrine disorders
- Orphan Diseases Unit, which develops drugs to treat various orphan diseases

Six months ended 30 June 2017 unaudited	Respiratory Unit £	Endocrinology Disorders Unit £	Orphan Diseases Unit £	Total segments £	Unallocated £	Consolidated £
Expenses						
Development	**(5,676,646)**	**(7,126,694)**	**(8,321,725)**	**(21,125,065)**	**(281,560)**	**(21,406,625)**
Administrative	**(1,546,600)**	**(1,507,691)**	**(1,554,801)**	**(4,609,092)**	**(431,494)**	**(5,040,586)**
Segment operating loss	**(7,223,246)**	**(8,634,385)**	**(9,876,526)**	**(25,734,157)**	**(713,054)**	**(26,447,211)**
Assets						
Tax credit	**1,219,998**	**1,534,361**	**1,791,254**	**4,545,613**	**—**	**4,545,613**
Intangible assets	**4,310,761**	**9,886,356**	**11,615,824**	**25,812,941**	**—**	**25,812,941**

Six months ended 30 June 2016 unaudited	Respiratory Unit £	Endocrinology Disorders Unit £	Orphan Diseases Unit £	Total segments £	Unallocated £	Consolidated £
Expenses						
Development	(4,241,623)	(4,116,677)	(2,449,412)	(10,807,712)	(313,804)	(11,121,516)
Administrative	(1,543,854)	(1,591,431)	(1,656,843)	(4,792,128)	(2,217,998)	(7,010,126)
Segment operating loss	(5,785,477)	(5,708,108)	(4,106,255)	(15,599,840)	(2,531,802)	(18,131,642)
Assets						
Tax credit	867,486	844,539	458,824	2,170,849	—	2,170,849
Intangible assets	4,310,761	9,886,356	11,615,824	25,812,941	—	25,812,941

Year ended 31 December 2016 audited	**Respiratory Unit £**	**Endocrinology Disorders Unit £**	**Orphan Diseases Unit £**	**Total segments £**	**Unallocated £**	**Consolidated £**
Expenses						
Development	**(9,733,421)**	**(9,431,758)**	**(4,804,117)**	**(23,969,296)**	**(593,206)**	**(24,562,502)**
Administrative	**(2,747,085)**	**(2,787,307)**	**(3,076,405)**	**(8,610,797)**	**(3,006,019)**	**(11,616,816)**
Segment operating loss	**(12,480,506)**	**(12,219,065)**	**(7,880,522)**	**(32,580,093)**	**(3,599,225)**	**(36,179,318)**
Assets						
Tax credit	**2,102,469**	**2,094,259**	**1,134,543**	**5,331,271**	**—**	**5,331,271**
Intangible assets	**4,310,761**	**9,886,356**	**11,615,824**	**25,812,941**	**—**	**25,812,941**

5. Loss per share

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

As net losses from continuing operations were recorded in the period, the dilutive potential shares are anti-dilutive for the diluted loss per share calculation.

For the six months to 30 June 2017 and 2016

Group	**30 June 2017 unaudited** Loss £	**Weighted shares number**	**Loss per share £**	30 June 2016 unaudited Loss £	Weighted shares number	Loss per share £
IFRS – basic and diluted	**(22,742,294)**	**67,218,820**	**(0.34)**	(14,726,421)	24,914,940	(0.59)
Adjusted – basic and diluted	**(19,059,570)**	**67,218,820**	**(0.28)**	(10,458,853)	24,914,940	(0.42)
Proforma adjusted – basic and diluted	**(19,059,570)**	**70,604,176**	**(0.27)**	(10,458,853)	64,340,798	(0.16)

For the year to 31 December 2016

Group	Year ended 31 December 2016 audited Loss £	Weighted shares number	Loss per share £
IFRS – basic and diluted	(28,390,280)	44,789,893	(0.63)
Adjusted – basic and diluted	(22,956,976)	44,789,893	(0.51)
Proforma adjusted – basic and diluted	(22,956,976)	64,340,798	(0.36)

The Company operates share option schemes which could potentially dilute basic earnings per share in the future. There exist within equity at 30 June 2017 864,988 shares (31 December 2016: 1,453,520 shares, 30 June 2016: 1,453,520 shares) to be issued which also have the potential to dilute basic earnings per share in the future (see note 7).

As set out in note 9, on 7th August 2017 the group finalised a new £20 million debt facility with £10 million due to be drawn down shortly. On first drawdown, warrants giving the lenders the right to subscribe for shares will be issued with the number of warrants based on 11% of the drawn amount at a subscription price based on the average mid-market price of the ordinary shares over the prior 10 day period. These warrants, when issued, will be capable of exercise from issue to 7th August 2027. Additional warrants, conditional on a further drawdown, may be issued in future.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of this interim report.

The adjusted loss is calculated after adding back non-recurring items and share-based payment charges as illustrated in the table below.

The adjusted loss per share is calculated using the weighted average number of ordinary shares in issue during the period.

The adjusted proforma loss per share for the six months to 30 June 2017 is calculated using the number of ordinary shares in issue following the placement on 4 April 2017 (that is it assumes the placement took place on 1 January 2017 in respect of the number of shares in issue to enable better comparison in future years). The adjusted proforma loss per share for the year ended 31 December 2016 and six months ended 30 June 2016 is calculated using the number of ordinary shares in issue following the admission to the AIM market of the London Stock Exchange (that is it assumes the admission took place on 1st January 2016 in respect of the number of shares in issue to enable better comparison in future years).

	Six months ended 30 June 2017	Six months ended 30 June 2016	Year ended 31 December 2016
Group			
Loss for the period	**(22,742,294)**	(14,726,421)	(28,390,280)
Share-based payments	**1,999,009**	4,360,818	6,494,018
Provision for social security on share options	**643,576**	961,525	1,031,109
Non-capitalised IPO costs	**—**	45,000	45,000
Corporate finance costs	**—**	125,803	125,803
Net loss / (gain) on foreign exchange	**1,040,139**	(1,225,578)	(2,262,626)
Adjusted loss	**(19,059,570)**	(10,458,853)	(22,956,976)

6. Convertible loan note

On 3 June 2016, the Company created 3,463,563 £1 unsecured convertible loan notes ("Notes") in favour of Novartis Pharma AG ("Novartis"). The Notes attract an interest rate of 4% per annum payable annually and accruing daily and constitute direct, unsecured obligations of the Company ranking ahead of any other unsecured obligations of the Company.

On 26 April 2017 Novartis converted £1,398,552 of the Notes into 632,829 ordinary shares at the fixed conversion price of £2.21 per share. Under the terms of the Notes, Novartis also received 588,532 bonus shares. Novartis holds £2,065,011 principal value of Notes at 30 June 2017.

Under the revised terms of the Notes, the loan is subordinated to the Silicon Valley Bank and Kreos Capital loan such that Novartis shall be entitled, at any time up to the repayment of the forgoing loan, being 2nd March 2021, to serve a conversion notice on the Company to convert all or some only of the outstanding Notes into fully paid ordinary shares at a conversion price of £2.21 per share. To the extent the Notes are not converted at that date, the outstanding principal amount of the Notes, together with any accrued and unconverted interest, is redeemable. Upon conversion of any Notes, in addition to the relevant number of conversion shares, Novartis is entitled to receive an additional number of ordinary shares in the Company equal to the number of conversion shares into which such Notes are to convert, multiplied by 0.93, up to a maximum aggregate number of 864,988 such bonus shares.

The value of the debt component of the Notes at 30 June 2017 was calculated as £1,943,748 (30 June 2016: £2,957,009). The value of the debt component at 31 December 2016 was £3,126,526. The cash flows attached to the Note up to the Maturity Date were calculated and discounted at an appropriate venture debt rate of 10%.

The value of the equity component of the outstanding Notes at 30 June 2017 was £308,123 (30 June 2016: £516,802). The value of the equity component of the Notes at 31 December 2016 was £516,802.

7. Issued capital and reserves

	Six months to 30 June 2017 unaudited	Six months to 30 June 2016 unaudited	Year ended 31 December 2016 audited
	£	£	£
Ordinary share capital			
Balance at beginning of year/period	**193,022**	59,221	59,221
Issuances in the period	**18,791**	133,801	133,801
Nominal share capital at end of year/period	**211,813**	193,022	193,022
Ordinary shares issued and fully paid			
At 1 January 2017			**64,340,798**
Issued on 4 April 2017 for placing for cash			**5,042,017**
Issuance on 26 April 2017 for conversion of Novartis loan			**632,829**
Issued on 26 April 2017 for Novartis bonus shares			**588,532**
At 30 June 2017			**70,604,176**
Nominal value at 30 June 2017 (£)			**0.003**
Issued capital at 30 June 2017 (£)			**211,813**

Ordinary shares issued and fully paid	
At 1 January 2016	**19,740,296**
Issued on 9 June 2016 for private financing round	**39,464,540**
Issued on 9 June 2016 for private placement	**5,135,962**
At 30 June 2016 and 31 December 2016	**64,340,798**
Nominal value at 30 June 2016 and 31 December 2016 (£)	**0.003**
Issued capital at 30 June 2016 and 31 December 2016 (£)	**193,022**

Since 1 January 2017, the following alterations to the Company's share capital have been made:

- Under a placement dated 4 April 2017, issue and allotment of 5,042,017 ordinary shares of £0.003 in nominal value in the capital of the Company on 4 April 2017 at a price of £2.975 per share.
- On 26 April 2017, conversion by Novartis Pharma AG ("Novartis") of £1,398,552 of Notes dated 3 June 2016 into 632,829 ordinary shares ("Conversion Shares") at the fixed conversion price of £2.21 per share. Under the terms of the Notes, Novartis also received 588,532 ordinary shares.

	£
Share premium	
At 1 January 2017	99,975,399
Issued on 4 April 2017 for placing for cash	14,984,873
Issuance on 26 April 2017 for conversion of Novartis loan	1,396,654
Issuance on 26 April 2017 for Novartis bonus shares	1,081,135
Transaction costs for issued share capital	(729,633)
At 30 June 2017 unaudited	**116,708,428**

	£
Share premium	
At 1 January 2016	26,212,880
Issuance of share capital for private financing round on 9 June 2016	72,423,315
Issuance of share capital for private placement on 9 June 2016	11,335,068
Transaction costs for issued share capital	(2,897,470)
Share capital reduction on 21 March 2016	(7,000,000)
At 30 June 2016 unaudited	**100,073,793**
Transaction costs for issued share capital	(98,394)
At 31 December 2016 audited	**99,975,399**

Other capital reserves

	£
At 1 January 2017	12,667,562
Share-based payments expense during the period	1,999,009
Shares to be issued – reduction due to shares released on 26 April 2017	(1,082,899)
Equity component of convertible loan instrument – reduction due to conversion on 26 April 2017	(208,680)
At 30 June 2017 unaudited	**13,374,992**

	£
At 1 January 2016	21,660,105
Share-based payments expense during the period	4,360,818
Shares to be issued – reduction due to shares released on 9 June 2016	(16,003,363)
Equity component of convertible loan instrument	516,802
At 30 June 2016 unaudited	10,534,362
Share-based payments expense during the period	2,133,200
At 31 December 2016 audited	**12,667,562**

Share-based payments

The Group has three current share option schemes under which options to subscribe for the Company's shares have been granted to certain Executives, and employees. In addition, the Group has an historic share option scheme under which options have been granted to certain Executives, Non-executives and employees.

2017

The total charge for the six months to 30 June 2017 in respect of all share option schemes was £1,999,099.

2016

Of the £4,360,818 share-based payment expense in the 6 months to 30 June 2016, £298,836 is an accelerated charge relating to 500,000 share options which were cancelled on 9 June 2016.

Shares to be issued

2017

On 26th April 2017, 1,221,361 shares were issued to Novartis Pharma AG in respect of the Notes conversion. At 30 June 2017 there remain 864,988 shares to be issued.

2016

Of the 44,600,502 ordinary shares issued on 9 June 2016, 8,697,480 shares were issued to Novartis Pharma AG. At 30 June 2016 and 31 December 2016 there remained 1,453,520 shares to be issued.

8. Related party disclosures

Transactions between the parent and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Novartis holds 13,767,841 shares in the Company at 30 June 2017 (30 June 2016 and 31 December 2016: 12,546,480). Novartis holds £2,065,011 principal value of Notes at 30 June 2017 (30 June 2016 and 31 December 2016: £3,463,563). On 3 June 2016, the Group issued 3,463,563 £1 unsecured convertible loan notes ("Notes") to Novartis and received £3,463,563 from Novartis in consideration (note 6).

On the 26 April 2017 Novartis converted £1,398,552 of the Notes into 632,829 ordinary shares at the fixed conversion price of £2.21 per share. Under the terms of the Notes, Novartis also received 588,532 ordinary shares.

9. Events after the reporting period

On 7th August 2017 the group finalised a new £20m secured debt facility repayable by 1st March 2021. It is expected that £10m of this facility will be drawn down shortly with the balance available until 30th April 2018 upon satisfaction of certain conditions. The funds will be used to increase our operational and development flexibility.

The terms are typical for facilities of this type and include an interest only period to 30 September 2018, a thirty-month capital and interest repayment period thereafter, a competitive high single digit headline interest rate and

customary security over all assets of the Mereo group. As part of this facility, warrants to subscribe for shares will be issued to the syndicate on first drawdown with a value equivalent to 11% of the drawn amount. These warrants, when issued, will be capable of exercise until 7th August 2027 at an exercise price based on the average price of the ordinary shares over the 10 day period prior to the draw down. Additional warrants may be issued, with similar terms, conditional on a further drawdown, over shares representing 11% of the value of the subsequent drawdown.