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, 2022

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): ☐

Other Events

On November 2, 2022, Mereo BioPharma Group plc (the "Company") released its unaudited condensed consolidated financial statements as of June 30, 2022 and Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company's unaudited condensed consolidated financial statements as of June 30, 2022 is attached as Exhibit 99.1 and are incorporated by reference herein. The Company's Management's Discussion and Analysis of Financial Condition and Results of Operations is attached hereto as Exhibit 99.2, and is incorporated by reference herein.

As of June 30, 2022, the Company had cash and short-term deposits of £76.4 million ($92.7 million). Net cash burn during the second quarter of 2022 amounted to £8.4 million ($10.2 million). The Company expects its existing cash and short-term deposits will enable it to fund its currently committed clinical trials, operating expenses and capital expenditure requirements into 2026.

The contents of this Report on Form 6-K and the information in the attached Exhibits 99.1 and 99.2 shall be deemed to be incorporated by reference into the registration statements on Form F-3 (File Numbers 333-239708 and 333-258495) and Form S-8 (File Numbers 333-231636, 333-236498, 333-252147 and 333-262151) and related prospectuses, as such registration statements and prospectuses may be amended from time to time, and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

Exhibit Index

Exhibits

99.1	Mereo BioPharma Group plc Unaudited Condensed Consolidated Financial Statements as of June 30, 2022.
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)

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, 2022

MEREO BIOPHARMA GROUP PLC

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

MEREO BIOPHARMA GROUP PLC
Condensed Consolidated Statements of Comprehensive (Loss)/Income
(unaudited)

	Notes	Six months ended June 30, 2022 £'000	Six months ended June 30, 2021 £'000
Revenue	3	—	36,464
Cost of revenue	3	352	(18,137)
Research and development expenses		(13,322)	(9,858)
Administrative expenses		(8,840)	(8,673)
Operating loss		**(21,810)**	**(204)**
Finance income	4	173	1
Finance costs	4	(1,859)	(1,987)
Changes in the fair value of financial instruments	4	1,210	14,363
Net foreign exchange gain/(loss)		1,582	(1,269)
Other income and expenses	5	811	—
(Loss)/profit before tax		**(19,893)**	**10,904**
Taxation		735	1,184
(Loss)/profit for the period, attributable to equity holders of the parent		**(19,158)**	**12,088**
Items that may be reclassified subsequently to profit or loss:			
Currency translation of foreign operations		(1,775)	(26)
Total comprehensive (loss)/income for the period, attributable to equity holders of the parent		**(20,933)**	**12,062**
Basic (loss)/profit per share for the period (in £)	6	(0.03)	0.02
Diluted loss per share for the period (in £)	6	(0.03)	0.00

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

MEREO BIOPHARMA GROUP PLC
Condensed Consolidated Balance Sheets
(unaudited)

	Notes	June 30, 2022 £'000	December 31, 2021 £'000
Assets			
Non-current assets			
Property, plant and equipment	7	2,114	2,530
Intangible assets	8	24,116	24,564
		26,230	**27,094**
Current assets			
Prepayments		2,741	2,799
R&D tax credits		740	—
Other taxes receivable		900	809
Other receivables		1,010	1,419
Cash and short-term deposits		76,415	94,296
		81,806	**99,323**
Total assets		**108,036**	**126,417**
Equity and liabilities			
Non-current liabilities			
Provisions	10	1,389	1,320
Convertible loan notes	11	—	14,384
Warrant liability	12	222	8,336
Lease liability		1,456	1,754
Other liabilities		177	80
		3,244	**25,874**
Current liabilities			
Trade and other payables		2,821	2,499
Accruals		5,088	3,826
Current tax liabilities		—	1,522
Provisions	10	2,945	2,803
Convertible loan notes	11	15,952	—
Warrant liability	12	6,904	—
Lease liability		580	622
Other liabilities	3	917	1,269
		35,207	**12,541**
Total liabilities		**38,451**	**38,415**
Net assets		**69,585**	**88,002**
Equity			
Issued capital	9	1,755	1,755
Share premium	9	247,460	247,460
Other capital reserves	9	132,269	129,835
Employee Benefit Trust shares		(1,058)	(1,140)
Other reserves		7,401	7,401
Accumulated losses		(316,126)	(296,968)
Translation reserve		(2,116)	(341)
Total equity		**69,585**	**88,002**

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

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

	Notes	Six months ended June 30, 2022 £'000	Six months ended June 30, 2021 £'000
Operating activities			
(Loss)/profit before tax		(19,893)	10,904
Adjustments to reconcile (loss)/profit to net cash flows from operating activities			
- Depreciation and impairment of property, plant and equipment	7	436	260
- Share-based payment expense	9	2,446	1,760
- Net foreign exchange (gain)/loss		(2,100)	1,269
- Increase in provisions and other liabilities	10	307	1,513
- Finance income	4	(173)	(1)
- Finance costs	4	1,696	1,915
- Changes in the fair value of financial instruments	4	(1,210)	(14,363)
- Other income and expenses	5	(811)	—
- Out-license of intangible asset		—	9,457
- Other non-cash movements		330	—
Working capital adjustments			
- Decrease/(increase) in receivables and prepayments		331	(1,675)
- Increase/(decrease) in trade and other payables and accruals		1,364	(1,137)
Taxation		(1,529)	—
Net cash flows (used in)/from operating activities		**(18,806)**	**9,902**
Investing activities			
Purchase of property, plant and equipment	7	(10)	—
Proceeds from intangible asset	5	1,484	—
Payments to CVR holders	5	(673)	—
Interest earned	4	173	1
Net cash flows from investing activities		**974**	**1**
Financing activities			
Proceeds from issuance of ordinary shares		—	78,532
Transaction costs on issuance of shares		—	(234)
Proceeds from TAP agreement		153	—
Payment of lease liabilities		(445)	(290)
Net cash flows (used in)/from financing activities		**(292)**	**78,008**
Net (decrease)/increase in cash and cash equivalents		**(18,124)**	**87,911**
Cash and cash equivalents at the beginning of the period		94,296	23,469
Effect of exchange rate changes on cash and cash equivalents		243	(1,287)
Cash and cash equivalents at the end of the period		**76,415**	**110,093**

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

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

	Notes	Issued capital	Share premium	Other capital reserves	Employee Benefit Trust	Other reserves	Accumulated losses	Translation reserve	Total equity
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At December 31, 2020		**1,017**	**161,785**	**128,374**	**(1,305)**	**5,001**	**(309,693)**	**(150)**	**(14,971)**
Profit for the period		—	—	—	—	—	12,088	—	12,088
Other comprehensive income/(loss)		—	—	—	—	—	—	(26)	(26)
Total		—	—	—	—	—	12,088	(26)	12,062
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**	**(1,151)**	**7,401**	**(297,605)**	**(176)**	**80,681**
At December 31, 2021		**1,755**	**247,460**	**129,835**	**(1,140)**	**7,401**	**(296,968)**	**(341)**	**88,002**
Loss for the period		—	—	—	—	—	(19,158)	—	(19,158)
Other comprehensive income/(loss)		—	—	—	—	—	—	(1,775)	(1,775)
Total		—	—	—	—	—	(19,158)	(1,775)	(20,933)
Share-based payments	9	—	—	2,446	—	—	—	—	2,446
Exercise of share options		—	—	(82)	82	—	—	—	—
Issuance of warrants		—	—	70	—	—	—	—	70
At June 30, 2022		**1,755**	**247,460**	**132,269**	**(1,058)**	**7,401**	**(316,126)**	**(2,116)**	**69,585**

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 rare diseases and oncology.

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, 2022. 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, 2022 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, 2021 filed with the Securities and Exchange Commission ("SEC") on March 31, 2022.

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, 2021 has been extracted from the Company's audited financial statements for that year, filed with the SEC on March 31, 2022.

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, 2021 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 by product candidate. The CODM makes decisions over resource allocation at an overall portfolio level and the Company's financing is managed and monitored on a consolidated basis.

Going Concern

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

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

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

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, 2021.

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, 2021.

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 obtained.

As a consequence of the license and collaboration agreement with Ultragenyx and in accordance with terms of the 2015 asset purchase with Novartis, the Company made a payment to Novartis of £7.2 million ($10.0 million). The payment included a deduction for costs of £2.4 million which was deferred to be recognized in the statement of comprehensive income when the associated costs are incurred. In the six-month period ended June 30, 2022, £0.4 million (six months ended June 30, 2021: £0.9 million) of these deductions were recognized within "Cost of revenue" in the condensed consolidated statement of comprehensive (loss)/income. As of June 30, 2022, the remaining balance to be recognized of £0.9 million (June 30, 2021: £1.5 million and December 31, 2021: £1.3 million) is included within "Other liabilities" in the condensed consolidated balance sheets.

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

Finance income

	Six months to June 30, 2022 £'000	Six months to June 30, 2021 £'000
Interest income on short-term deposits	173	1
Total	**173**	**1**

Finance costs

	Six months to June 30, 2022 £'000	Six months to June 30, 2021 £'000
Interest on convertible loan notes	(1,567)	(1,792)
Interest on lease liabilities	(113)	(105)
Discounting of provision for deferred cash consideration	(163)	(72)
Other	(16)	(18)
Total	**(1,859)**	**(1,987)**

Changes in the fair value of financial instruments

	Six months to June 30, 2022 £'000	Six months to June 30, 2021 £'000
Changes in the fair value of warrants – placement	1,091	14,301
Changes in the fair value of warrants – bank loan	119	62
Total	**1,210**	**14,363**

5. Other income and expenses

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

6. Earnings per share

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

	Six months to June 30, 2022	Six months to June 30, 2021
Numerator – Basic earnings per share (£'000)		
(Loss)/profit attributable to equity holders of the parent	(19,158)	12,088
Denominator – Basic earnings per share		
Weighted average number of ordinary shares	583,892,445	494,617,344
(Loss)/profit per share – basic (£)	(0.03)	0.02
Numerator – Diluted earnings per share (£'000):		
(Loss)/profit attributable to equity holders of the parent	(19,158)	12,088
Effect of dilutive ordinary shares	—	(14,363)
Numerator – Diluted earnings per share	(19,158)	(2,275)
Denominator – Diluted earnings per share:		
Number of ordinary shares used for basic earnings per share	583,892,445	494,617,344
Weighted average effect of dilutive ordinary shares	—	48,264,422
Weighted average number of diluted ordinary shares outstanding	583,892,445	542,881,766
Loss per share – diluted (£)	(0.03)	(0.00)

For the period ended June 30, 2021, the effect of dilutive ordinary shares is related to Company's outstanding warrants. For the period ended June 30, 2022, share options, convertible loan notes and warrants 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 loss per share was the same.

7. Property, plant and equipment

	Right-of-use asset (building) £'000	Right-of-use asset (equipment) £'000	Leasehold improvements £'000	Office equipment £'000	IT equipment £'000	Total £'000
Cost or valuation						
At January 1, 2022	**2,903**	**295**	**557**	**173**	**180**	**4,108**
Additions	—	—	—	7	3	10
Currency translation effects	4	6	—	—	—	10
At June 30, 2022	**2,907**	**301**	**557**	**180**	**183**	**4,128**
Depreciation and impairment						
At January 1, 2022	**(1,025)**	**(231)**	**(124)**	**(69)**	**(129)**	**(1,578)**
Impairment	(18)	—	—	—	—	(18)
Depreciation for the period	(309)	(41)	(47)	(11)	(10)	(418)
At June 30, 2022	**(1,352)**	**(272)**	**(171)**	**(80)**	**(139)**	**(2,014)**
Net book value						
At January 1, 2022	1,878	64	433	104	51	2,530
At June 30, 2022	**1,555**	**29**	**386**	**100**	**44**	**2,114**

8. Intangible assets

Cost	Acquired development programs £'000
At January 1, 2022 and June 30, 2022	**33,005**
Accumulated revision to estimated value	
At January 1, 2022	(8,441)
Revision to estimated value	(448)
At June 30, 2022	**(8,889)**
Net book value	
At January 1, 2022	24,564
At June 30, 2022	**24,116**

The present value of the provision for deferred cash consideration relating to the agreement with AstraZeneca was reviewed at June 30, 2022 (see Note 10). The change in the period due to changes in timelines or probability of contractual milestones being achieved was a decrease of £0.4 million which was recognized 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 (2021: £nil). As the intangible assets remain under development, no amortization charge has been recognized (2021: £nil).

9. 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, 2022 and June 30, 2022	**584,908,239**	**1,755**	**247,460**

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, 2022	**23,026**	**32,843**	**44**	**40,818**	**33,104**	**129,835**
Share-based payments expense during the period	2,446	—	—	—	—	2,446
Share option exercise	(82)	—	—	—	—	(82)
Issuance of warrants	—	—	70	—	—	70
At June 30, 2022	**25,390**	**32,843**	**114**	**40,818**	**33,104**	**132,269**

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, 2022 in respect of all share option schemes was £2.4 million (June 30, 2021: £1.8 million).

During the six months ended June 30, 2022, the Company granted 3,996,400 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 $1.23 per option. The weighted average exercise price is $1.39 per ADS. During the same period, the Company granted 507,987 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 $1.10 per option. The weighted average exercise price is $1.24 per ADS. Options over ADSs issued during the six months ended June 30, 2022 were valued using the Black-Scholes model with the following weighted average inputs: expected volatility of 96%; risk free interest rate of 1.79%; expected life of 10 years; and market price per ADS of $1.38.

A total of 353,183 deferred restricted stock units, with a weighted average fair value of $1.12 per restricted stock unit, were also granted in February 2022 under the Mereo 2019 NED Equity Incentive Plan to certain non-executive directors who elected to receive restricted stock units in lieu of their cash fees for the year commencing February 1, 2022.

10. Provisions

	June 30, 2022 £'000	December 31, 2021 £'000
Provision for deferred cash consideration	4,334	4,123
Total	**4,334**	**4,123**
Current	2,945	2,803
Non-current	1,389	1,320

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 provision is calculated as the risk adjusted net present value of future cash payments to be made by the Company. The payments are dependent on reaching certain milestones based on the commencement and outcome of clinical trials. The likelihood of achieving such milestones is reviewed at the balance sheet date and increased or decreased as appropriate (see Note 8).

11. Convertible loan notes

	June 30, 2022 £'000	December 31, 2021 £'000
Novartis Loan Note	4,094	3,771
Loan Notes – private placement	11,858	10,613
Total	**15,952**	**14,384**
Current	15,952	—
Non-current	—	14,384

Novartis Loan Note is convertible at a fixed price of £0.265 per ordinary share and bears an interest rate of 6% per annum with a maturity date of February 2023. Loan Notes from the June 2020 private placement are convertible at a fixed price of £0.174 per ordinary share and bears an interest rate of 6% per annum with a maturity date of June 2023.

12. Warrant liability

	June 30, 2022 £'000	June 30, 2021 £'000
At January 1	**8,336**	**50,775**
Warrants exercised	—	(2,400)
Fair value changes during the period	(1,210)	(14,364)
At June 30	**7,126**	**34,011**

	June 30, 2022 £'000	December 31, 2021 £'000
Current	6,904	—
Non-current	222	8,336
Total	**7,126**	**8,336**

The change in fair value of the warrant liability represents an unrealized gain for the six months ended June 30, 2022 and for the six months ended June 30, 2021.

Warrants - private placement

As a part of the private placement transaction on June 3, 2020, the participating investors received conditional warrants entitling them to subscribe for an aggregate of 161,048,366 ordinary shares in the Company. The warrants were conditional on certain resolutions being passed at the Company's general meeting on June 30, 2020. On the passing of the resolutions, the warrants entitled the investors to subscribe for ordinary shares at an exercise price of £0.348 per warrant and are exercisable until June 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 £6.9 million as of June 30, 2022 (£8.0 million as of December 31, 2021). The change in the fair value of £1.1 million was recognized as a gain in the condensed consolidated statement of comprehensive (loss)/income. In the six months ended June 30, 2022, no warrants were exercised.

Warrants – bank loan

As of June 30, 2022 and December 31, 2021, the former lenders of the Company have warrants outstanding to purchase a total of 1,243,908 ordinary shares at an exercise price of £2.95 per share exercisable until August 2027 and a total of 1,243,908 ordinary shares at an exercise price of $0.4144 per share exercisable until October 2028.

At June 30, 2022, the fair value of these warrants were £0.2 million (December 31, 2021: £0.3 million). The change in the fair value of £0.1 million was recognized as a gain in the condensed consolidated statement of comprehensive (loss)/income. There were no warrants exercised during the six months ended June 30, 2022.

Total outstanding warrants

At June 30, 2022, a total of 147,431,351 warrants are outstanding. The warrants outstanding are equivalent to 25% 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:

	June 30, 2022	December 31, 2021
Expected volatility (%)	116	75
Risk-free interest rate (%)	2.4	0.9
Expected life of share options (years)	1.0	1.5
Market price of ADS($)	1.12	1.60
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.

13. Financial instruments fair value disclosures

The Company held the following financial instruments at fair value at June 30, 2022. There are no non-recurring fair value measurements.

Financial liabilities measured at fair value	Fair value measurements using significant unobservable inputs (Level 1)	Fair value measurements using significant unobservable inputs (Level 2)	Fair value measurements using significant unobservable inputs (Level 3)
Warrant liabilities	—	222	6,904
Provision for deferred consideration	—	—	4,334
Total	**—**	**222**	**11,238**

There were no transfers between Level 1 and Level 2 during 2022.

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 liability £'000**
At January 1, 2022	**4,123**	**7,995**
Settled during the period	—	**—**
Movement during the period	211	(1,091)
At June 30, 2022	**4,334**	**6,904**

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 consideration	Discounted cash flow	WACC	2022: 14%	1% increase/decrease would result in a decrease/increase in fair value by £45,000
		WACC	2021: 12%	1% increase/decrease would result in a decrease/increase in fair value by £31,000
		Probability of success	2022: 40.6% - 81.2%	10% increase/decrease would result in an increase/decrease in fair value by £0.5 million
		Probability of success	2021: 40.6% - 81.2%	10% increase/decrease would result in an increase/decrease in fair value by £0.5 million
Warrant Liability related to the PIPE	Black-Scholes	Expected volatility	2022: 116.3%	Volatility was estimated by reference to the one year historical volatility of the historical share price of the Company. If the volatility is increased to 149% (six month volatility), the carrying value of the warrants as of June 30, 2022 would increase to £10.2 million.
		Expected volatility	2021: 75.1%	In 2021, volatility was estimated by reference to the 1.4 year historical volatility of the historical share price of the Company. If the volatility is decreased to 67.4% (one

year volatility), the carrying value of the warrants as of December 31, 2021 would decrease to £6.7 million.

14. 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, 2022 (June 30, 2021: 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, 2022 (2021: nil). A total of 78,225 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 ended June 30, 2022 (June 30, 2021: 145,830).

As of June 30, 2022 a cash balance of £17,741 was held by the EBT. As of December 31, 2021 a cash balance of £17,866 was held by the EBT.

15. Events after reporting period

On July 8, 2022, the Company issued and allotted 40,020,280 ordinary shares of £0.003 in nominal value in the capital of the Company, equivalent to 8,004,056 ADSs, at an exercise price of £0.174 per ordinary share on conversion of loan notes issued as part of the June 2020 private placement transaction. Following this conversion, the Company had 124,918,284 ADSs outstanding.

On October 18, 2022, the Company announced an updated operating plan, including a targeted reduction in the employee base of up to 40% and a significant reduction in other costs. In connection with the implementation of the operating plan, the Company estimates that it will incur approximately £0.5 million in expenditure, which are expected to primarily relate to employee severance and other termination benefits. The Company expects to recognize substantially all of this expenditure in the fourth quarter of 2022.

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, 2022 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, 2021 filed with the SEC on March 31, 2022 (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 of innovative therapeutics for rare diseases and in oncology and plan to commercialize selected rare disease programs. Our existing portfolio consists of six clinical stage product candidates. Our rare disease product candidates are setrusumab for the treatment of osteogenesis imperfecta (OI) and alvelestat for the treatment of severe alpha-1-anti-trypsin deficiency (AATD) and Bronchiolitis Obliterans Syndrome (BOS) following allogenic stem cell transplant. Following the announcement of the results for setrusumab in a Phase 2b study in adults with OI which demonstrated a dose dependent increase in bone mineral density and bone strength, we announced a strategic partnership with Ultragenyx Pharmaceutical, Inc. ("Ultragenyx") in December 2020 for the development of setrusumab in children and adults with OI. Ultragenyx initiated a pivotal, Phase 2/3 pediatric study in young adults (5-25 years old) and expects to initiate a study in pediatric patients (2 - <5 years old) in the first half of 2023.

We announced successful completion of a Phase 2 study for alvelestat in AATD in May 2022 which demonstrated statistically significant changes in biomarkers of lung function at different time points up to 12 weeks. Further, we recently announced that Fast Track designation has been granted by the U.S. Food and Drug Administration (FDA) for alvelestat in AATD, along with additional program updates. We plan to discuss the design of a pivotal study for alvelestat in AATD with the regulators in the US and Europe. No additional clinical development expense is planned from current cash resources on this program. Alvelestat is also in an ongoing Phase 2 investigator-led study in AATD, including in patients who may be on augmentation therapy, with data expected in mid-2023. Following successful completion of a Phase 1b investigator-led study in BOS patients following allogenic stem cell transplant, a Phase 2 study was initiated in the second half of 2022.

Our lead oncology product candidate, etigilimab (an anti-TIGIT antibody), has completed a Phase 1a dose escalation clinical trial in patients with advanced solid tumors and has been evaluated in a Phase 1b study in combination with nivolumab in select tumor types. Etigilimab is currently in an open label Phase1b/2 basket study (the ACTIVATE study) in combination with nivolumab in three rare tumors, sarcoma, uveal melanoma and germ cell cancer, three gynecological carcinomas, cervical, ovarian and endometrial carcinomas, and tumors with high mutation burden, along with a Phase 1b/2 study in clear cell ovarian cancer with a partner. We have paused enrollment in the Phase 1b/2 study and currently have 16 patients who remain on study. We recently reported additional clinical response and biomarker data from our Phase 1b/2 basket study.

We plan to develop our product candidates through the next key clinical milestone and then partner where it makes sense to do so strategically but also in select cases for our rare disease candidates, 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 1b study and was partnered in January 2020 for further development with OncXerna Inc. ("OncXerna") on a global basis. In February 2022, we received a milestone payment of $2.0 million (£1.5 million) under the license agreement with OncXerna. An associated payment was made to the former shareholders of Mereo BioPharma 5, Inc. under the Contingent Value Rights Agreement ("CVR") of a total of $0.9 million (£0.7 million), after deductions of costs, charges and expenditures.

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.

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

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, strategic partnering and potential commercialization of our product candidates, if approved. 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 through key milestones and potentially 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.

Recent Developments

In the first half of 2022, we appointed Anne Hyland and Abdul Mullick to the Company's Board of Directors and subsequently appointed Anne Hyland as Chair of the Audit and Risk Committee.

On July 8, 2022, we issued 40,020,280 ordinary shares, equivalent to 8,004,056 ADSs, on conversion of loan notes issued as part of the June 2020 private placement transaction. Following this conversion, loans notes related to the private placement transaction with a principal value of £5.7 million remain outstanding.

On October 28, 2022, Mereo entered into a cooperation agreement (the "Agreement") with Rubric Capital Management LP, the Company's largest shareholder. Pursuant to the Agreement, four new directors – Dr. Annalisa Jenkins, Dr. Daniel Shames, Mr. Marc Yoskowitz and Mr. Justin Roberts – will be appointed to the Company's Board of Directors as soon as practicable. Concurrent with these appointments taking effect, directors Dr. Peter Fellner, Dr. Brian Schwartz, Dr. Abdul Mullick and Ms. Anne Hyland will resign from the Board. The Agreement was filed as Exhibit 99.2 to the report on Form 6-K filed with the SEC on October 28, 2022.

On November 1, 2022, Mereo received a letter (the "Notification Letter") from the Listings Qualifications Department of Nasdaq notifying the Company that its ADSs failed to maintain a minimum bid price of $1.00 over the previous 30 consecutive business days as required by the Listing Rules of Nasdaq. The Company has a compliance period of 180 calendar days, or until May 1, 2023, to regain compliance with Nasdaq's minimum bid price requirement. The Company intends to monitor the closing bid price of its ADSs and its business operations are not affected by the receipt of the Notification Letter. Further details of the Notification Letter are included on Form 6-K filed with the SEC on November 2, 2022.

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 2021 Annual Report on Form 20-F filed with the SEC on March 31, 2022. At the date of these condensed consolidated financial statements, there have been no significant changes to the Company's overall risk profile since the publication of that Form 20-F.

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. Where the Company has performed significant development activities for its product candidates, income from agreements with third parties are considered to be proceeds derived from the Company's ordinary activities and therefore represent revenue.

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 out-licensed under 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.

As we continue to advance the clinical development of our product candidates, we expect that our research and development expense will include the completion of the Phase 1b portion of the Phase1b/2 basket study for etigilimab; laying the groundwork for price reimbursement and manufacturing in Europe, and input into development and regulatory plans with our partner, Ultragenyx, for setrusumab; regulatory interactions following the completion of the Phase 2 study in AATD for alvelestat.

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, and costs incurred relating to the issue of equity to the extent not capitalized in 2021.

In addition, 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 a commercial organization.

Finance Income

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

Finance Costs

Finance costs comprise interest on convertible loan notes, finance charges on lease liabilities and discounting on provision for deferred cash consideration. 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, 2021 filed with the SEC on March 31, 2022.

Changes in Fair Value of Financial Instruments

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

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 transactions denominated in 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 operating losses since formation. Our cumulative carry-forward tax losses are expected to increase throughout 2022. 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, 2021 filed with the SEC on March 31, 2022.

Operating Results

The following table sets forth Mereo's results of operations for the six months ended June 30, 2022 and 2021.

	Six months ended June 30,		Change	
	2022	2021		
	£'000	£'000	£'000	%
Revenue	—	36,464	(36,464)	(100)%
Cost of revenue	352	(18,137)	18,489	*
Research and development expenses	(13,322)	(9,858)	(3,464)	35%
Administrative expenses	(8,840)	(8,673)	(167)	2%
Operating loss	**(21,810)**	**(204)**	**(21,606)**	*****
Finance income	173	1	172	*
Finance costs	(1,859)	(1,987)	128	(6)%
Changes in fair value of financial instruments	1,210	14,363	(13,153)	(92)%
Net foreign exchange gain/(loss)	1,582	(1,269)	2,851	*
Other income and expenses	811	—	811	*
(Loss)/profit before tax	**(19,893)**	**10,904**	**(30,797)**	*****
Taxation	735	1,184	(449)	(38)%
(Loss)/ profit attributable to equity holders of the parent	**(19,158)**	**12,088**	**(31,246)**	*****

* *Percentage change not meaningful*

Comparison of the six months ended June 30, 2022 and 2021

Revenue

Revenue was nil for the six months ended June 30, 2022 compared to £36.5 million for the six months ended June 30, 2021.

In January 2021, the Company's licensing and collaboration agreement with Ultragenyx for the development and commercialization of setrusumab for OI became effective. Under the terms of the agreement, Ultragenyx will lead future global development of setrusumab in both pediatric and adult patients. We granted Ultragenyx an exclusive license to develop and commercialize setrusumab in the US and rest of the world, excluding Europe and the 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, 2022 was a credit of £0.4 million compared to £18.1 million of expense for the six months ended June 30, 2021.

In 2021, cost of revenue was comprised of £9.5 million, representing the carrying value of the setrusumab rights granted to Ultragenyx under the licensing and collaboration agreement, and £8.6 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. The payment included a deduction for costs of £2.4 million which was deferred to be recognized in the statement of comprehensive income when the associated costs are incurred. In the six-month period ended June 30, 2022, £0.4 million of these deductions were recognized in cost of revenue compared to £0.9 million in the six-month period 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, 2022 and 2021.

	Six months ended June 30,		Change	
	2022	2021		
	£'000	£'000	£'000	%
Setrusumab (BPS-804)	1,764	2,717	(953)	(35)%
Alvelestat (MPH-966)	3,561	2,549	1,012	40%
Etigilimab	7,641	3,865	3,776	98%
Leflutrozole (BGS-649)	24	82	(58)	(71)%
Acumapimod (BCT-197)	23	47	(24)	(51)%
Unallocated costs	277	510	(233)	(46)%
Other	32	88	(56)	(64)%
Total R&D expenses	13,322	9,858	3,464	35%

Total R&D expenses increased by £3.5 million, or 35%, from £9.9 million for the six months ended June 30, 2021 to £13.3 million for the six months ended June 30, 2022.

R&D expenses relating to etigilimab increased by £3.8 million. The increase was due to the costs associated with ongoing enrollment in the open label Phase 1b/2 basket study in combination with an anti-PD-1 in a range of tumor types. R&D expenses relating to alvelestat increased by £1.0 million, reflecting the end of study related costs for the Phase 2 proof-of-concept study in AATD. Partially offsetting the increases, R&D expenses relating to setrusumab decreased by £1.0 million, or 35%, following the licensing and collaboration agreement with Ultragenyx in January 2021.

Administrative expenses

Administrative expenses increased by £0.2 million, or 2%, from £8.7 million for the six months ended June 30, 2021 to £8.8 million for the six months ended June 30, 2022.

Finance income and costs

Total finance costs decreased by £0.1 million from £2.0 million for the six months ended June 30, 2021 to £1.9 million for the six months ended June 30, 2022.

Finance income increased by £0.2 million from nil to £0.2 million as a result of interest income on short-term deposits.

Changes in fair value of financial instruments

The total change in fair value of financial instruments for the six months ended June 30, 2022 was an unrealized gain of £1.2 million compared to a gain of £14.4 million for the six months ended June 30, 2021. The unrealized gain in both periods was primarily related to the June 2020 Private Placement warrant liability.

Net Foreign Exchange Gain/(Loss)

The net foreign exchange gain for the six months ended June 30, 2022 was £1.6 million, an increase of £2.9 million from a loss of £1.3 million for the six months ended June 30, 2021, primarily reflecting the weakening of the pound sterling against U.S. dollars in 2022.

Taxation

The income tax benefit for the six months ended June 30, 2022 was £0.7 million, a decrease of £0.4 million or 38% from £1.2 million for the six months ended June 30, 2021. 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 our ongoing research and development efforts and our general corporate funding requirements, we anticipate that our current on-hand cash resources will extend into 2026. However, we will need additional external funding to complete our development plans and potentially commercialize selected rare disease products.

We 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 previous 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. We also received upfront payment of $50 million under the license and collaboration agreement with Ultragenyx for setrusumab in 2021.

Cash Flows

Comparison of the six months ended June 30, 2022 and 2021

The table below summarizes our cash flows (used in)/from operating, investing and financing activities for the six months ended June 30, 2022 and June 30, 2021.

	Six months ended June 30,	
	2022	2021
	£'000	£'000
Net cash flows (used in)/from operating activities	(18,806)	9,902
Net cash flows from investing activities	974	1
Net cash flows (used in)/from financing activities	(292)	78,008
Net (decrease)/increase in cash and cash equivalents	**(18,124)**	**87,911**

Operating Activities

Net cash used in operating activities for the six months ended June 30, 2022 was £18.8 million, compared to net cash from operating activities of £9.9 million in 2021. In 2021, the operating cash expenditure of the Company was offset by the upfront proceeds from Ultragenyx of £36.5 million less the associated payments to Novartis of £7.2 million.

Investing Activities

Net cash from investing activities for the six months ended June 30, 2022 increased by £1.0 million compared to the same period in 2021. The increase was due to interest earned on short-term deposits of £0.2 million and milestone payments of £1.5 million received under the Navi License Agreement with OncXerna, partially offset by an associated payment of £0.7 million to the former shareholders of Mereo BioPharma 5, Inc. under the CVR.

Financing Activities

Net cash used in financing activities for the six months ended June 30, 2022 was £0.3 million, a decrease of £78.3 million from a cash inflow of £78.0 million for the six months ended June 30, 2021. The decrease is primarily attributable to £78.4 million net proceeds from the Public Offering in February 2021.

Operating and Capital Expenditure Requirements

As of June 30, 2022, we had an accumulated loss of £316.1 million. We expect to continue to report significant operating losses for the foreseeable future as we continue our research and development efforts and potentially seek 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, 2022.

We expect to continue to incur our expenses in connection with our ongoing development activities related to our product candidates, our outsourced manufacturing activities and other associated costs including the management of our intellectual property portfolio. We also expect to continue to incur costs associated with operating as a U.S. public company listed on Nasdaq. 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 2026. 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 for our activities related to our ongoing collaboration with Ultragenyx for setrusumab for the treatment of adults and children with OI; and potential future clinical trials for alvelestat in AATD and other potential indications;

- 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. 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.

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.

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. If we are unable to raise additional funds through partnerships, debt or equity 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.