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

Mereo BioPharma Announces Preliminary Results for the Year Ended December 31, 2017

London, March 23, 2017 – Mereo BioPharma Group plc (AIM: MPH), a multi-asset biopharmaceutical company focused on the acquisition, development and commercialization of innovative therapeutics that aim to improve outcomes for patients with rare and specialty diseases, is pleased to announce its audited preliminary results for the year ended December 31, 2017.

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

"This has been a pivotal period for Mereo. We announced positive top-line data with BCT-197 for AECOPD, our first significant clinical study read-out since the company's inception in mid-2015. Together with the positive BGS-649 data announced earlier this week, we have now successfully completed two substantial Phase 2 studies on our specialty pharma product candidates and initiated a Phase 2b study with BPS-804, our orphan disease product candidate for osteogenesis imperfecta in adults.

We also demonstrated the sustainability of our business model with the in-licensing of AZD-9668 from AstraZeneca for the rare disease Alpha-1 Antitrypsin Deficiency. We continue to review a large number of opportunities to further diversify our portfolio, and look forward to reporting further significant progress and initiating additional clinical studies in 2018."

Operational Highlights

Rare & Orphan Diseases

BPS-804 for Osteogenesis Imperfecta (OI)

- BPS-804 was accepted into the adaptive pathways program in the EU in February 2017 and admitted to the PRIME scheme of the EMA in November 2017.
- In May 2017, the Company initiated a randomized, double-blind, placebo-controlled Phase 2b clinical trial of BPS-804 in approximately 120 adults in the United States, Europe and Canada.
- Mereo also intends to commence a Phase 2b/3 clinical trial of BPS-804 in approximately 150 children with OI in the second half of 2018 in Europe and Canada with fracture rate as the primary endpoint.

AZD-9668 for Alpha-1 Antitrypsin Deficiency (AATD)

- In October 2017, the Company announced an exclusive license agreement, together with an option to acquire the IP, with AstraZeneca for AZD-9668.
- Mereo intends to initiate a Phase 2 proof-of-concept clinical trial in patients with severe AATD in the second half of 2018.

Specialty Diseases

BCT-197 for Acute Exacerbations of Chronic Obstructive Pulmonary Disease (AECOPD)

- In December 2017, the Company announced positive top-line data from the AETHER study, a Phase 2 double-blind, randomized, placebo-controlled trial investigating the use of BCT-197 on top of standard of care, for the treatment of patients with AECOPD.
- Mereo has initiated partnering discussions for future development and commercialization of BCT-197.

BGS-649 for Hypogonadotrophic Hypogonadism (HH)

- The Company recently announced positive top-line data from a dose-ranging Phase 2b double-blind, randomized, placebo controlled clinical trial with BGS-649 for the treatment of obese men with HH.
- Results of a 6-month safety extension study are expected in Q4 2018 and these, plus additional data analysis, will help guide the next stage of the Company's clinical development strategy for BGS-649.

Corporate

- In December 2017, the Company announced plans to conduct a registered initial public offering in the U.S. in the first half of 2018.
- Since the year end, the Company recently appointed "Wills" Alexandra Hughes-Wilson as Head of Patient Access and Commercial Planning.

Full Year 2017 Financial Highlights

- Loss after tax of £38.8 million (2016: £28.4 million) or 56 pence per ordinary share (2016: 63 pence per ordinary share)
- Net cash, short term deposits and short-term investment balance of £52.5 million at December 31, 2017 (2016: £53.6 million)
- Total development spend increased to £34.6 million (2016 £24.6 million) reflecting increased clinical development activity in the period, including the commencement of the adult Phase 2b study for BPS-804
- A total of £35m of cash proceeds from financing was raised during 2017 by way of (i) an equity placing in April which raised £15 million (gross) and (ii) a new loan facility of £20m agreed in August which was fully drawn by December 31, 2017

For Further Enquiries:

Mereo BioPharma Group plc +44 (0)333 023 7319
Denise Scots-Knight, Chief Executive Officer
Richard Jones, Chief Financial Officer

Nominated Adviser and Joint Broker +44 (0)20 7894 7000
Cantor Fitzgerald Europe
Phil Davies
Will Goode

Joint Broker +44 (0)20 7653 4000
RBC Capital Markets
Rupert Walford
Laura White

UK Public Relations Advisor to Mereo Biopharma +44 (0)20 3727 1000
FTI Consulting
Ben Atwell
Simon Conway
Brett Pollard

US Public Relations Advisor to Mereo Biopharma +01 (0) 212 213 0006
Burns McClellan
Lisa Burns
Steven Klass

Chairman and CEO's statement

Introduction

We are a multi-asset biopharmaceutical company focused on the acquisition, development, and commercialization of innovative therapeutics that aim to improve outcomes for patients with rare and specialty diseases. Our strategy is to selectively acquire product candidates that have already received significant investment from pharmaceutical companies and that have substantial pre-clinical, clinical, and manufacturing data packages. Since our inception in March 2015, we have successfully executed on this strategy by acquiring our current product candidates from Novartis Pharma AG, or Novartis, and AstraZeneca AB, or AstraZeneca. During 2017 we continued to review a large number of product opportunities from a range of pharmaceutical companies each of which are evaluated against our stringent selection criteria.

Our current portfolio consists of four clinical-stage product candidates, each of which had already generated positive clinical data for our target indication or for a related indication prior to our acquisition or licensing. We are developing BPS-804 for the treatment of osteogenesis imperfecta, or OI, AZD-9668 for the treatment of severe alpha-1 antitrypsin deficiency, or AATD, BCT-197 for the treatment of acute exacerbations of chronic obstructive pulmonary disease, or AECOPD, and BGS-649 for the treatment of hypogonadotropic hypogonadism, or HH, in obese men. We believe our portfolio is well diversified because each of our product candidates employs a different mechanism of action and targets a separate indication. We intend to develop and directly commercialize our rare disease product candidates. For our specialty disease product candidates, we intend to develop them through late-stage clinical milestones and then seek strategic relationships for further clinical development and/or commercialization.

In 2017, we continued to execute on our strategy, with completion of enrolment in large randomized placebo controlled Phase 2 studies for BCT-197 and BGS-649, initiation of a Phase 2b randomized, placebo controlled dose ranging study for BPS-804, reporting of positive top-line data for the Phase 2 dose ranging study of BCT-197 and validated our business model through the acquisition of AZD-9668 from AstraZeneca. Post the end of the period we also reported on the positive top-line Phase 2b results for BGS-649.

Business Overview

BPS-804 (setrusumab)

BPS-804 is a novel antibody we are developing as a treatment for OI, a rare genetic disease that results in bones that can break easily and is commonly known as brittle bone disease. OI is a debilitating orphan disease for which there are no treatments approved by the U.S. Food and Drug Administration, or FDA, or European Medicines Agency, or EMA. It is estimated that OI affects a minimum of 20,000 people in the United States and approximately 32,000 people in Germany, Spain, France, Italy, and the United Kingdom. BPS-804 is designed to inhibit sclerostin, a protein that inhibits the activity of bone-forming cells. We believe BPS-804's mechanism of action is well suited for the treatment of OI and has the potential to become a novel treatment option for patients that could reduce fractures and improve patient quality of life.

BPS-804 has Orphan Drug designation in OI in the United States and the European Union, or EU, BPS-804 was accepted into the adaptive pathways program in the EU in February 2017 and admitted to the PRIME scheme of the EMA in November 2017.

In May 2017, we initiated a randomized, double-blind, placebo-controlled Phase 2b clinical trial of BPS-804 in approximately 120 adults in the United States, Europe and Canada. We intend to commence a Phase 2b/3 clinical trial of BPS-804 in approximately 150 children with OI in 2018 in Europe and Canada with fracture rate as the primary end point. We expect the results from this

trial, if favorable, may be sufficient to validate our use of HRPqCT and support the submission of a CMA to the EMA for BPS-804 for the treatment of children with severe OI in the EU.

Following regulatory feedback in the United States, we are not currently planning to procced with a paediatric study of BPS-804 in OI patients in the United States at this time.

AZD-9668 (alvelestat)

In line with our strategy of diversifying the product portfolio with a focus on rare diseases, in October 2017, the Company announced an exclusive license agreement together with an option to acquire the IP with AstraZeneca for AZD-9668. AZD-9668 is a novel, oral small molecule we are developing for the treatment of severe AATD, a potentially life-threatening rare, genetic condition. There are an estimated 50,000 patients in North America and 60,000 patients in Europe with severe AATD. AATD is caused by a lack of alpha-1 antitrypsin, or AAT, a protein that protects the lungs from enzymatic degradation. This degradation leads to severe debilitating diseases, including early-onset pulmonary emphysema, a disease that irreversibly destroys the tissues that support lung function. AZD-9668 is designed to inhibit neutrophil elastase, or NE, a neutrophil protease and a key enzyme involved in the destruction of lung tissue. We believe the inhibition of NE has the potential to protect AATD patients from further lung damage.

Current treatment of AATD involves bronchodilators and inhaled corticosteroid medications or surgical options such as lung volume reduction surgery and lung transplantation. Intravenous augmentation therapy is available for AATD using a partially purified plasma preparation highly enriched for AATD. However, this therapy was approved by the FDA based on its biochemical efficacy but not based on clinical outcome data.

Prior to our license of AZD-9668, AstraZeneca conducted 12 clinical trials involving 1,776 subjects. Although these trials were conducted in other indications, we believe the data demonstrated potential clinical benefit and biomarker evidence of treatment effect for AATD patients. In particular, we believe the results from two Phase 2 clinical trials conducted for the treatment of bronchiectasis and cystic fibrosis, or CF, are most relevant in assessing AZD-9668's potential to treat severe AATD. AstraZeneca conducted a double-blind, placebo-controlled Phase 2 clinical trial in bronchiectasis in a total of 38 patients, 22 of whom were treated with AZD-9668. The results of this four-week trial showed a statistically significant improvement in the amount of air that can be forcibly exhaled in one second, or FEV1, a standard measure of exhalation, and a clinically meaningful improvement of slow vital capacity, which measures the volume of air on a slow exhale. We believe that bronchiectasis and AATD share common pathological features that support the potential for AZD-9668 to treat severe AATD. Additionally, we believe that data from the Phase 2 CF trial provides proof of concept for mechanistic effect and the use of a biomarker of lung degradation in diseases of high or unopposed NE, such as severe AATD.

We intend to initiate a Phase 2 proof-of-concept clinical trial in patients with severe AATD in 2018. We intend to enrol approximately 150 patients. If the results are favorable, we intend to seek regulatory advice on the design of, and commence, a pivotal trial.

BCT-197 (acumapimod)

BCT-197 is an oral inhibitor of p38 MAP kinase that is aimed at treating the inflammation associated with Acute Exacerbations of Chronic Obstructive Pulmonary Disease (AECOPD). On December 11, 2017, the Company announced positive top-line data from the AETHER study, a Phase 2 double-blind, randomized, placebo-controlled trial investigating the use of BCT-197, a novel, orally active p38 MAP kinase inhibitor, on top of standard of care, for the treatment of AECOPD which enrolled 282 patients.

The primary endpoint was met on an ITT basis for both BCT-197 high and low dose regimens ($p= 0.012$, $p \leq 0.001$) with no significant change from baseline ($p=0.102$) shown for Standard of Care plus placebo. One of the study objectives was the comparison between all three groups. This was

not statistically significant; however, the treatment arms were numerically superior to the Standard of Care plus placebo arm.

Positive clinical and health economic outcomes were supported by other secondary measures; specifically, the study showed a statistically significant reduction of more than 50% ($p \leq 0.027$ to 0.05) in the number of clinical treatment failures in the high dose group compared to Standard of Care plus placebo, as measured by the number of re-hospitalisations for the treatment of COPD at days 90 through 150, and there was a trend seen as early as day 30. BCT-197 was reported to be safe and well tolerated in both high and low dose regimens.

The Company now intends to seek a partner for future development and commercialization of BCT-197.

BGS-649 (leflutrozole)

BGS-649 is a once a week oral treatment for hypogonadotropic hypogonadism (HH) in obese men, that restores a patient's own testosterone. It is a novel aromatase inhibitor that inhibits conversion of the patients' own testosterone to oestradiol, thereby increasing testosterone levels. On 19 March 2018, the Company announced positive top-line data from a Phase 2b double-blind, randomized, placebo-controlled trial investigating the use of BGS-649 for the treatment of HH which enrolled 271 patients.

The study met its primary endpoint, normalizing total testosterone levels in over 75% of subjects after 24 weeks of treatment ($p<0.001$ versus placebo for each of the three doses tested), and its secondary endpoint of normalizing testosterone in at least 90% of patients after 24 weeks, which occurred at the two highest doses. All three doses met all the other secondary endpoints, including the improvement of testosterone luteinising hormone (LH) and follicle stimulating hormone (FSH) levels. The study demonstrated a clear dose response in both the primary and secondary endpoints. The exploratory endpoint of improvement in total motile sperm count was also met. A positive trend of treatment effect was also observed on reduction of fatigue in the exploratory patient reported outcomes (PROs) of the PROMIS short fatigue score.

Whilst we do not anticipate Mereo commercialising BGS-649, in order to maximise shareholder value, we believe we are well positioned to continue its late stage clinical development. We plan to clarify our clinical development strategy once we have received data from the 6-month safety extension safety study, expected in Q4 2018.

Our strategy

Rapidly develop and directly commercialize our rare disease product candidates.

We have commenced a Phase 2b clinical trial of BPS-804 for the treatment of OI in adults in the United States, Europe and Canada. If the results from this trial are favorable and our use of HRPqCT as a biomarker for fracture is validated, we intend to submit a CMA to the EMA for the treatment of OI in adults in the EU. We also intend to commence a Phase 2b/3 clinical trial of BPS-804 for the treatment of OI in children in 2018 in Europe and Canada. We expect that the results from this trial, if favorable, will be sufficient to validate our use of HRPqCT and support the submission of a CMA to the EMA for BPS-804 for the treatment of children with severe OI in the EU. We intend to initiate a Phase 2 clinical trial of AZD-9668 for the treatment of severe AATD in 2018 and, if the results are favorable and pending regulatory feedback, continue to develop AZD-9668 toward approval and commercialization. We plan to establish our own sales and marketing organization in the United States and Europe for BPS-804 and AZD-9668 and any future rare disease product candidates.

Efficiently advance our specialty disease product candidates and explore strategic relationships with third parties for further clinical development and/or commercialization.

Based on the top-line results from our Phase 2 clinical trial of BCT-197, we plan to enter into one or more strategic relationships with third parties for BCT-197 to undertake the next phase of clinical development and, if approved, commercialization. We intend to continue late stage development of BGS-649 and plan to enter into strategic relationships with third parties for commercialization. We may also enter into strategic relationships with third parties to complete the clinical development of BGS-649

Leverage our expertise in business development to expand our pipeline of product candidates.

Our senior management team has extensive relationships with large pharmaceutical and biotechnology companies, as evidenced by the acquisition of our four clinical-stage product candidates. We intend to leverage these relationships to grow our pipeline with a focus on rare diseases. We intend to continue to identify, acquire, develop, and ultimately commercialize novel product candidates that have received significant investment from large pharmaceutical companies. We will continue to focus on acquiring product candidates with either proof-of-concept clinical data in our target indication or with clinical data in a related indication and a strong scientific rationale that supports development in our target indication. Using a disciplined approach, we intend to continue building a diverse portfolio of product candidates that we believe have compelling market potential, robust pre-clinical, clinical, and manufacturing data packages, and a clear regulatory pathway.

Continue to be a partner of choice for large pharmaceutical and biotechnology companies.

We believe that we are a preferred partner for large pharmaceutical and biotechnology companies as they seek to unlock the potential in their development pipelines and deliver therapeutics to patients in areas of high unmet medical need. We have strong relationships with these companies, as evidenced by our agreements with Novartis and AstraZeneca, and a track record of structuring transactions that enable us to leverage our core capabilities while creating value for all stakeholders. We intend to continue to enter into strategic relationships that align our interests with those of large pharmaceutical and biotechnology companies and that we believe to be mutually beneficial

Our people

In 2017, our total headcount increased from 24 to 31 full time employees. In January 2017, Richard Jones was appointed CFO and in May 2017 we appointed Jerome Dauvergne as Head of Pharmaceutical Development. In addition to these key hires, we further strengthened our clinical, business development and central administrative teams during the year. We also recently announced the appointment of Wills Hughes-Wilson as Head of Patient Access and Commercial Planning. In her role, Ms. Hughes-Wilson will be responsible for leading and optimizing Mereo's patient access and commercialization strategies, initially in a part-time role as the Company builds out its rare disease commercial infrastructure.

We continue to attract highly experienced, skilled and motivated individuals at all levels within the organisation which is critical to our success in our mission to deliver innovative medicines to patients.

Recent Developments and outlook

We look forward to reporting on additional key milestones during 2018. These include the initiation of both the phase 2 proof-of-concept study of AZD-9668 in alpha-1 antitrypsin deficient patients and the phase 2b/3 study with BPS-804 in children with severe OI disease in Europe. We also expect to report on progress with enrolment in the Phase 2b study with BPS-804 in adult OI patients in Europe and the US, on the partnering process for further development and

commercialization of BCT-197 and on the additional data for BGS-649 from the 6-month extension study that will guide the late stage clinical development for this programme.

We plan to continue to seek further product opportunities to further diversify our product portfolio with a focus on rare diseases. We believe that our rigorous selection approach, our experience to structure and successfully close these transactions in a mutually beneficial manner and our skills in executing comprehensive clinical development plans will continue to consolidate our position as a partner of choice for large pharmaceutical and biotechnology companies as they seek to unlock the potential in their product pipelines.

Dr Peter Fellner **Dr Denise Scots-Knight**
Chairman ***Chief Executive Officer***
March 23, 2018

Financial Review

The financial statements are presented on a consolidated group basis prepared in accordance with IFRS as issued by the IASB and adopted by the European Union for the year ended December 31, 2017. Comparative data is shown on the same basis for the year ended December 31, 2016.

Research and Development (R&D)

Our total research and development, or R&D, expenses increased by £10.0 million, or 40%, from £24.6 million in 2016 to £34.6 million in 2017. This was a result of increased spending on clinical development as we continued the Phase 2 programs for BCT-197 and BGS-649 and commenced the adult Phase 2b program for BPS-804.

Total R&D expenses included payments we made to CROs and other suppliers for the ongoing clinical development of each of BPS-804, BCT-197, and BGS-649, which increased from £17.9 million in 2016 to £22.8 million in 2017, reflecting the inclusion of expenses relating to the adult Phase 2b study for BPS-804. Additionally, our R&D employee related costs increased from £3.1 million in 2016 to £4.1 million in 2017, reflecting increased headcount, higher other employee-related expenses, including travel, and higher bonus amounts earned in 2017. Our payments to CMOs for the provision of drug substance and drug product and associated manufacturing development to support our clinical trials and the transfer of manufacturing of drug substance and drug product from Novartis to third-party manufacturers increased from £2.9 million in 2016 to £7.6 million in 2017, reflecting ongoing manufacturing activity primarily due to the manufacture of additional clinical trial materials in respect of BPS-804.

General and administrative expenses (G&A)

G&A expenses decreased by £0.9 million, or 7.8%, from £11.6 million in 2016 to £10.7 million in 2017. This decrease was due to a decrease in share-based payment expenses of £2.8 million, reflecting the lower level of share option awards in 2017, partially offset by a rise in other general and administrative costs of £1.9 million, reflecting an increase in payroll-related costs due to a higher headcount and higher bonus amounts earned in 2017, together with additional legal and professional fees in connection with the equity financing in April 2017, the entering into a credit facility in August 2017, and the acquisition of AZD-9668 in October 2017.

Finance Income and charges

Interest earned on our short-term cash deposits increased from £0.4 million in 2016 to £0.8 million in 2017, reflecting higher cash balances held in deposit in 2017. Finance charge increased from

£0.2 million in 2016 to £1.1 million in 2017, reflecting interest costs on additional borrowings under our credit facility during 2017 and lower costs related to the Novartis Notes after the exercise of a portion of these notes in April 2017. Finance charge in 2017 also included £0.3 million of losses on short term deposits.

Net Foreign Exchange Gain/(Loss)

In 2016, the net foreign exchange gain was £2.3 million, primarily as a result of the unrealized gain on translation of cash deposits held primarily in U.S. dollars at year end, reflecting a strengthening of the U.S. dollar against pounds sterling during the year. In 2017, net foreign exchange loss was £1.4 million, reflecting a weakening of the U.S. dollar against pounds sterling during the year which negatively impacted the translation of our foreign deposits and investments at December 31, 2017.

Taxation

We recorded a tax credit of £8.2 million in 2017 (2016: £5.3 million) . The tax credit represents the cash rebate from the U.K. tax authorities we qualified for in respect of eligible research and development activities during the years. Due to the increase in qualifying R&D expenditure in 2017, the 2017 tax credit increased by £2.9 million from the 2016 tax credit. The 2016 tax credit was received in May 2017. We expect to receive the 2017 tax credit of £8.2 million in 2018.

Loss per share

Basic Loss per share for the year was 56 pence (2015: 63 pence). On an adjusted non-GAAP basis, excluding one-off items and share based payments, Loss per share was 47 pence (2016: 51 pence).

Liquidity and capital resources

Since we were incorporated, we have raised a total of £102.8 million in gross proceeds from private and public placements of our ordinary shares to institutional investors and £3.5 million from the issuance of the Novartis Notes. This included an equity placing to institutional investors in April 2017 which raised £15 million in gross proceeds. As of December 31, 2017, we had cash and short-term deposits and short-term investments (cash resources) of £52.5 million (2016: £53.6 million).

On August 7, 2017, we entered into a loan agreement with Silicon Valley Bank and Kreos Capital V (UK) Limited, which provides for total borrowings of £20.0 million. We borrowed £10.0 million on each of August 21, 2017 and December 29, 2017 for general working capital purposes. We are obligated to make interest-only payments on the loan amount until September 30, 2018, and thereafter we are obligated to pay interest and principal in 30 equal monthly instalments until March 31, 2021, the maturity date. The loan bears interest at an annual fixed rate equal to 9.0%. In addition, a final payment of 7.5% of the principal loan amount is due upon the earlier of the maturity date, prepayment in whole of the loan amount, mandatory repayment, acceleration of the loan, and the loan becoming immediately due and payable due to an event of default. The loan is secured by substantially all of our assets, including intellectual property rights owned or controlled by us.

In connection with the loan agreement, we issued to the lenders warrants to subscribe for 363,156 of our ordinary shares at an exercise price of £3.029 per ordinary share and warrants to subscribe for 333,334 of our ordinary shares at an exercise price of £3.30 per ordinary share.

We expect that our existing cash resources will enable us to fund our currently committed clinical trials and operating expenses and capital expenditure requirements for at least the next 12 months.

Acquisition of AZD-9668

In October 2017, our wholly owned subsidiary Mereo BioPharma 4 Limited entered into an exclusive license and option agreement, or the License Agreement, to obtain from AstraZeneca an exclusive worldwide, sub-licensable license under AstraZeneca's intellectual property rights relating to certain products containing a NE inhibitor, including products that contain AZD-9668, with an option to acquire such intellectual property rights, following commencement of a pivotal trial and payment of related milestone payments, or the Option, together with the acquisition of certain related assets.

Upon entering into the License Agreement, we made an upfront payment of $3.0 million to AstraZeneca in cash and issued 490,798 new ordinary shares for an upfront payment equal to $5.0 million. Including the net present value of future deferred cash payments and the value of deferred equity consideration, total acquisition cost of £7,192,288 was capitalized as an intangible asset.

Financial Outlook

With a strong balance sheet which includes cash resources of £52.5 million at January 1, 2018 we are well positioned to fund our current development programmes through to their key milestones. We have also announced plans to pursue a U.S. registered public offering and look forward to updating shareholders on these plans in due course.

Richard Jones
Chief Financial Officer
March 23, 2018

Consolidated statement of comprehensive loss

for the year ended December 31, 2017

	Notes	**Year ended December 31, 2017 £**	Year ended December 31, 2016 £
Research and development expenses		**(34,606,649)**	(24,562,502)
Administrative expenses		**(10,697,194)**	(11,616,816)
Operating loss		**(45,303,843)**	(36,179,318)
Finance income		**826,855**	374,906
Finance charge		**(1,089,925)**	(179,765)
Net foreign exchange gain/(loss)		**(1,384,225)**	2,262,626
Loss before tax		**(46,951,138)**	(33,721,551)
Taxation	6	**8,152,084**	5,331,271
Loss attributable to equity holders of the parent		**(38,799,054)**	(28,390,280)
Other comprehensive income for the year, net of tax		—	—
Total comprehensive loss for the year, net of tax and attributable to the equity holders of the parent		**(38,799,054)**	(28,390,280)
Basic and diluted loss per share	7	**(£0.56)**	(£0.63)
Non-GAAP measure			
Adjusted loss per share	7	**(0.47)**	(0.51)

Consolidated balance sheet

as at December 31, 2017

	Notes	**December 31, 2017 £**	December 31, 2016 £
Assets			
Non-current assets			
Property, plant and equipment		**153,361**	173,869
Intangible assets	8	**33,005,229**	25,812,941
		33,158,590	25,986,810
Current assets			
Prepayments		**1,970,781**	1,102,146
R&D tax credits	6	**8,152,084**	5,331,271
Other receivables		**509,350**	767,009
Short-term investments		**2,500,000**	—
Cash and short-term deposits		**50,044,672**	53,577,571
		63,176,887	60,777,997
Total assets		**96,335,477**	86,764,807
Equity and liabilities			
Equity			
Issued capital	9	**213,285**	193,022
Share premium	9	**118,226,956**	99,975,399
Other capital reserves	9	**16,359,169**	12,667,562
Other reserves	9	**7,000,000**	7,000,000
Accumulated loss		**(79,315,920)**	(40,579,241)
Total equity		**62,483,490**	79,256,742
Non-current liabilities			
Provisions		**4,075,386**	1,172,420
Interest bearing loans and borrowings		**18,812,511**	3,126,526
Warrant liability	11	**1,346,484**	—
		24,234,381	4,298,946
Current liabilities			
Trade and other payables		**3,024,026**	1,121,107
Accruals		**4,379,774**	2,088,012
Provisions		**274,000**	—
Interest bearing loans and borrowings		**1,939,806**	—
		9,617,606	3,209,119
Total liabilities		**33,851,987**	7,508,065
Total equity and liabilities		**96,335,477**	86,764,807

Consolidated statement of cash flows

for the year ended December 31, 2017

	Notes	Group	
		December 31, 2017	December 31, 2016
		£	£
Operating activities			
Loss before tax		**(46,951,138)**	(33,721,551)
Adjustments to reconcile loss before tax to net cash flows:			
Depreciation of property, plant and equipment		**36,076**	32,940
Share-based payment expense		**3,651,898**	6,494,018
Net foreign exchange (gain)/loss		**1,384,225**	(2,262,626)
Provision for social security contributions on employee share options		**1,115,966**	1,031,109
Interest earned		**(826,855)**	(374,906)
Loss on short-term deposits		**338,279**	—
Accrued interest on convertible loan		**103,115**	179,765
Transaction costs on bank loan		**200,000**	—
Interest on bank loan		**327,123**	—
Accreted interest on bank loan		**66,935**	—
Warrant fair value adjustment		**54,473**	—
Working capital adjustments:			
Increase in receivables		**(839,751)**	(1,219,202)
(Decrease)/increase in payables		**3,860,412**	(768,402)
Tax received		**5,331,271**	946,681
Net cash flows from operating activities		**(32,147,971)**	(29,662,174)
Investing activities			
Purchase of property, plant and equipment		**(15,568)**	(3,467)
Purchase of license	8	**(2,280,000)**	—
Disposal of property, plant and equipment		**—**	1,175
Short-term investments		**(2,500,000)**	—
Interest earned		**1,051,620**	374,906
Net cash flows used in investing activities		**(3,743,948)**	372,614
Financing activities			
Proceeds from issue of ordinary shares		**15,000,000**	67,888,820
Transaction costs on issue of shares	9	**(729,632)**	(2,995,864)
Proceeds from issue of convertible loan		**—**	3,463,563
Proceeds from issue of bank loan	10	**20,000,000**	—
Transaction costs on bank loan		**(200,000)**	—
Interest paid on bank loan		**(327,123)**	—
Net cash flows from financing activities		**33,743,245**	68,356,519
Net increase in cash and cash equivalents		**(2,148,674)**	39,066,959
Cash and cash equivalents at January 1		**53,577,571**	12,247,986
Effect of exchange rate changes on cash and cash equivalents		**(1,384,225)**	2,262,626
Cash and cash equivalents at December 31		**50,044,672**	53,577,571

Significant non-cash transaction

During the year, 588,532 shares were issued to Novartis Pharma AG (for nil consideration), The fair value of these was £1.84 per share.

During the year, 490,798 shares were issued to Astrazeneca AB (for nil consideration), The fair value of these was £3.097 per share.

Consolidated statement of changes in equity

for the year ended December 31, 2017

	Issued capital £	Share premium £	Other capital reserves £	Other reserves £	Accumulated losses £	Total equity £
At December 31, 2015	59,221	26,212,880	21,660,105	—	(12,188,961)	35,743,245
Loss for the year to December 31, 2016	—	—	—	—	(28,390,280)	(28,390,280)
Issue of share capital (Note 9)	107,709	67,781,112	—	—	—	67,888,821
Share-based payments – share options	—	—	6,185,067	—	—	6,185,067
Share-based payments – LTIPS	—	—	133,601	—	—	133,601
Share-based payments – deferred bonus shares	—	—	175,350	—	—	175,350
Redemption of shares to be issued (Note 9)	26,092	15,977,271	(16,003,363)	—	—	—
Equity element of convertible loan	—	—	516,802	—	—	516,802
Share capital reduction (Note 9)	—	(7,000,000)	—	7,000,000	—	—
Transaction costs on issuance of share capital (Note 9)	—	(2,995,864)	—	—	—	(2,995,864)
At December 31, 2016	193,022	99,975,399	12,667,562	7,000,000	(40,579,241)	79,256,742
Loss for the year to December 31, 2017	—	—	—	—	(38,799,054)	(38,799,054)
Share-based payments – share options	—	—	3,027,963	—	—	3,027,963
Share-based payments – LTIPS	—	—	298,287	—	—	298,287
Share-based payments – deferred bonus shares	—	—	325,648	—	—	325,648
Share-based payments – deferred equity consideration	—	—	1,331,288	—	—	1,331,288
Issue of share capital on April 4, 2017 (Note 9)	15,125	14,984,875	—	—	—	15,000,000
Issue of share capital on conversion of loan Note (Note 9)	1,899	1,396,654	—	—	—	1,398,553
Issue of share capital for Novartis bonus shares (Note 9)	1,766	1,081,133	(1,082,899)	—	—	—
Equity element of convertible loan	—	—	(208,680)	—	—	(208,680)
Conversion of convertible loan	—	—	—	—	62,375	62,375
Issue of share capital on October 31, 2017 (Note 9)	1,473	1,518,527	—	—	—	1,520,000
Transaction costs on issuance of share capital (Note 9)	—	(729,632)	—	—	—	(729,632)
At December 31, 2017	**213,285**	**118,226,956**	**16,359,169**	**7,000,000**	**(79,315,920)**	**62,483,490**

Notes to the financial statements

1. Corporate information

Mereo BioPharma Group plc (the "Company") is a multi-asset biopharmaceutical company focused on the acquisition, development and commercialization of innovative therapeutics that aim to improve outcomes for patients with rare and specialty diseases.

The Company is a public limited company incorporated and domiciled in the United Kingdom, and registered in England, with our shares publicly traded on AIM. Our registered office is located at Fourth Floor, 1 Cavendish Place, London W1G 0QF.

The consolidated financial statements of Mereo BioPharma Group plc and its subsidiaries (collectively, the "Group") for the year ended December 31, 2017 were authorised for issue in accordance with a resolution of the Directors on 22 March 2018. The financial information contained herein does not constitute the group's statutory accounts for the years ended 31 December 2017 or 2016. Statutory accounts for 2016 have been delivered to the Registrar of Companies, and those for 2017 will be published and delivered to the Registrar of Companies in due course and will be made available on the Company's website at www.mereobiopharma.com. The auditors' reports on both the 2017 and 2016 accounts were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of Companies Act 2006.

2. Significant accounting policies

2.1 Basis of preparation

The Group 's annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Union, and in accordance with the Companies Act 2006.

The financial information is presented in Sterling.

2.2 Going concern

Though the Group continues to make losses, the Directors believe it is appropriate to prepare the financial information on the going concern basis. This is because the Group's research into new products continues to progress according to plan and the funding secured to date will allow it to meet its liabilities as they fall due for at least 12 months from the date of authorisation for the issue of these consolidated financial statements.

2.3 Changes of accounting policies

a) Segment reporting

Effective in the third quarter of 2017 and following the completion of the exclusive licence agreement with Astrazeneca for AZD-9668, the Company has revised its policy and now reports as a single operating segment.

2.4 Summary of significant accounting policies

a) Intangible assets

Intangible assets, relating to intellectual property rights acquired through licensing or assigning patents and know-how, are initially recognized at cost which has been determined as the fair value of the consideration paid and payable. Consideration comprises cash paid together with the net present value of any provision for deferred cash consideration (see Note 2b) and the fair value of consideration settled in shares. The fair value of consideration is regularly reviewed based on the probability of achieving the contractual milestones. Where share transfer occurs, the cost is measured at fair value of the shares issued or to be issued in accordance with IFRS 2. Intangible assets are held at cost less accumulated amortization and provision for impairment, if any. Where a finite useful life of the acquired intangible asset cannot be determined or the intangible asset is not yet available for use, the asset is tested annually for impairment by allocating the assets to the cash-generating units to which they relate. Amortization would commence when product candidates underpinned by the intellectual property rights become available for commercial use. No amortization has been charged to date, as the product candidates underpinned by the intellectual property rights are not yet available for commercial use.

b) Provision for deferred cash consideration

Provisions for deferred cash consideration consist of future payments which are contractually committed but not yet certain. In respect of products which are not yet approved such deferred cash consideration excludes potential downstream milestones, royalties or other payments as these are deemed to be so uncertain as to be unquantifiable. Deferred cash consideration is recognized as a liability with the amounts calculated as the risk adjusted net present value of anticipated deferred payments.

The provision is reviewed at each balance sheet date and adjusted based on the likelihood of contractual milestones being achieved and therefore the deferred payment being settled. Increases in the provision relating to changes in the probability are recognized as an intangible asset. Increases in the provision relating to the unwinding of the time value of money are recognized as a finance expense.

c) Bank loan and associated warrants

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate (EIR) method. The EIR amortization is included as a finance charge in the statement of comprehensive loss. This category applies to interest-bearing borrowings, trade and other payables.

Associated warrants are measured at fair value with changes recorded through the statement of comprehensive loss (see Note 11).

3. Significant accounting judgements, estimates and assumptions

The preparation of the consolidated accounts requires the management of the Group to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses. The Group bases its estimates and judgements 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.

Bank loan and associated warrants

As part of the bank loan the Group has issued warrants to subscribe for shares. The fair value of the warrants issued is assessed at each balance sheet date based upon a number of assumptions, as disclosed in Note 11.

4. Group information

Information about subsidiaries

The consolidated financial statements of the Group include:

Name	Principal activities	Country of incorporation	**% equity interest December 31, 2017**	**% equity interest December 31, 2016**
Mereo BioPharma 1 Limited	Pharmaceutical research and development	United Kingdom	**100**	**100**
Mereo BioPharma 2 Limited	Pharmaceutical research and development	United Kingdom	**100**	**100**
Mereo BioPharma 3 Limited	Pharmaceutical research and development	United Kingdom	**100**	**100**
Mereo BioPharma 4 Limited	Pharmaceutical research and development	United Kingdom	**100**	—
Mereo BioPharma Group plc Employee Benefit Trust	Employee share scheme	Jersey	—	—

The registered office of Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited, Mereo BioPharma 3 Limited and Mereo BioPharma 4 Limited is located at Fourth Floor, 1 Cavendish Place, London, W1G 0QF.

Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited, Mereo BioPharma 3 Limited and Mereo BioPharma 4 Limited each have issued share capital of one ordinary share of £1 fully paid or credited as fully paid, totalling £4.

Under IFRS, the Employee Benefit Trust is treated as a wholly owned subsidiary company.

5. Operating loss

	Year ended December 31, 2017 £	Year ended December 31, 2016 £
Employee benefits expense	**9,299,652**	11,322,086
Externally contracted research and development	**31,321,355**	21,417,083
Legal and professional fees including patent costs	**683,668**	782,492
Operating lease expense	**293,328**	293,328
Depreciation	**36,076**	33,397
Other expenses	**3,669,764**	2,330,932
Total operating loss	**45,303,843**	36,179,318

6. Income tax

The Group is entitled to claim tax credits in the United Kingdom under the UK research and development (R&D) small or medium-sized enterprise (SME) scheme, which provides additional taxation relief for qualifying expenditure on R&D activities, and includes an option to surrender a portion of tax losses arising from qualifying activities in return for a cash payment from HM Revenue & Customs (HMRC). The claims in respect of the year ended December 31, 2016 were received by the Group in May 2017. The year ended December 31, 2017 amounts have not yet been agreed with the relevant tax authorities.

Group	Year ended December 31, 2017 £	Year ended December 31, 2016 £
United Kingdom corporation tax R&D credit	**8,152,084**	5,331,271
Income tax credit	**8,152,084**	5,331,271

The charge for the year can be reconciled to the loss per the income statement as follows:

Group	Year ended December 31, 2017 £	Year ended December 31, 2016 £
Loss on ordinary activities before income tax	**(46,951,138)**	(33,721,551)
Loss on ordinary activities before tax at the United Kingdom's statutory income tax rate of 19.25% (2016:20%)	**9,038,094**	6,744,310
Expenses not deductible for tax purposes (permanent differences)	**(14,316)**	(15,116)
Temporary timing differences	**(711,677)**	(1,300,044)
Research and development relief uplift	**3,447,474**	2,134,107
Losses (unrecognized)	**(3,784,801)**	(2,231,986)
Deferred income from MBG loan guarantee costs	**177,310**	
Tax credit for the year	**8,152,084**	5,331,271

At December 31, 2017 the Group had tax losses to be carried forward of approximately £36,010,916 (2016: £16,343,508).

Deferred tax

Deferred tax relates to the following:

	December 31, 2017 £	December 31, 2016 £
Losses	**6,121,400**	2,778,396
Accelerated capital allowances	**—**	(9,883)
Other	**—**	2,210
Temporary differences trading	**2,266,798**	
Net deferred tax asset	**8,388,198**	2,770,723

The deferred tax asset has not been recognised as there is uncertainty regarding when suitable future profits against which to offset the accumulated tax losses will arise. There is no expiration date for the accumulated tax losses.

A reduction in the rate of UK corporation tax to 19% from April 1, 2017 and to 17% from April 1, 2020 has been substantively enacted. The standard rate of corporation tax applied to reported loss is 19.25% (2016:20%) and any UK deferred tax assets and liabilities would be recognized at a rate of 17%.

7. Loss per share

Basic loss per share is calculated by dividing the loss attributable for the year to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. As net losses from continuing operations were recorded in the year, the dilutive potential shares are anti-dilutive for the earnings per share calculation.

	Year ended December 31, 2017			Year ended December 31, 2016		
Group	Loss £	Weighted shares number	Loss per share £	Loss £	Weighted shares number	Loss per share £
IFRS – basic and diluted	**(38,799,054)**	**69,012,348**	**(0.56)**	(28,390,280)	44,789,893	(0.63)
Adjusted – basic and diluted	**(32,101,862)**	**69,012,348**	**(0.47)**	(22,956,976)	44,789,893	(0.51)

The Company operates share option schemes which could potentially dilute basic earnings per share in the future. In addition, there exist within equity 864,988 (2016: 1,453,520) shares to be issued which also have the potential to dilute basic earnings per share in future (see Note 9).

As part of a licence and option agreement with AstraZeneca, additional future payments of a maximum of 1,349,692 new ordinary shares would be payable on reaching certain clinical milestones.

Warrants totalling 696,490 were issued in 2017 that could potentially dilute basic earnings per share if converted.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements.

The non-GAAP (adjusted) loss is calculated after adding back non-recurring items and share-based payment charges as set out in the table below. The adjusted loss per share is calculated using the weighted average number of ordinary shares in issue during the year.

	Year ended December 31, 2017	Year ended December 31, 2016
Group		
Loss for the year	**(38,799,054)**	(28,390,280)
Share-based payments	**3,651,898**	6,494,018
Provision for social security on share options	**1,115,966**	1,031,109
Non-capitalised equity fundraising costs	**75,326**	45,000
One off legal and professional fees	**131,538**	125,803
Acquisition of intangible assets	**338,239**	—
Net loss/(gain) on foreign exchange	**1,384,225**	(2,262,626)
Adjusted loss	**(32,101,862)**	(22,956,976)

8. Intangible assets

	Acquired development programs £
Cost at January 1, 2017	**25,812,941**
Additions	**7,192,288**
At December 31, 2017	**33,005,229**
Amortisation and impairment	
At January 1, 2017	—
Impairment	—
At December 31, 2017	—
Net book value	
At January 1, 2017	25,812,941
At December 31, 2017	**33,005,229**

	Acquired development programs £
Cost at January 1, 2016 and December 31, 2016	25,812,941
Amortisation and impairment	
At January 1, 2016	—
Impairment	—
At December 31, 2016	—
Net book value	
At January 1, 2016	25,812,941
At December 31, 2016	25,812,941

The Group's strategy is to acquire clinical-stage development programs for the treatment of specialty and rare diseases from large pharmaceutical companies.

On October 28, 2017, the Group acquired the exclusive license for AZD-9668 and included the option to acquire certain assets from AstraZeneca AB (AstraZeneca). AZD-9668 is being developed for the treatment of severe alpha-1 antitrypsin deficiency, at a cost of £7,192,288 as follows:

	December 31, 2017
Cash payment in October 2017	2,280,000
Equity issued (see Note 9)	1,520,000
Deferred equity consideration	1,331,288
Present value of provision for deferred cash consideration	2,061,000
	7,192,288

9. Issued capital and reserves

Ordinary share capital	**Year ended December 31, 2017 £**	Year ended December 31, 2016 £
Balance at beginning of year	**193,022**	59,221
Issuances in the year	**20,263**	133,801
Nominal share capital as at December 31	**213,285**	193,022

Ordinary shares of £0.003 each issued and fully paid	
At January 1, 2017	**64,340,798**
Issued on April 3, 2017 for private financing round	**5,042,017**
Issued on April 26, 2017 for conversion of loan Note	**1,221,361**
Issued on October 28, 2017 for acquisition of licence	**490,798**
At December 31, 2017	**71,094,974**
Nominal value at December 31, 2017 (£)	**0.003**
Issued capital at December 31, 2017 (£)	**213,285**
Ordinary shares issued and fully paid	
At January , 2016	19,740,296
Issued on June 9, 2016 for private financing round	39,464,540
Issued on June 9, 2016 for private placement	5,135,962
At December 31, 2016	64,340,798
Nominal value at December 31, 2016 (£)	0.003
Issued capital at December 31, 2016 (£)	193,022

Since January 1, 2016, the following alterations to the Company's share capital have been made:

under the subscription agreement dated July 28, 2015, as amended by an agreement dated June 1, 2016, the issue and allotment of 39,464,540 ordinary shares of £0.003 in nominal value in the capital of the Company on June 9, 2016 at a price of £1.84 per share. 39,699 of these ordinary shares were issued to WG Partners LLP, for no cash consideration, as payment for financial advisory services;

on March 21, 2016 the Directors of the Company signed a solvency statement with the agreement of all shareholders and undertook a capital reduction, reducing the share premium account by £7,000,000 and reducing the accumulated losses by the same amount;

under a private placement dated June 9, 2016, the issue and allotment of 5,135,962 ordinary shares of £0.003 in nominal value in the capital of the Company on June 9, 2016 at a price of £2.21 per share;

on June 9, 2016, the Company's ordinary shares were admitted to trading on the AIM market of the London Stock Exchange;

under the private placement dated April 3, 2017, the Company issued and allotted 5,042,017 ordinary shares of £0.003 in nominal value in the capital of the Company on April 3, 2017 at a price of £2.975 per share to institutional investors. Gross cash received was £15,000,000;

on April 26, 2017 Novartis converted £1,398,552 of loan Notes dated 3 June 2016 into 632,829 ordinary shares of £0.003 in nominal value in the capital of the Company at the fixed conversion price of £2.21 per share. Under the terms of the Notes, Novartis also received 588,532 bonus shares; and

on October 31, 2017, Mereo BioPharma Group plc issued 490,798 ordinary shares of £0.003 in nominal value in the capital of the Company to AstraZeneca AB as part payment for the acquisition by Mereo BioPharma 4 Limited of an exclusive licence and option to acquire certain assets.

Share premium	**December 31, 2017 £**
At January 1, 2017	**99,975,399**
Issued on April 3, 2017 for private financing round	**14,984,875**
Issued on April 26, 2017 for conversion of loan Note	**2,477,787**
Issued on October 28, 2017 for acquisition of licence	**1,518,527**
Transaction costs for issued share capital	**(729,632)**
At December 31, 2017	**118,226,956**

Share premium	December 31, 2016 £
At January 1, 2016	26,212,880
Share capital reduction on March 21, 2016	(7,000,000)
Issuance of share capital for private financing round on June 9, 2016	72,423,314
Issuance of share capital for private placement on June 9, 2016	11,335,069
Transaction costs for issued share capital	(2,995,864)
At December 31, 2016	99,975,399

Other capital reserves

	Shares to be issued £	**Share-based payments £**	**Equity component of convertible loan £**	**Total £**
At January 1, 2017	2,674,477	9,476,283	516,802	12,667,562
Share-based payments expense during the year	—	4,983,186	—	4,983,186
Shares issued	(1,082,899)	—	—	(1,082,899)
Equity component of convertible loan instrument	—	—	(208,680)	(208,680)
At December 31, 2017	**1,591,578**	**14,459,469**	**308,122**	**16,359,169**

	Shares to be issued £	Share-based payments £	Equity component of convertible loan £	**Total £**
At January 1, 2016	18,677,840	2,982,265	—	21,660,105
Share-based payments expense during the year	—	6,494,018	—	6,494,018
Shares issued	(16,003,363)	—	—	(16,003,363)
Equity component of convertible loan instrument	—	—	516,802	516,802
At December 31, 2016	2,674,477	9,476,283	516,802	12,667,562

Share-based payments

The Group has a share option scheme under which options to subscribe for the Group's shares have been granted to certain Executives, Non-Executive Directors and employee.

The share-based payment reserve is used to recognise a) the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration and b) deferred equity consideration. Of the £6,494,018 share-based payment expense in 2016, £298,836 is an accelerated charge relating to 500,000 share options which were cancelled on June 9, 2016.

Shares issued/to be issued

Shares to be issued at January 1, 2016 of £18,677,840 represented a maximum potential 10,151,000 bonus shares due to Novartis under the terms of an investment in the prior year. Of the 44,600,502 ordinary shares issued on June 9, 2016, 8,697,480 shares were issued to Novartis as fully paid up bonus shares (for £nil consideration), the number of which was calculated to maintain its shareholding at 19.5%. The fair value of these shares was £1.84 per share. At December 31, 2016, £2,674,477 representing a maximum of 1,453,520 shares at £1.84 were remaining to be issued to Novartis pro rata to their percentage shareholding as and when the Company issues further ordinary shares.

Of the 1,221,361 ordinary shares issued on April 26, 2017, 588,532 shares were issued to Novartis as fully paid up bonus shares (for £nil consideration), the number of which was calculated to maintain its shareholding at 19.5%. The fair value of these shares was £1.84 per share. At December 31, 2017, £1,591,578 representing a maximum of 864,988 shares at £1.84 were remaining to be issued to Novartis pro rata to their percentage shareholding as and when the Company issues further ordinary shares

Equity component of convertible loan instrument

The convertible loan Notes issued to Novartis are a compound instrument consisting of a liability and an equity component. The value of the equity component (cost of the conversion option) as at December 31, 2017 is £308,122 (2016: £516,802).

Accumulated deficit

	Year ended December 31, 2017 £	Year ended December 31, 2016 £
Other reserves	**7,000,000**	7,000,000
Accumulated losses	**(79,315,920)**	(40,579,241)
Accumulated deficit	**(72,315,920)**	(33,579,241)

On March 21, 2016 the Directors of the Company signed a solvency statement with the agreement of all shareholders and undertook a capital reduction, reducing the share premium account by £7,000,000 and crediting a new Other reserve by the same

10. Bank loan

On August 7, 2017, the Group entered into a loan agreement with Silicon Valley Bank and Kreos Capital V (UK) Limited, which provides for total borrowings of £20.0 million and the issue of warrants over shares in the Company (see Note 10). £10.0 million was on each of August 21, 2017 (Tranche 1) and December 29, 2017 (Tranche 2) for general working capital purposes. The Group is obligated to make interest-only payments on the loan amount until September 30, 2018, and thereafter obligated to pay interest and principal in 30 equal monthly instalments until March 31, 2021, the maturity date. The loan bears interest at an annual fixed rate equal to 9.0%. In addition, a final payment of 7.5% of the principal loan amount is due upon the earlier of the maturity date, prepayment in whole of the loan amount, mandatory repayment, acceleration of the loan, and the loan becoming immediately due and payable due to an event of default. The loan is secured by substantially all of the Group's assets, including intellectual property rights owned or controlled by the Group. The terms of the debt facility include an interest only period to September 30, 2018, a thirty-month capital and interest repayment period thereafter, a 9% headline interest rate and customary security over all assets of the Group.

As part of the loan agreement, warrants to subscribe for shares were issued to the syndicate (see Note 11).

The fair value of warrants issued as part of Tranche 1 on August 21, 2017 was £657,676. The fair value of the loan liability of tranche 1 on August 21, 2017 was £9,342,324. Application of the effective interest method is required to accrete the initial loan liability value up to the face value of the loan at the end of the loan term. This non-cash interest charge will be made in each statutory reporting period. The annual value of this interest charge is £182,133, which is an effective interest rate of 1.95%.

The fair value of warrants issued as part of Tranche 2 on December 29, 2017 was £634,335. The fair value of the loan liability of tranche 2 on December 29, 2017 was £9,365,665. Application of the effective interest method is required to accrete the initial loan liability value up to the face value of the loan at the end of the loan term. This non-cash interest charge will be made in each statutory reporting period. The annual value of this interest charge is £194,892, which is an effective interest rate of 2.08%.

The total carrying value of the loan at December 31, 2017 was £18,774,924. £1,939,806 is a current liability and £16,835,118 is a non-current liability. A total of £66,935 of non-cash interest has been charged to the statement of comprehensive loss in the period.

11. Warrant liability

	Year ended December 31, 2017 £	Year ended December 31, 2016 £
At beginning of year	**—**	—
Arising during the year	**1,346,484**	—
At December 31	**1,346,484**	—

As part of the bank loan facility (see Note 10), 363,156 warrants to subscribe for shares were issued to the lenders on August 21, 2017. These warrants will be capable of exercise until August 7, 2027 at an exercise price of £3.029. A further 333,334 warrants were issued to the lenders on December 29, 2017. These warrants will be capable of exercise until August 7, 2027 at an exercise price of £3.30. The total of 696,490 warrants is equivalent to 0.98% of ordinary share capital at December 31, 2017.

The fair value of the warrants at grant was £1,292,011. At December 31, 2017 it was £1,346,484.