UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 or 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of November, 2021

Commission File Number: 001-38452

MEREO BIOPHARMA GROUP PLC
(Translation of registrant's name into English)

4th Floor, One Cavendish Place,
London, W1G 0QF, United Kingdom
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

INCORPORATION BY REFERENCE

Exhibits 99.1 and 99.2 to this Report on Form 6-K shall be deemed to be incorporated by reference into the registration statements on Form F-3 (Registration Numbers 333-239708 and 333-258495) and Form S-8 (Registration Numbers 333-231636, 333-236498 and 333-252147) of Mereo BioPharma Group plc and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 2, 2021

MEREO BIOPHARMA GROUP PLC

By: /s/ Christine Fox
Name: Christine Fox
Title: Chief Financial Officer

Exhibit Index

Exhibit	Description of Exhibit
99.1	Mereo BioPharma Group plc Unaudited Condensed Consolidated Financial Statements as of June 30, 2021.
99.2	Mereo BioPharma Group plc Management's Discussion and Analysis of Financial Condition and Results of Operations.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the inline XBRL document).

Exhibit 99.1

MEREO BIOPHARMA GROUP PLC
Condensed Consolidated Statement of Comprehensive Income
(unaudited)

	Notes	Six months ended June 30, 2021 £'000	Six months ended June 30, 2020 £'000
Revenue	3	36,464	—
Cost of revenue		(18,137)	—
Research and development expenses		(9,858)	(8,479)
Administrative expenses		(8,673)	(8,212)
Operating loss		**(204)**	**(16,691)**
Finance income		1	39
Finance costs	4	(1,987)	(2,924)
Changes in the fair value of financial instruments	4	14,363	(94,704)
Loss on disposal of intangible assets		—	(11,302)
Net foreign exchange loss		(1,269)	(519)
Profit/(loss) before tax		**10,904**	**(126,101)**
Taxation		1,184	1,482
Profit/(loss) for the period, attributable to equity holders of the parent		**12,088**	**(124,619)**
Basic profit/(loss) per share for the period (in £)	5	**0.02**	**(1.05)**
Diluted loss per share for the period (in £)	5	**0.00**	**(1.05)**
Fair value changes on investments held at fair value through OCI		—	3
Currency translation of foreign operations		(26)	1,324
Total comprehensive profit/(loss) for the period, attributable to equity holders of the parent		**12,062**	**(123,292)**

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

MEREO BIOPHARMA GROUP PLC
Condensed Consolidated Balance Sheet
(unaudited)

	Notes	June 30, 2021 £'000	December 31, 2020 £'000
Assets			
Non-current assets			
Property, plant and equipment	6	2,390	1,573
Intangible assets	7	22,192	31,648
		24,582	**33,221**
Current assets			
Prepayments		4,420	1,619
R&D tax credits		4,004	2,818
Other taxes receivable		788	804
Other receivables		1,030	1,016
Cash and short-term deposits		110,093	23,469
		120,335	**29,726**
Total assets		**144,917**	**62,947**
Equity and liabilities			
Non-current liabilities			
Provisions	9	392	1,216
Interest-bearing loans and borrowings		17,933	16,142
Other liabilities		78	62
Warrant liability	10	34,011	50,775
Lease liability		1,950	1,158
		54,364	**69,353**
Current liabilities			
Trade and other payables		2,187	3,333
Accruals		4,206	4,178
Provisions	9	1,256	418
Lease liability		724	636
Other liabilities	3	1,499	—
		9,872	**8,565**
Total liabilities		**64,236**	**77,918**
Net assets/(liabilities)		**80,681**	**(14,971)**
Equity			
Issued capital	8	1,634	1,017
Share premium	8	240,552	161,785
Other capital reserves	8	130,026	128,374
Other reserves		7,401	5,001
Employee Benefit Trust		(1,151)	(1,305)
Accumulated losses		(297,605)	(309,693)
Translation reserve		(176)	(150)
Total equity		**80,681**	**(14,971)**

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

MEREO BIOPHARMA GROUP PLC
Condensed Consolidated Statement of Cash Flows
(unaudited)

	Notes	Six months ended June 30, 2021 £'000	Six months ended June 30, 2020 £'000
Operating activities			
Profit/(loss) before tax		10,904	(126,101)
Adjustments to reconcile profit/(loss) before tax to net cash flows from operating activities:			
– Depreciation and impairment of property, plant and equipment	6	260	1,018
– Share-based payment expense		1,760	911
– Net foreign exchange loss		1,269	519
– Increase in provisions and other liabilities		1,513	38
– Finance income		(1)	(39)
– Finance costs		1,915	2,813
– Loss on disposal of intangible assets		—	11,302
– Transaction costs relating to PIPE		—	1,349
– Gain on disposal of fixed assets		—	(53)
– Fair value remeasurement on warrants	10	(14,363)	94,704
– Disposal of intangible asset	7	9,457	—
Working capital adjustments:			
– (Increase)/decrease in trade and other receivables		(1,675)	(553)
– Increase/(decrease) in trade and other payables		(1,137)	(3,329)
– Tax credits received		—	6,263
Net cash flows from/(used in) operating activities		**9,902**	**(11,158)**
Investing activities			
Proceeds from sale of property, plant and equipment		—	59
Sale of intangible assets (net of transaction costs)		—	1,965
Acquisition of subsidiary		—	(354)
Interest earned		1	39
Net cash flows received from investing activities		**1**	**1,709**
Financing activities			
Proceeds from issue of ordinary shares	8	78,532	20,136
Transaction costs on issue of shares		(234)	(1,307)
Proceeds from issue of convertible loan		—	44,375
Transaction costs issue of convertible loan		—	(3,598)
Capital repayment of bank loan		—	(8,011)
Interest paid on bank loan		—	(581)
Payment of lease liabilities		(290)	(1,461)
Net cash generated from financing activities		**78,008**	**49,553**
Net increase in cash and cash equivalents		87,911	40,104
Cash and cash equivalents at the beginning of the period		23,469	16,347
Effect of exchange rate changes on cash and cash equivalents		(1,287)	370
Cash and cash equivalents at the end of the period		**110,093**	**56,821**

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

MEREO BIOPHARMA GROUP PLC
Condensed Consolidated Statement of Changes in Equity
(unaudited)

	Issued capital £'000	Share premium £'000	Other capital reserves £'000	Other reserves £'000	Employee Benefit Trust £'000	Accumulated losses £'000	Translation reserve £'000	Total equity £'000
At December 31, 2020	**1,017**	**161,785**	**128,374**	**5,001**	**(1,305)**	**(309,693)**	**(150)**	**(14,971)**
Profit for the period	—	—	—	—	—	12,088	—	12,088
Other comprehensive income/(loss)	—	—	—	—	—	—	(26)	(26)
Share-based payments	—	—	1,760	—	—	—	—	1,760
Issuance of share capital, net	601	78,609	—	—	—	—	—	79,210
Exercise of share options	—	—	(108)	—	154	—	—	46
Conversion of warrants	16	158	—	2,400	—	—	—	2,574
At June 30, 2021	**1,634**	**240,552**	**130,026**	**7,401**	**(1,151)**	**(297,605)**	**(176)**	**80,681**

	Issued capital £'000	Share premium £'000	Other capital reserves £'000	Other reserves £'000	Employee Benefit Trust £'000	Accumulated losses £'000	Translation reserve £'000	Total equity £'000
At December 31, 2019	**294**	**121,684**	**59,147**	**7,000**	**(1,305)**	**(146,065)**	**(499)**	**40,256**
Loss for the period	—	—	—	—	—	(124,619)	—	(124,619)
Other comprehensive income	—	—	—	—	—	3	1,324	1,327
Share-based payments	—	—	911	—	—	—	—	911
Issuance of share capital, net	347	18,715	—	(2,125)	—	—	—	16,937
Issuance of share capital for conversion of loan notes	375	21,386	33,104	—	—	—	—	54,865
Issuance of share capital for conversion of loan notes and warrants	—	—	1,084	—	—	—	—	1,084
Reclassification of embedded derivative	—	—	33,481	—	—	—	—	33,481
At June 30, 2020	**1,016**	**161,785**	**127,727**	**4,875**	**(1,305)**	**(270,681)**	**825**	**24,242**

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

MEREO BIOPHARMA GROUP PLC
Notes to the Condensed Consolidated Financial Statements
(unaudited)

1. Corporate information

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

The Company is a public limited company incorporated and domiciled in the UK, and registered in England, with shares publicly traded on the Nasdaq Global Market via American Depositary Shares ("ADSs") under the ticker symbol MREO. The Company's registered office is located at Fourth Floor, 1 Cavendish Place, London, W1G 0QF, United Kingdom.

These financial statements are the unaudited condensed consolidated financial statements of Mereo BioPharma Group plc and its subsidiaries for the six months ended June 30, 2021. The principal activities of the Company are the development and commercialization of innovative therapeutic pharmaceutical products.

2. Significant accounting policies

Basis of preparation

The unaudited condensed consolidated financial statements for the six month period ended June 30, 2021 have been prepared in accordance with International Accounting Standards (IAS) 34, *Interim Financial Reporting*. These consolidated condensed financial statements do not include all information and disclosures required in the annual financial statements in accordance with International Financial Reporting Standards (IFRS), and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2020 filed with the SEC on March 31, 2021.

The financial information is 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 condensed consolidated financial statements and notes have been rounded to the nearest thousand, unless otherwise stated.

The financial information for the year ended December 31, 2020 has been extracted from the Company's audited financial statements for that year, filed with the Securities and Exchange Commission ("SEC") on March 31, 2021.

These condensed consolidated financial statements are unaudited and do not constitute statutory accounts of the Company as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for financial year ended December 31, 2020 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.

Segmental information

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

Going Concern

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.

As a result of these anticipated expenditures, the Company will need additional financing to support its continuing operations. Until such time as the Company can generate significant revenue from product sales, or other commercialization revenues, if ever, in respect of its oncology or rare disease product candidates or through partnering and/or out-licensing its product candidates, the Company will seek to finance its operations through a combination of public or private equity or debt financings or other sources.

The Company has adequate resources to meet its liabilities as they fall due for the foreseeable future and at least the subsequent 12 months. Therefore, the Company continues to adopt the going concern basis of accounting in preparing condensed consolidated financial statements for the six months ended June 30, 2021.

Summary of significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company's consolidated financial statements for the year ended December 31, 2020. Additional accounting policies relevant to the six months ended June 30, 2021 are disclosed below.

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: (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.

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

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

We do not currently have any approved product candidates. Accordingly, we have not generated any commercial sales revenue during the period.

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

Significant accounting estimates and judgments

The preparation of these condensed 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.

The significant accounting estimates and judgments adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company's consolidated financial statements for the year ended December 31, 2020.

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

3. Revenue

The Company recognized upfront proceeds of £36.5 million ($50.0 million) from the license and collaboration agreement with Ultragenyx for setrusumab as revenue in the six month period ended June 30, 2021. The variable consideration relating to future milestones and sales royalties will be recognized in the statement of comprehensive income when the milestones are achieved or the underlying commercial sales are made, in the event regulatory approval is achieved.

As a consequence of the license and collaboration agreement with Ultragenyx and in accordance with terms of the 2015 asset purchase with Novartis, the Company made a payment to Novartis of £7.2 million ($10.0 million). The payment included a deduction for costs of £2.4 million which has been deferred and will be recognized in the statement of comprehensive income when the associated costs are incurred. In the six month period ended June 30, 2021, £0.9 million of these deductions were recognized within "Cost of revenue" in the statement of comprehensive income. As of June 30, 2021 the remaining balance to be recognized of £1.5 million is included within "Other liabilities" in the condensed consolidated balance sheet.

4. Finance costs and changes in the fair value of financial instruments

Finance costs

	Six months to June 30, 2021 £'000	Six months to June 30, 2020 £'000
Interest on convertible loan	**(1,792)**	(606)
Interest on bank loan	**—**	(581)
Interest on lease liabilities	**(105)**	(873)
Accreted interest on bank loan	—	(753)
Discounting of provision for deferred cash consideration	**(72)**	(111)
Other	**(18)**	—
Total finance costs	**(1,987)**	**(2,924)**

Changes in the fair value of financial instruments

	Six months to June 30, 2021 £'000	Six months to June 30, 2020 £'000
Changes in the fair value of warrants – placement	**14,301**	(31,493)
Changes in the fair value of warrants – bank loan	**62**	(53)
Changes in the fair value of embedded derivative	**—**	(63,158)
Total changes in fair value of financial instruments	**14,363**	**(94,704)**

5. Earnings per share

For the six months ended June 30, 2021, basic profit per share of £0.02 is calculated by dividing the profit attributable for the period to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period of 494.6 million. Diluted profit per share of £0.00 is based on dividing the profit attributable for the period by 542.9 million ordinary share equivalents, which includes the weighted average number of ordinary shares outstanding and the effect of 48.3 million dilutive ordinary share equivalents.

For the six months ended June 30, 2020, basic and diluted loss per share of £1.05 is calculated by dividing the profit attributable for the period to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period of 117.8 million. The potential shares issued through equity settled transactions were considered to be anti-dilutive as they would have decreased the loss per share and were therefore excluded from the calculation of diluted loss per share. Therefore, the weighted average shares outstanding used to calculate both the basic and diluted per share was the same.

6. Property, plant and equipment

	Right-of-use asset (buildings)	Right-of-use asset (equipment)	Leasehold improvements	Office equipment	IT equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
At January 1, 2021	**1,848**	**1,169**	**164**	**71**	**132**	**3,384**
Additions	923	—	—	—	31	954
Lease modification	134	29	—	—	—	163
Disposals	—	(861)	—	—	—	(861)
Currency translation effects	(5)	(35)	—	—	—	(40)
At June 30, 2021	**2,900**	**302**	**164**	**71**	**163**	**3,600**
Depreciation and impairment						
At January 1, 2021	**(531)**	**(1,023)**	**(85)**	**(65)**	**(107)**	**(1,811)**
Disposals	—	861	—	—	—	861
Depreciation for the year	(199)	(37)	(8)	(4)	(12)	(260)
At June 30, 2021	**(730)**	**(199)**	**(93)**	**(69)**	**(119)**	**(1,210)**
Net book value						
At January 1, 2021	**1,318**	**146**	**79**	**6**	**25**	**1,573**
At June 30, 2021	**2,170**	**103**	**71**	**2**	**44**	**2,390**

In June 2021, the Company entered into a new lease agreement for additional office space in London, UK. The Company also extended the lease term of the existing office space, which resulted in the modification of the right-of-use asset. In relation to the leasehold improvements of the office space, the Company had commitments of £0.5 million as of June 30, 2021.

7. Intangible assets

	Acquired development programs £'000
Cost	
At January 1, 2021	33,005
Disposal	(9,456)
At June 30, 2021	**23,549**
Accumulated revision to estimated value	
At January 1, 2021 and June 30, 2021	**(1,357)**
Net book value	
At January 1, 2021	31,648
At June 30, 2021	**22,192**

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

The present value of the provision for deferred cash consideration relating to the agreement with AstraZeneca was reviewed at June 30, 2021 (see Note 9). There were no changes in the period due to changes in timelines or probability of contractual milestones being achieved (2020: £67,000) to recognize as a reduction of the intangible asset in line with our accounting policies.

During the period the Company did not revise the value of any other intangible assets (2020: £nil). As the intangible assets remain under development, no amortization charge has been recognized (2020: £nil).

8. Issued capital and reserves

	Number of ordinary shares	Ordinary share capital £'000	Share premium £'000
At January 1, 2021	**338,953,141**	**1,017**	**161,785**
Issued during the period	205,557,122	617	79,001
Transaction costs for issued share capital	—	—	(234)
At June 30, 2021	**544,510,263**	**1,634**	**240,552**
At January 1, 2020	**97,959,622**	**294**	**121,684**
Issued during the period	240,754,340	722	41,408
Transaction costs for issued share capital	—	—	(1,307)
At June 30, 2020	**338,713,962**	**1,016**	**161,785**

Since January 1, 2021, the following alterations to the Company's share capital have been made:

i) On February 12, 2021, the Company issued and allotted 198,375,000 ordinary shares of £0.003 in nominal value in the capital of the Company at a price of £0.395 per share, equivalent to 39,675,000 ADS at a price of $2.726 per ADS, which resulted in proceeds of £78,358,125. Transaction costs incurred for the issuance of share capital was £0.2 million.

ii) During the six months ended June 30, 2021, 14,954,491 warrants (equivalent to 2,990,898 ADSs) were exercised. These transactions were completed by way of a cashless exercise resulting in 4,621,147 ordinary shares (924,229 ADSs) being issued at the aggregate nominal value of the ordinary shares underlying the ADSs issued, in place of the exercise price of £0.348 per ordinary share. A further 460,135 warrants were also exercised on a cash basis at the exercise price of £0.348, which resulted in aggregate proceeds of £160,127.

iii) On May 4, 2021 the Company issued and allotted 2,100,840 ordinary shares of £0.003 in nominal value in the capital of the Company at a price of £0.517 per share to Cancer Focus Fund.

Other capital reserves

	Share-based payments £'000	Equity component of convertible loan £'000	Other warrants issued £'000	Merger reserve £'000	Other reserve £'000	Total £'000
At January 1, 2021	**19,843**	**34,565**	**44**	**40,818**	**33,104**	**128,374**
Share-based payments expense during the period	1,760	—	—	—	—	1,760
Share option exercise	(108)	—	—	—	—	(108)
At June 30, 2021	**21,495**	**34,565**	**44**	**40,818**	**33,104**	**130,026**
At January 1, 2020	**18,285**	**—**	**44**	**40,818**	**—**	**59,147**
Share-based payments expense during the period	1,061	—	—	—	—	1,061
Shares issued	(150)	—	—	—	—	(150)
Equity component of the Novartis convertible loan instrument and warrants	—	1,084	—	—	—	1,084
Conversion of the Loan Notes following the Resolutions passing on 30 June 2020	—	—	—	—	33,104	33,104
Reclassification of the remaining embedded derivative following the Resolutions passing on 30 June 2020	—	33,481	—	—	—	33,481
At June 30, 2020	**19,196**	**34,565**	**44**	**40,818**	**33,104**	**127,727**

Share-based payments

The Company has a share option scheme under which options to subscribe for the Company's shares have been granted to certain executives, non-executive directors ("NEDs") and employees. The share-based payment reserve is used to recognize (i) the value of equity settled share-based payments provided to employees, including key management personnel, as part of their remuneration and (ii) deferred equity consideration.

The total charge for the six months to June 30, 2021 in respect of all share option schemes was £1.8 million (June 30, 2020: £0.9 million).

During the six months ended June 30, 2021, the Company granted 2,378,060 market value options over ADS under the Mereo 2019 Equity Incentive Plan to certain executives and other employees. The weighted average fair value of options granted was £1.84. The weighted average exercise price is $2.88. During the same period, the Company granted 296,000 market value options over ADS under the Mereo 2019 NED Equity Incentive Plan to certain non-executive directors. The weighted average fair value of options granted was £1.80. The weighted average exercise price is $2.81. Options over ADSs issued during the six months ended June 30, 2021 were valued using the Black-Scholes model with the following weighted average inputs: expected volatility of 98%; risk free interest rate of 1%; expected life of 10 years; and market price per ADS of $2.87.

9. Provisions

	June 30, 2021 £'000	December 31, 2020 £'000
Social security contributions on share options	51	109
Provision for deferred cash consideration	1,597	1,525
Total	1,648	1,634
Current	1,256	418
Non-current	392	1,216

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.

The deferred cash consideration is the estimate of the quantifiable but not certain future cash payment obligations due to AstraZeneca for the acquisition of certain assets. This liability is calculated as the risk adjusted net present value of future cash payments to be made by the Company. The payments are dependent on reaching certain milestones based on the commencement and outcome of clinical trials. The likelihood of achieving such milestones is reviewed at the balance sheet date and increased or decreased as appropriate (see Note 7).

10. Warrant liability

	Six months to June 30, 2021 £'000	Year ended December 31, 2020 £'000
Opening balance	50,775	131
Warrants issued	—	4,080
Warrants exercised	(2,400)	(127)
Fair value changes during the period	(14,364)	46,691
Closing balance	**34,011**	**50,775**

The change in fair value of the warrant liability represents an unrealized gain for the six months ended June 30, 2021 and an unrealized loss for the six months ended June 30, 2020.

Warrants - private placement

As a part of the private placement transaction on June 3, 2020, the participating investors received conditional warrants entitling them to subscribe for an aggregate of 161,048,366 ordinary shares in the Company. The warrants were conditional on certain resolutions being passed at the Company's general meeting on June 30, 2020. On the passing of the resolutions, the warrants entitled the investors to subscribe for ordinary shares at an exercise price of £0.348 per warrant and are exercisable until June 2023. The warrants are classified as liabilities as the Company does not have an unconditional right to avoid redeeming the instruments for cash. The fair value of the warrant liability was £33.2 million as of June 30, 2021 (£49.9 million as of December 31, 2020). The change in the fair value of £14.4 million was recognized as a gain in the consolidated statement of comprehensive income. In the six months ended June 30, 2021, 15,414,626 warrants were exercised.

Warrants - bank loan

Pursuant to the terms of its loan facility, the Company issued warrants to its two former lenders constituted by Warrant Instruments dated August 21, 2017 and October 1, 2018 (the "Warrant Instruments"). The terms of the Warrant Instruments allow for a cashless exercise and provide for 'adjustment' of the warrants in the event that the Company takes certain corporate actions, including issuing further equity securities or effecting a consolidation or subdivision of its shares, among others.

There have been several adjustments to the Warrants Instruments to date to address issuances of ordinary shares by the Company, and in each case additional warrants were issued, resulting in each of the former lenders holding 621,954 warrants, with each warrant being exercisable at a subscription price of £2.95.

Subsequently, on December 15, 2020, the Company prepaid all amounts due and owing to the former lenders and also issued further warrants giving each of the former lenders the right to subscribe for an additional 621,954 ordinary shares at a price of $0.4144 per ordinary share (the “2020 Warrants”).

As of June 30, 2021, the former lenders have warrants outstanding to purchase a total of 1,243,908 ordinary shares at an exercise price of £2.95 per share for the Warrant Instruments and a total of 1,243,908 ordinary shares at an exercise price of $0.4144 per share for the 2020 Warrants.

At June 30, 2021 the fair value of the warrants was £0.8 million. There were no warrants exercised as at June 30, 2021.

Total outstanding warrants

At June 30, 2021, a total of 147,431,351 warrants are outstanding. The warrants outstanding are equivalent to 27% of the ordinary share capital of the Company.

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

	Six months to June 30, 2021	Year ended December 31, 2020
Expected volatility (%)	79	84-85
Risk-free interest rate (%)	0.19	0.25-(0.05)
Expected life of share options (years)	2	3
Market price of ADS($)	$ 3.17	$ 3.58
Model used	Black-Scholes	Black-Scholes

Volatility was estimated by reference to the one year historical volatility of the historical share price of the company.

11. Financial instruments fair value disclosures

The Company held the following financial instruments at fair value at June 30, 2021. There are no non-recurring fair value measurements.

Financial liabilities measured at fair value	Fair value measurements using significant unobservable inputs (Level 1) £'000	Fair value measurements using significant unobservable inputs (Level 2) £'000	Fair value measurements using significant unobservable inputs (Level 3) £'000
Warrant liabilities (note 10)	—	783	33,228
Deferred consideration	—	—	1,597
Total	—	**783**	**34,825**

There were no transfers between Level 1 and Level 2 during 2021.

The management of the Company 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 movements for level 3 instruments during the period are detailed in the table below:

	Provision for deferred consideration £'000	Warrant £'000
At January 1, 2021	1,525	49,930
Settled during the period	—	(2,400)
Movement during the period	72	(14,302)
At June 30, 2021	1,597	33,228

The warrant liability is estimated using a Black Scholes model, taking into account appropriate amendments to inputs in respect of volatility, remaining expected life of the warrants and rates of interest at each reporting date.

The fair value of the provision for deferred cash consideration is estimated by discounting future cash flows using rates currently available for debt on similar terms and credit risk. In addition to being sensitive to a reasonably possible change in the forecast cash flows or the discount rate, the fair value of the deferred cash consideration is also sensitive to a reasonably possible change in the probability of reaching certain milestones. The valuation requires management to use unobservable inputs in the model, of which the significant unobservable inputs are disclosed in the tables below. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.

	Valuation technique	Significant unobservable inputs	Input range	Sensitivity of the input to fair value
Provision for deferred cash consideration	DCF	WACC	2021: 12.0%	1% increase/decrease would result in a decrease/increase in fair value by £18,000.
		WACC	2020: 12.0%	1% increase/decrease would result in a decrease/increase in fair value by £25,000.
		Probability of success	2021: 13.8%–95%	10% increase/decrease would result in an increase/decrease in fair value by £0.5 million.
		Probability of success	2020: 13.8%–95%	10% increase/decrease would result in a increase/decrease in fair value by £0.4 million.
Warrant Liability related to the PIPE	Black-Scholes model	Expected volatility	2021: 79.0% 2020: 85.1%	Volatility was estimated by reference to the one year (2020: six month) historical volatility of the historical share price of the Company. If the volatility is decreased to 72.5% (six month volatility), the carrying value of the warrants as of June 30, 2021 would decrease by £1.7 million.

12. 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.

Employee benefit trust

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

No funding was loaned to the EBT by the Company during the period to June 30, 2021 (June 30, 2020: nil). The EBT repaid £45,493 of the funding previously loaned by the Company during the period ended June 30, 2021.

The EBT did not purchase any ordinary shares during the period to June 30, 2021 (2020: 7 ordinary shares). 145,830 ordinary shares owned by the EBT were used to satisfy exercise of options by employees under the Company's share-based incentive schemes during the period.

As at June 30, 2021 a cash balance of £17,866 was held by the EBT. As at December 31, 2020 a cash balance of £21,525 was held by the EBT.

Exhibit 99.2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with Mereo's unaudited condensed consolidated financial statements and related notes included as Exhibit 99.1 to this Report on Form 6-K submitted to the Securities and Exchange Commission, or the SEC, on November 2, 2021 and our discussion and analysis of financial condition and results of operations together with our audited consolidated financial statements and the notes thereto, and the section entitled "Risk Factors", each of which appear in our annual report on Form 20-F for the year ended December 31, 2020 filed with the SEC on March 31, 2021 (the "Annual Report").

The following discussion is based on Mereo's financial information prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" or IAS 34, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including generally accepted accounting principles in the United States.

Unless otherwise indicated or the context otherwise requires, all references to "Mereo," the "Company," the "Group," "we," "our," "ours," "us" or similar terms refer to Mereo BioPharma Group plc, and its consolidated subsidiaries.

The following discussion includes forward-looking statements that involve risks, uncertainties, and assumptions. Mereo's actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those described under "Item 3. Key Information—D. Risk Factors" and elsewhere in our Annual Report.

Overview

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

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

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

We plan to partner or sell our other two product candidates, acumapimod for the treatment of acute exacerbation of chronic obstructive pulmonary disease ("AECOPD") and leflutrozole for the treatment of infertility and hypogonadotropic hypogonadism ("HH") in obese men, recognizing the need for greater resources to take these product candidates to market.

We do not have any approved product candidates and, as a result, have not generated any revenue from product sales. Our ability to generate revenue sufficient to achieve profitability will depend on our successful development and eventual commercialization of our core oncology and rare disease product candidates, if approved, and our ability to complete partnering deals in respect of our non-core product candidates. Since our inception, we have incurred significant operating losses.

We expect to continue to incur significant expenses and operating losses for the foreseeable future as we advance the clinical and manufacturing development of our product candidates and seek regulatory approval. If approved, we also expect to incur significant commercialization expenses related to product manufacturing, marketing, sales, and distribution.

We also expect to incur expenses in connection with the in-license or acquisition of additional product candidates and the potential clinical development of any such product candidates.

We are organized into a single operating segment following management's view of the business as a single portfolio of product candidates. Research and development expenses are monitored at a product level; however, decisions over resource allocation are made at an overall portfolio level. Our financing is managed and monitored on a consolidated basis.

Significant Risks and Uncertainties

As a biopharmaceutical company, the Company faces a number of risks and uncertainties. These are common for the industry and relate to operations, intellectual property, research and development, commercial and financial activities. For further information about risks and uncertainties, which the Company faces, refer to the 2020 Annual Report on Form 20-F filed with the SEC on March 31, 2021. At the date of this interim report, there have been no significant changes to the Company's overall risk profile since the publication of that Form 20-F, however, the full extent and nature of the impact of the COVID-19 pandemic and related containment measures on the Company's business and financial performance is uncertain as the situation continues to develop.

The ongoing COVID-19 pandemic and uncertainty regarding the pace, extent and permanence of recovery may materially impact the Company's business including planned clinical developments and its ongoing clinical studies. COVID-19 continues to impact businesses, economies and health care systems around the world. Further, considerable uncertainty remains regarding the pace, extent and permanence of recovery due to uneven vaccine access and distribution among and within different countries, the emergence of new COVID-19 variants (e.g., Delta) and the willingness and ability of societies to return to pre-pandemic economic and social routines.

The majority of the Company's work force has worked from home since the beginning of the COVID-19 pandemic due to government and local regulations. The official reopening of traditional workspaces and willingness of employees to return remain subject to continuous guidance and changes depending on the successful containment of COVID-19. Therefore, there will continue to be both direct and indirect impacts to businesses including disruptions to resources, inability of workers to carry out their jobs effectively, disruptions to manufacturing, supply chains, inability to travel and increased pressure on health systems required to treat COVID-19.

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

As a result of the COVID-19 pandemic and the ability of the United States, United Kingdom and other jurisdictions in which the Company operates to fully recover, the Company may experience disruptions that would significantly impact its business including:

- A delay or interruption in its ability to enroll and treat patients and to obtain data from ongoing clinical trials;
- A delay in the Company's timelines for the initiation of new clinical trials;
- A delay in the Company's ability to further recruit patients to our clinical trials and to screen patients for eligibility for its clinical trials;
- Interruption to key clinical trial activities including monitoring of clinical sites, patient visits, inability to follow patients after they have received treatment and patient assessments and patients dropping out from trials early reduce the numbers impacting efficacy analysis;
- A delay in availability of additional drug product for etigilimab, alvelestat and setrusumab due to lack of manufacturing capacity and/or raw materials at the Company's third-party CMOs;
- A delay in the Company's ability to close and negotiate third-party partnerships or collaborations or to progress third-party collaborations already in place;
- Limitations on employee resources as a result of increased sickness, requirement for employees to care for family members or requirement for employees to self-isolate themselves;
- Interruptions and delays in the Company's development programs as a result of the government required "stay-at-home" guidelines;
- Delay in responses from regulatory authorities in relation to approvals, amendments or other regulatory engagements required for the Company's ongoing development activities;
- Supply chain interruptions; or
- Diversion of CMO activities and raw materials to COVID-19 products, including restrictions imposed by various governments, causing delays to clinical trial supplies.

The COVID-19 pandemic continues to rapidly evolve and the extent to which it may impact the Company's future business is highly uncertain and difficult to predict. In particular it is not currently known how long travel restrictions and social distancing/isolation requirements will continue to

apply in the countries in which the Company operates and the impact on global health systems, financial markets or the economy as a whole is not yet known.

Financial Operations Overview

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: (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.

Revenue includes income from licensing and collaboration agreements. Consideration received up front is recognized at the point in time in which the right to use an intangible asset is transferred. Income from development, regulatory, commercial or similar milestones is recognized when considered highly probable that a significant reversal will not occur.

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

We do not currently have any approved product candidates. Accordingly, we have not generated any commercial sales revenue during the period. In the future, we expect to be able to generate revenues if we are able to obtain regulatory approval and commercialize one or more of our product candidates or through the recognition of milestones and other potential revenues from out-licensing or partnering arrangements for any of our product candidates.

Research and Development ("R&D") Expenses

Research and development expenses include:

- employee-related expenses, such as salaries, share-based compensation, and other benefits, for Mereo's research and development personnel;
- costs for production of drug substance and drug product and development of Mereo's manufacturing processes by CMOs;
- fees and other costs paid to CROs, consultants, and other suppliers to conduct Mereo's clinical trials and pre-clinical and non-clinical studies; and
- costs of facilities, materials, and equipment related to drug production and Mereo's clinical trials and pre-clinical and non-clinical studies.

Our direct research and development expenses are allocated on a product-by-product basis. We allocate employee-related expenses for our research and development personnel and other related expenses to specific product candidate development programs.

Product candidates in a later stage of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later stage clinical trials as well as preparation for potential specific post-authorization evidence generation that might be demanded by regulatory authorities. We expect that our research and development expense will increase

substantially as we continue to advance the clinical development of our product candidates, including through our Phase1b/2 basket study for etigilimab and our ongoing Phase 2 proof-of-concept trial for alvelestat; hire additional clinical, scientific, and commercial personnel; and acquire or in-license future product candidates and technologies. As a result, we expect our research and development expenses will increase for the foreseeable future.

The successful development, approval, and commercialization of our product candidates is highly uncertain. At this time, we cannot reasonably estimate the nature, timing, and estimated costs of the efforts that will be necessary to complete the development of, or the period, if any, in which material net cash inflows may commence from any of our product candidates.

Our future expenditure on developing our product candidates is therefore highly uncertain. This is due to numerous risks and uncertainties associated with developing our product candidates, including the uncertainty of:

- the scope, rate of progress, and expense of our research and development activities;
- the progress and results of our clinical trials and our pre-clinical and non-clinical studies;
- the terms and timing of regulatory approvals, if any;
- establishment of arrangements with our third-party manufacturers to obtain manufacturing supply;
- protection of our rights in its intellectual property portfolio;
- launch of commercial sales of any of our product candidates, if approved, whether alone or in collaboration with others;
- third party strategic relationships for clinical development and/or commercialization of our non-core product candidates and performance of our strategic partners under these arrangements;
- the sale, if any, of one or more of our non-core disease product candidates;
- acceptance of any of our product candidates, if approved, by patients, the medical community and payors at our desired pricing levels;
- competition with other therapies; and
- continued acceptable safety profile of any of our product candidates following approval.

Any of these variables with respect to the development of our product candidates or any other future candidate that we may develop could result in a significant change in the costs and timing associated with their development. For example, if the FDA, the EMA, or another regulatory authority were to require us to conduct pre-clinical studies and clinical trials beyond those that we currently anticipate will be required for the completion of clinical development or if we experience significant delays in enrollment in any clinical trials, we could be required to expend significant additional financial resources and time on the completion of our clinical development programs. We may never succeed in obtaining regulatory approval for any of our product candidates.

Administrative Expenses

Our administrative expenses principally consist of salaries and related benefits, including share-based compensation, for personnel in our executive, finance and other administrative functions. Other general and administrative costs include facility-related costs and professional services fees for auditing, tax and general legal services, our requirements of being a public company listed on Nasdaq, costs incurred relating to the issue of equity to the extent not capitalized and the costs associated with the cancellation of admission of our ordinary shares to trading on the AIM market of the London Stock Exchange in December 2020.

We expect that our general and administrative costs will increase in the future as our business expands and we increase our headcount to support the planned growth in our operating activities. These increases will likely include increased costs related to the hiring of additional personnel, additional facility-related costs and fees to outside consultants, lawyers and accountants, among other expenses. In addition, we expect to continue to grant share-based compensation awards to existing and future key management personnel, other employees and non-executive directors. Additionally, we anticipate increased costs associated with being a U.S. public company, including expenses related to services associated with maintaining compliance with Nasdaq rules and SEC requirements, director compensation, insurance, and investor relations costs. If any of our product candidates that we intend to directly commercialize or co-commercialize obtains regulatory approval, we expect that we will incur expenses associated with building a sales and marketing team.

Finance Income

Finance income consists of interest earned on short-term cash deposits and short-term investments.

Changes in Fair Value of Financial Instruments

The fair value changes in financial instruments are recognized in the statement of comprehensive income.

Loss on Disposal of Intangible Assets

On January 13, 2020, we entered into a license agreement with OncXerna for the development and commercialization of navicixizumab. The transaction was recorded as a disposal of an intangible asset and IP with a carrying value of £13.4 million ($16.5 million) was derecognized as a result of the agreement. Under the terms of the agreement, we received an upfront gross payment of £3.1 million ($4 million). After transaction costs and exchange differences, a loss on disposal of £11.3 million was recognized.

Finance Costs

Finance costs comprise interest on convertible loan notes, interest on our former credit facility, finance charges on lease liabilities and any loan modification gains and losses. For further information on the terms of our convertible loan notes see "—Liquidity and Capital Resources—Indebtedness" which appear in our Annual Report on Form 20-F for the year ended December 31, 2020 filed with the SEC.

Net Foreign Exchange Gain/(Loss)

Transactions in foreign currencies other than the functional currency of an entity are recorded at the rate prevailing on the date the transaction first qualifies for recognition. Net foreign exchange gain/(loss) consists of the difference arising on settlement or translation of our foreign currencies, which are primarily held in U.S. dollars.

Taxation

As a U.K. resident trading entity, we are subject to U.K. corporate taxation. Due to the nature of our business, we have generated losses since formation. Our cumulative carry-forward tax losses are expected to increase throughout 2021. Subject to any relevant restrictions, we expect these to be available to carry forward and offset against future operating profits. As a company that carries out extensive research and development activities, we benefit from the U.K. R&D small or medium-sized enterprise tax credit regime and are able to surrender some of our trading losses that arise from our research and development activities for a cash rebate of up to 33.4% of eligible R&D expenditure. Qualifying expenditures largely comprise employment costs for R&D staff, subcontracted CRO and CMO costs, consumables and certain internal overhead cost incurred as part of research projects. Certain subcontracted qualifying R&D expenditures are eligible for a cash rebate of up to 21.7%. We may not be able to continue to claim payable R&D tax credits in the future because we may no longer qualify as a small or medium-sized company.

In the event we generate revenues in the future, we may benefit from the U.K. "patent box" regime that allows profits attributable to revenues from patents or patented product candidates to be taxed at an effective rate of 10%. This relief applies to profits earned from April 1, 2013. When taken in combination with the enhanced relief available on our R&D expenditures, we expect a long-term lower rate of corporation tax to apply to us. If, however, there are unexpected adverse changes to the U.K. R&D tax credit regime or the "patent box" regime, or for any reason we are unable to qualify for such advantageous tax legislation, or we are unable to use net operating loss and tax credit carryforwards and certain built-in losses to reduce future tax payments, our business, results of operations, and financial condition may be adversely affected.

Critical Accounting Judgments and Estimates

The preparation of our unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the revenues and expenses incurred during the reported periods. We base our estimates on historical experience and on various other factors that we believe are relevant under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The accounting policies considered to be critical to the judgments and estimates used in the preparation of our financial statements are disclosed in the *Operating And Financial Review And Prospects* included in our Annual Report on Form 20-F for the year ended December 31, 2020.

Operating Results

The following table sets forth Mereo's results of operations for the six months ended June 30, 2021 and 2020.

	Six months ended June 30,		Change	
	2021	2020		
	£'000	£'000	£'000	%
Revenue	36,464	—	36,464	*
Cost of revenue	(18,137)	—	(18,137)	*
Research and development expenses	(9,858)	(8,479)	(1,379)	16%
Administrative expenses	(8,673)	(8,212)	(461)	6%
Operating loss	**(204)**	**(16,691)**	**16,487**	*
Finance income	1	39	(38)	(97)%
Finance costs	(1,987)	(2,924)	937	(32)%
Changes in fair value of financial instruments	14,363	(94,704)	109,067	(115)%
Loss on disposal of intangible assets	—	(11,302)	11,302	(100)%
Net foreign exchange loss	(1,269)	(519)	(750)	145%
Profit/(loss) before tax	10,904	(126,101)	137,005	*
Taxation	1,184	1,482	(298)	(20)%
Profit/(loss) attributable to equity holders of the parent	**12,088**	**(124,619)**	**136,707**	*

* *Percentage change not meaningful*

Comparison of the six months ended June 30, 2021 and 2020

Revenue

Revenue was £36.5 million for the six months ended June 30, 2021 compared to nil for the six months ended June 30, 2020.

In January 2021, the Company's licensing and collaboration agreement with Ultragenyx for the development and commercialization of setrusumab for OI became effective. Under the terms of the agreement, Ultragenyx will lead future global development of setrusumab in both pediatric and adult patients. We granted Ultragenyx an exclusive license to develop and commercialize setrusumab in the US and rest of the world, excluding Europe and the UK where we retain commercial rights. Each party will be responsible for post-marketing commitments in their respective territories.

Ultragenyx made an upfront payment of £36.5 million ($50 million) to Mereo in January 2021 and will fund global development of the program until approval and has agreed to pay a total of up to $254 million upon achievement of certain clinical, regulatory and commercial milestones. Ultragenyx will pay tiered double digit percentage royalties to us on net sales outside of Europe and the UK and we will pay a fixed double digit percentage royalty to Ultragenyx on net sales in Europe and the UK.

Cost of revenue

Cost of revenue for the six months ended June 30, 2021 was £18.1 million compared to nil for the six months ended June 30, 2020. This was comprised of £9.5 million, representing the carrying value of the setrusumab rights granted to Ultragenyx under the licensing and collaboration agreement, and £8.6 million in relation to our 2015 agreement with Novartis, under which the Company pays a percentage of proceeds, subject to certain exceptions. Under the terms of this agreement, we made a payment of £7.2 million to Novartis for the six months ended June 30, 2021.

Research and development ("R&D") Expenses

The following table sets forth our R&D expenses by product development program for the six months ended June 30, 2021 and 2020.

	Six months ended June 30,		Change	
	2021	2020		
	£'000	£'000	£'000	%
Setrusumab (BPS-804)	2,717	3,931	(1,214)	(31)%
Alvelestat (MPH-966)	2,549	2,400	149	6%
Etigilimab	3,865	61	3,804	*
Leflutrozole (BGS-649)	82	40	42	105%
Acumapimod (BCT-197)	47	66	(19)	(29)%
Navicixizumab ("Navi")	37	1,385	(1,348)	(97)%
Unallocated costs	510	497	13	3%
Other	51	99	(48)	(48)%
Total R&D expenses	**9,858**	**8,479**	**1,379**	**16%**

Total R&D expenses increased by £1.4 million, or 16%, from £8.5 million for the six months ended June 30, 2020 to £9.9 million for the six months ended June 30, 2021.

R&D expenses relating to etigilimab increased by £3.8 million. The increase was due to the costs associated with commencement of the open label Phase 1b/2 basket study in combination with an anti-PD-1 in a range of tumor types. R&D expenses relating to alvelestat remained consistent, reflecting the ongoing Phase 2 proof-of-concept study. Partially offsetting the increases, R&D expenses relating to setrusumab decreased by £1.2 million, or 31%. The decrease was driven primarily by the completion of the adult Phase 2b study which reported top-line data in November 2019, with a further update in January 2020.

Administrative expenses

Administrative expenses increased by £0.5 million, or 6%, from £8.2 million for the six months ended June 30, 2020 to £8.7 million for the six months ended June 30, 2021.

The increase was primarily due to employee related costs associated with additional headcount, partially offset by lower premises related costs and associated depreciation charges, which decreased due to renegotiation of our office lease in Redwood City, California in 2020.

Finance income and costs

Total finance costs decreased by £0.9 million from £2.9 million for the six months ended June 30, 2020 to £2.0 million for the six months ended June 30, 2021. The decrease is primarily related to reductions in bank loan interest of £1.3 million following the repayment of the bank loan in December 2020 and lease liability finance charges of £0.8 million, partially offset by additional interest costs on convertible loan notes of £1.2 million.

Changes in fair value of financial instruments

The total change in fair value of financial instruments for the six months ended June 30, 2021 was an unrealized gain of £14.4 million compared to a loss of £94.7 million for the six months ended June 30, 2020. The unrealized gain of £14.4 million for the six months ended June 30, 2021 was primarily related to the June 2020 Private Placement warrant liability, compared to an unrealized loss of £31.5 million on the financial instruments for the same period in the prior year. Additionally, for the six months ended June 30, 2020, the Company recorded a £63.2 million realized loss on the embedded derivative associated with the loan notes related to the June 2020 Private Placement.

Net Foreign Exchange Gain/(Loss)

The net foreign exchange loss for the six months ended June 30, 2021 was £1.3 million, an increase of £0.8 million from a £0.5 million loss for the six months ended June 30, 2020. The net foreign exchange loss primarily consists of a loss on the translation of cash deposits which are primarily held in throughout the period.

Taxation

The income tax benefit for the six months ended June 30, 2021 was £1.2 million, a decrease of £0.3 million or 20% from £1.5 million for the six months ended June 30, 2020. The income tax benefit represents eligible cash rebates paid or receivable from the tax authorities in the jurisdictions within which we operate for eligible types of research and development activities and associated expenditure.

Liquidity and Capital Resources

Overview

Under the current business plan and cash flow forecasts, and in consideration of (i) our ongoing research and development efforts which are focused on our etigilimab, our oncology product candidate, and on our rare disease product candidates, setrusumab and alvelestat, (ii) our general corporate funding requirements, (iii) the upfront payment of $50 million received under the license and collaboration agreement with Ultragenyx for setrusumab, and (iv) our public offering of ADSs in February 2021 which raised $108.2 million (£78.3 million) net cash proceeds, we anticipate that our current on-hand cash resources will extend into 2024. However, we will need additional external funding to complete our development plans and take selected products through to commercialization.

We do not currently have any approved product candidates and have never generated any revenue from product sales. As a result, to date, we have financed our operations primarily through the issuances of our equity securities and convertible debt and our credit facility, which we entered into in August 2017 and subsequently repaid in full in December 2020. We raised $183 million (£137.9 million) in private placements of ordinary shares and convertible loan notes in 2020 and in a public offering of ADSs in February 2021.

February 2021 Public Offering

On February 12, 2021, we announced the completion of an underwritten public offering of 39,675,000 ADSs, at a public offering price of $2.90 per ADS, which includes 5,175,000 additional ADSs issued upon the exercise in full of the underwriters' option to purchase additional ADSs. The aggregate gross proceeds to us from the offering, before deducting underwriting discounts and commissions and offering expenses were $115.1 million. The net proceeds, after transaction costs, were £78.3 million ($108.2 million).

Partnership with The University of Texas MD Anderson Cancer Center and Cancer Focus Fund

On April 30, 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 study will be financed by Cancer Focus Fund, in exchange for upfront consideration of $1.5 million (£1.09 million) of the Company's ordinary shares and additional payments based on the achievement of certain milestones.

Cash Flows

Comparison of the six months ended June 30, 2021 and 2020

The table below summarizes our cash flows from (used in) operating, investing and financing activities for the six months ended June 30, 2021 and June 30, 2020.

	Six months ended June 30,	
	2021	2020
	£'000	£'000
Net cash flows from/(used in) operating activities	9,902	(11,158)
Net cash flows received from investing activities	1	1,709
Net cash generated from financing activities	78,008	49,553
Net increase in cash and cash equivalents	**87,911**	**40,104**

Operating Activities

Net cash from operating activities for the six months ended June 30, 2021 was £9.9 million, an increase of £21.1 million from a cash outflow of £11.2 million in 2020. The increase was primarily driven by the receipt of upfront payments from Ultragenyx of £36.5 million, offset by associated payments to Novartis of £7.2 million. In 2020, the Company also received R&D tax credits of £6.3 million (2021: nil). Tax credits received during 2020 relate primarily to the 2018 and 2019 R&D tax credits from the U.K. tax authorities. As of June 30, 2021, the 2020 R&D tax credits receivable are £2.8 million.

Investing Activities

Net cash from investing activities for the six months ended June 30, 2021 decreased by £1.7 million compared to the same period in 2020 due to net proceeds of £2.0 million received in 2020 following the global licensing arrangement for navicixizumab to OncXerna, partially offset by an associated payment of £0.4 million to the former shareholders of Mereo BioPharma 5, Inc. (formerly OncoMed Pharmaceuticals, Inc.).

Financing Activities

Net cash from financing activities for the six months ended June 30, 2021 was £78.0 million, an increase of £28.5 million from £49.6 million for the six months ended June 30, 2020. The increase is primarily attributable to: £78.3 million net proceeds from the Public Offering in February 2021 compared to £59.6 million net proceeds from the issuance of ordinary shares and convertible loan notes in 2020; partially offset by repayment of £8.5 million of capital and interest on our bank loan and £1.5 million of lease liabilities in 2020.

Operating and Capital Expenditure Requirements

As of June 30, 2021, we had an accumulated loss of £297.6 million. We expect to continue to report significant operating losses for the foreseeable future as it continues its research and development efforts and seek to obtain regulatory approval of our product candidates and any future product we develop. See also "Risk Factors—Risks Related to Our Business and Industry" in our Annual Report on Form 20-F filed with the SEC on March 31, 2021.

We expect our expenses to increase substantially in connection with our ongoing development activities related to our product candidates. We also expect to incur costs associated with operating as a U.S. public company listed on Nasdaq.

We anticipate that our expenses will increase substantially due to the costs associated with our current and planned clinical trials, our outsourced manufacturing activities and other associated costs including the management of our intellectual property portfolio. These costs will increase further if we:

- seek to develop additional product candidates;
- seek regulatory approvals for any of our product candidates that successfully completes clinical trials;
- potentially establish a sales, marketing, and distribution infrastructure and scale-up manufacturing capabilities to commercialize or co-commercialize any product candidates for which we may obtain regulatory approval and chose to commercialize directly;
- expand our intellectual property portfolio;
- add further central clinical, scientific, operational, financial and management information systems, and personnel, including personnel to support our development and to support our operations as a U.S. public company listed on Nasdaq; or
- experience any delays or encounter any issues from any of the above, including but not limited to failed studies, complex results, safety issues, or other regulatory challenges.

We expect that our existing cash and short-term deposits will enable us to fund our currently committed clinical trials, operating expenses and capital expenditure requirements into 2024. We have based these estimates on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the development of our product candidates and any future product candidates and because the extent to which we may enter into collaborations with third parties for development of any of our product candidates is unknown, we are unable to estimate the amounts of increased capital outlays and operating expenses associated with completing the research and development of our product candidates. Our future capital requirements will depend on many factors, including:

- The costs, timing and results of our ongoing Phase 1b/2 study for etigilimab and, and our ongoing clinical trials for alvelestat in AATD and SARS-Cov-2 infected patients; and the costs for our activities related to our ongoing collaboration with Ultragenyx for setrusumab for the treatment of adults and children with OI;
- the costs and timing of manufacturing clinical supplies of our product candidates;
- the costs, timing, and outcome of regulatory review of our product candidates, including post-marketing studies that could be required by regulatory authorities;
- the costs, timing, and outcome of potential future commercialization activities, including manufacturing, marketing, sales and distribution, for our product candidates that we commercialize directly;
- the timing and amount of revenue, if any, received from commercial sales of our product candidates;
- the costs and timing of preparing, filing, and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending any intellectual property-related claims, including any claims by third parties that we are infringing, misappropriating or otherwise violating their intellectual property rights;
- the sales price and availability of adequate third-party coverage and reimbursement for our product candidates;

- the effect of competitors and market developments;
- the performance of our collaborators and partners under the existing agreements on setrusumab and navicixizumab;
- the extent to which we are able to acquire new product candidates or enter into licensing or collaboration arrangements for our product candidates, although we currently have no commitments or agreements to complete any such transactions;
- milestone and deferred payments under Mereo's license and option agreement with AstraZeneca; and
- our ability to satisfy HMRC's enquiries with respect to claims in respect of all filed and future years.

Our revenues, if any, will be derived from sales of any product candidates that we are able to successfully develop, receive regulatory approval for, and commercialize in future years. In the meantime, we will need to obtain substantial additional funds to achieve our business objective.

Adequate additional funds may not be available to us on acceptable terms, or at all. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest may be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a shareholder. Any future debt financing or preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends and may require the issuance of warrants, which could potentially dilute your ownership interests.

If we raised additional funds through collaborations, strategic alliances, or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce, or terminate our product development programs or any future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.