

GW Research Limited

Report and Financial Statements

15 months ended 31 December 2018

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REPORT AND FINANCIAL STATEMENTS 2018

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REPORT AND FINANCIAL STATEMENTS 2018

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Dr G W Guy
Mr A D George
Mr C Tovey

SECRETARY

Mr A D George

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STRATEGIC REPORT

The Directors present their Strategic Report for GW Research Limited (GWR or “the Company”) for the fifteen-month period ended 31 December 2018.

BUSINESS REVIEW

GWR is developing a broad pipeline of cannabinoid prescription pharmaceutical product candidates with a focus upon orphan diseases in the fields of refractory epilepsy, neonatal hypoxia, disorders of the central nervous system and oncology. We aim to develop and commercialise valuable medicines that address areas of high unmet patient need.

Our proprietary cannabinoid product platform consists of our:

- continually evolving library of internally generated novel cannabis plant types that produce selected cannabinoids, or chemotypes. We can reproduce the selected chemotypes through propagation of plant cuttings, or clones, in order to ensure that all subsequent plant material is genetically uniform. We can also generate seeds of selected chemotypes for large-scale production;
- in-house extraction, processing methodologies and analytical techniques, which yield well-characterised and standardised chemotype extracts;
- discovery of novel cannabinoid pharmacology through conducting in vitro and in vivo pharmacologic evaluation studies in validated disease models to determine the most promising potential therapeutic areas for each extract;
- in-house formulation and manufacturing capabilities, supplemented by third-party contractors;
- global in-house development and regulatory expertise; and
- intellectual property portfolio, which includes issued and/or pending claims directed to plants, plant extracts, extraction technology, pharmaceutical formulations, drug delivery and the therapeutic uses of cannabinoids, as well as plant variety rights, know-how and trade secrets.

During 2018 the Company has made substantial progress with the development of our cannabinoid product pipeline.

- Epidiolex® (CBD) the Company’s orphan epilepsy program utilising a formulation of cannabidiol oral solution in Dravet syndrome, Lennox-Gastaut Syndrome (LGS), Tuberous Sclerosis Complex (TSC), Rett Syndrome (RTT) and infantile spasms (IS)
 - Approved by the Federal Drug Administration (FDA) in the United States of America for Dravet syndrome and LGS. The US commercial launch of Epidiolex® followed in November 2018.
 - On US FDA approval, the Company received a Rare Pediatric Disease Review Voucher (PRV), which entitles the holder to request a priority review of a subsequent US drug application. Post period end the Company completed the sale of its PRV for \$105 million.
 - European regulatory submission made in December 2017, which is currently under review by the European Medicines Agency (EMA). EMA decision expected during 2019.
 - Phase 3 trials:
 - Phase 3 Dravet syndrome trials published in the *New England Journal of Medicine* and *The Lancet*.
 - Phase 3 trial in TSC was ongoing during 2018, and was successfully completed during May 2019 subsequent to the period end with primary endpoint met.
 - Second Phase 3 trial in Dravet syndrome also successfully reported during the period, again with the primary endpoint met.
 - A Phase 3 trial of Epidiolex® in patients with RTT is expected to start during 2019.
 - Expanded access program and open label extension:
 - We have begun transitioning the approximately 900 patients from our expanded access program (EAP) and open label extension (OLE) to commercial product and will work with physicians, likely through mid-2019, to gradually complete this process in a manner that ensures continuity of treatment.

STRATEGIC REPORT (CONTINUED)**BUSINESS REVIEW (CONTINUED)**

- Advanced clinical programs in multiple cannabinoid pipeline product candidates:
 - CBDV pre-clinical research ongoing within field of autism spectrum disorders and Rett syndrome.
 - Orphan Drug Designation from FDA for CBDV for the treatment of Rett syndrome
 - Company-sponsored IND submitted November 2018. Investigator led placebo-controlled trial in autism; expanded access IND to treat seizures associated with autism underway.
 - Company sponsored open-label trial expected to commence during 2019. Investigator-led placebo-controlled trial is also expected to commence during 2019.
 - In February 2018 we announced that a Phase 2a study of CBDV in adult patients with focal seizures did not meet its primary endpoint and showed a favourable safety and tolerability profile.
 - Neonatal Hypoxic-Ischemic Encephalopathy (NHIE) intravenous CBD program
 - Phase 1 trial completed with healthy volunteers
 - Orphan Drug and Fast Track Designations granted from FDA and EMA
 - Planning Phase 2 trial to commence in second half of 2019.
 - THC:CBD for the treatment of Recurrent Glioblastoma Multiforme (GBM)
 - Phase 1b/2a study completed
 - Orphan Drug Designation from FDA
 - Plans developed for pivotal clinical development program
- Preclinical and formulation:
 - Novel research with a series of University institutions to consider the anti-epileptiform and anticonvulsant activity associated with CBD and CBDV, using a variety of in vitro and in vivo models, demonstrating that the compounds have the ability to treat seizures in acute animal models of epilepsy with significantly fewer side effects than existing AEDs
 - Furthering of toxicology knowledge arising from a variety of human and animal models
 - Earlier stage pipeline analysis of other conditions, including metabolic disorders, inflammatory diseases, neurogenesis and oncology with a series of University collaborators
 - Several new formulations of CBD have been in development, including liquid formulations, solid dose forms and an intravenous formulation
- Growing scale up:
 - A further year of scaling up new growing techniques for large scale CBD and CBDV.
 - Further evolution of new harvesting and pelleting techniques

The Group as a whole considers that the primary key performance indicators are the progress on the regulatory approval, rescheduling and sales volumes of Epidiolex in the U.S. and around the world. The progress of regulatory filings and product launches are not easily quantifiable, but best represent the Group's progress during 2018.

Revenue for the 15 months ended 31 December 2018 was £12.9 million, compared to £nil for the 12 months ended 30 September 2017. This increase is driven by the commencement of royalties payable to the Company for the use of the Company's intellectual property by a fellow group company following the commercial launch of Epidiolex® by the GW Pharmaceuticals plc group.

Research and development costs for the 15 months ended 31 December 2018 were £119.2 million, compared to £97.7 million for the 12 months ended 30 September 2017. Comparing research and development costs during the comparative 12 month period ended 31 December 2018 and 12 month period ended 31 December 2017 indicates that research and development costs declined by £1.9 million from £97.2 million to £95.3 million. This slight decrease is driven by the maturation of the Epidiolex® LGS and Dravet clinical development programmes, offset by increases in research and development costs associated with other pipeline products.

Other operating income was £4.4 million for the 15 months ended 31 December 2018, compared to £2.1 million during the 12 months ended 30 September 2017 as the Company's staff continue to provide support services to other group companies.

STRATEGIC REPORT (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES

In common with other pharmaceutical development companies the Company faces a number of risks and uncertainties.

Clinical

Clinical trials may encounter delays or fail to achieve their endpoints.

Regulatory

Regulatory bodies around the world have different requirements for the approval of therapeutic products. This may result in the restriction of indication, denial of approval or demands for additional data. Some regulators may refuse to consider approving cannabinoid products.

Legislative

The Company's research material consists primarily of controlled drugs and as such is subject to both national and international legislation, which can change at any time. Rescheduling is often required before a cannabinoid medicine may be marketed. Such rescheduling may be refused or delayed.

Orphan drug designation

In respect of our product candidates targeting orphan indications, orphan drug exclusivity may afford limited protection, and if another party obtains orphan drug exclusivity for the drugs and indications we are targeting, we may be precluded from commercialising our product candidates in those indications during that period of exclusivity.

Formulation and bioavailability, effect on commercial viability

Our new cannabinoid formulations may not achieve the bioavailability to demonstrate efficacy in clinical trials or the cost to manufacture the high doses needed to demonstrate efficacy may prove to be too high to be commercially viable.

Safety

During development or during post-marketing surveillance, quality, safety, efficacy or tolerability issues may emerge which may result in the withdrawal or restriction of the product licence or early termination of clinical development programmes.

Intellectual property

The Company may not be able to secure and maintain the intellectual property protection for its products or may be prevented from commercialising some product candidates by the existence of competitor owned intellectual property.

Funding

The Company currently relies on funding from its parent company, GW Pharmaceuticals plc. If it fails to obtain such funding in the future the Company may need to delay or scale back some of its research and development programmes or the future commercialisation of some of its products.

The Directors have not presented a separate analysis of the strategy, objectives and business model of GW Research Limited as this is disclosed as part of the consolidated financial statements of GW Pharmaceuticals plc, which are publicly available.

Brexit

The UK's vote in favour of withdrawing from the European Union (known as "Brexit") could lead to increased market volatility which could make it more difficult for us to do business in Europe or have other adverse effects on our business.

In response to this situation, the Group established a cross-functional Brexit Taskforce early in 2018. The Group's position has been to expect the most disruptive impact of Brexit, and therefore has pre-emptively moved any EU-dependent pharmaceutical product registrations and employment roles to be located or duplicated within the European Union.

However, until the Brexit process is concluded by the UK and EU parliaments and the impacts of transition to any new arrangement between them are known with clarity, it is difficult to anticipate the overall potential impact on the Company's operations and hence the final expected costs to be incurred.

STRATEGIC REPORT (CONTINUED)

ENVIRONMENTAL MATTERS

The Group is aware of the risks of climate change and actively looks to minimise indirect areas of emissions by encouraging remote working and promoting online conferencing facilities to reduce business-related travel and is actively exploring ways to reduce the light energy used in some of its plant growing facilities.

As a business whose core activity starts with the growing of plants which are actively absorbing carbon dioxide, we have a natural carbon capture process within our business operations. We have not sought to quantify the extent to which this offsets the carbon footprint of our business but we take some comfort from the fact that this helps to mitigate the environmental impact of our business and we expect this to increase as the scale of our growing operations expands to meet future demand for our plant-derived medicines.

STRATEGY, OBJECTIVES AND BUSINESS MODEL

The Directors have not presented a separate analysis of the strategy, objectives and business model of GW Research Limited as this is disclosed as part of the consolidated financial statements of GW Pharmaceuticals plc, which are publicly available.

Approved by the Board of Directors and signed on behalf of the Board.

A handwritten signature in black ink, appearing to read 'A D George'.

A D George
Director & Company Secretary
22 July 2019

DIRECTORS' REPORT

The Directors present their annual report on the affairs of GW Research Limited together with the financial statements and independent auditor's report for the fifteen-month period ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is the research, development and commercialisation of a range of cannabinoid prescription medicines to meet patient needs in a wide range of medical conditions.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a number of financial risks, including credit risk, liquidity risk, market price risk and exchange rate risk. The Company can use financial instruments to mitigate these. It is Company policy that no speculative trading in financial instruments shall be undertaken.

Credit Risk

The Company's principal financial assets are cash and short-term cash equivalents. Risk is minimised through an investment policy restricting the investment of surplus cash held with the major UK banking groups and with UK subsidiaries of banking groups with acceptable credit ratings.

Liquidity Risk

This risk is minimised by placing surplus funds in a range of low risk cash deposits and short-term liquid investments for periods up to 90 days. This portfolio of deposits is managed to ensure that a rolling programme of maturity dates is managed in accordance with Company expenditure plans in order to ensure available liquid cash funds when required.

Market Price Risk

Market price risk primarily comprises interest rate exposure risk, which is managed by maintaining a rolling programme of varying deposit maturity dates, up to a maximum of 90 days, on a breakable deposit basis. The majority of funds are deposited for terms of less than 90 days. This allows the Company to react to rate changes within a reasonable timeframe and to mitigate pricing risk accordingly.

Exchange Rate Risk

The Company's functional currency is Pounds Sterling (GBP). However, during the period the Company had exposure to Euros (€), US Dollars (US\$) and Canadian Dollars (CAD\$). The Company's policy is to maintain natural hedges, where possible, by matching cash balances and receipts with planned expenditure.

RESEARCH AND DEVELOPMENT ACTIVITIES

The R&D undertaken by the Company amounted to £119.2 million (year ended 30 September 2017: £97.7 million), all of which was expensed during the fifteen-month period ended 31 December 2018.

Subsequent to the period end date, the Company completed the sale of a Rare Pediatric Disease Priority Review Voucher ("PRV") for \$105.0 million. See Note 21 for further details.

FUTURE DEVELOPMENTS

Going forwards, the Company will continue with the research, development and commercialisation of cannabinoid compounds with therapeutic value for a number of clinical indications as part of the Company's pipeline development programme.

RESULTS AND DIVIDENDS

The audited financial statements for the fifteen-month period ended 31 December 2018 are set out on pages 12 to 31. The loss for the period after taxation was £174.3 million (year ended 30 September 2017: £124.7 million).

The Directors do not recommend the payment of a dividend (year ended 30 September 2017: £nil).

DIRECTORS

The Directors who served throughout the period and to the date of signing these financial statements are as follows:

Dr G W Guy
Mr A D George
Mr C Tovey

DIRECTORS' REPORT (CONTINUED)

GOING CONCERN

In view of the Company's losses and net liabilities, the Company is reliant upon the continuing financial support of its parent Company, GW Pharmaceuticals plc. The Directors of the parent Company, having considered the financial position of GW Pharmaceuticals plc, have stated that it is their intention to continue to provide financial support to the Company for at least twelve months from the date of signing of these financial statements and have provided a letter of support.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, despite the current economic uncertainty. Thus, they continue to adopt the going concern basis in preparing these financial statements.

EMPLOYEE CONSULTATION AND HUMAN RIGHTS

The Company places considerable value on the involvement of its employees. They are regularly briefed on the Company's activities in Company-wide meetings and updates, and have regular opportunities to share their views with Executive Directors and Officers. Their contribution is a key element to the future success of the Company and accordingly, the majority of employees are given the opportunity to participate in the Company's share capital by joining one or more of the share option schemes operated by the Company. Details of the share options issued under these plans are set out in note 5 to the financial statements. Equal opportunity is given to all employees regardless of their age, sex, colour, race, disability, religion or ethnic origin.

The Company considers that respecting human rights is a global standard of expected conduct for all business enterprises. The Company aims to comply with all applicable laws, especially health and safety, to prevent abuses of human rights. Regular dialogue is held between employees at each of the Company's sites and senior management to ensure that any issues are identified and resolved. The Company maintains and operates within a Code of Conduct and Business Ethics with which all staff are required to comply.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

AUDITOR

In the case of each of the persons who are Directors of the Company at the date when this report is approved:

- so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the Directors has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board



A D George
Director & Company Secretary
22 July 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GW RESEARCH LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of GW Research Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the fifteen-month period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GW RESEARCH LIMITED (CONTINUED)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

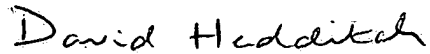
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



David Hedditch (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
22 July 2019

PROFIT AND LOSS ACCOUNT

For the 15 months ended 31 December 2018

	Note	15 months to 31 December 2018 £	12 months to 30 September 2017 £
REVENUE	2	12,871,231	–
GROSS PROFIT		12,871,231	–
Other operating income	3	4,410,877	2,104,343
Research and development expenditure	4	(119,184,950)	(97,681,719)
Sales, general and administrative expenses		(41,225,915)	(32,630,755)
Share-based payment	5	(8,233,971)	(3,656,605)
Net foreign exchange gain		194,432	10,790
Total administrative expenses		(168,450,404)	(133,958,289)
OPERATING LOSS		(151,168,296)	(131,853,946)
Other income	8	3,875,070	–
Interest payable	8	(27,036,498)	(13,318,417)
LOSS BEFORE TAXATION		(174,329,724)	(145,172,363)
Tax credit on loss	9	41,161	20,428,959
LOSS FOR THE FINANCIAL PERIOD	10	(174,288,563)	(124,743,404)

All activities relate to continuing operations.

The Company has no other comprehensive income or expenses other than the loss above, and therefore no separate Statement of Comprehensive Income has been presented.

The accompanying notes are an integral part of this profit and loss account.

BALANCE SHEET

As at 31 December 2018

	Note	31 December 2018 £	30 September 2017 £
FIXED ASSETS			
Intangible assets	11	834,996	662,373
Tangible assets	12	3,760,830	7,005,112
Investments	13	883	–
		4,596,709	7,667,485
CURRENT ASSETS			
Trade and other receivables	14	16,726,828	3,736,686
Taxation recoverable		3,807,649	19,900,000
Cash and cash equivalents		6,048,683	4,552,013
		26,583,160	28,188,699
LIABILITIES: amounts falling due within one year			
Trade and other payables	15	(21,196,958)	(27,791,228)
Obligations under finance leases	16	(126,819)	(120,683)
		(21,323,777)	(27,911,911)
NET CURRENT ASSETS		5,259,383	276,788
TOTAL ASSETS LESS CURRENT LIABILITIES		9,856,092	7,944,273
LIABILITIES: amounts falling due after one year			
Trade and other payables	15	–	(593,407)
Amounts owed to parent Company	15	(503,282,735)	(334,565,173)
Obligations under finance lease	16	(1,145,677)	(1,303,423)
		(504,428,412)	(336,462,003)
NET LIABILITIES		(494,572,320)	(328,517,730)
CAPITAL AND RESERVES			
Called up share capital	17	130,852	130,852
Share premium account		77,700	77,700
Profit and loss account		(494,780,872)	(328,726,282)
TOTAL SHAREHOLDER'S DEFICIT		(494,572,320)	(328,517,730)

These financial statements of GW Research Limited, registered number 03107561, were approved and authorised for issue by the Board of Directors on 22 July 2019.

Signed on behalf of the Board of Directors.



Mr A D George
Director

The accompanying notes are an integral part of this balance sheet.

STATEMENT OF CHANGES IN EQUITY

For the 15 months ended 31 December 2018

	Share capital £	Share premium account £	Profit and loss account £	Total £
Balance at 30 September 2016	130,852	77,700	(207,639,483)	(207,430,931)
Loss for the financial year	-	-	(124,743,404)	(124,743,404)
Total comprehensive loss for the year	-	-	(124,743,404)	(124,743,404)
Share-based payment transactions	-	-	3,656,605	3,656,605
Balance at 30 September 2017	130,852	77,700	(328,726,282)	(328,517,730)
Loss for the financial period	-	-	(174,288,563)	(174,288,563)
Total comprehensive loss for the period	-	-	(174,288,563)	(174,288,563)
Share-based payment transactions	-	-	8,233,973	8,233,973
Balance at 31 December 2018	130,852	77,700	(494,780,872)	(494,572,320)

The accompanying notes are an integral part of this statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS**For the 15 months ended 31 December 2018****1. ACCOUNTING POLICIES**

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding periods.

Basis of accounting

GW Research Limited is a private limited company incorporated in England and Wales in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 2 to 5.

The Company has elected to modify its financial year end to 31 December from 30 September and presents 15-month results to 31 December 2018. This is to align with the Group's NASDAQ external financial reporting calendar. Consequently, the amounts presented in these financial statements may not be entirely comparable. Where additional information would prove to be useful to users of these financial statements, annualised information is presented.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

These financial statements are separate financial statements. Details of the parent, GW Pharmaceuticals plc in whose consolidated financial statements the Company is included are shown in note 19 to the financial statements.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, revenue, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of GW Pharmaceuticals plc. The group accounts of GW Pharmaceuticals plc are available to the public and can be obtained as set out in note 19.

Adoption of new and revised standards

In the current period the following revised standards have been adopted in these financial statements. Adoption has not had a significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions.

IFRS 15 Revenue from Contracts with Customers

Amendments to IAS 7: Disclosure Initiative (Jan 2016)

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Jan 2016)

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Sept 2014)

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were issued by the IASB but not yet effective:

IFRS 9 Financial Instruments (July 2014)

IFRS 11 Joint Arrangements Annual Improvements to IFRSs 2015 – 2017 Cycle

IFRS 16 Leases (Jan 2016)

IFRS 17 Insurance Contracts (May 2017)

Amendments to IFRS 1: Annual Improvements to IFRS Standards 2014-16 (Dec 2016)

Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions (June 2016)

Amendments to IFRS 3: Annual Improvements to IFRSs 2015-2017 Cycle

Amendments to IFRS 4: Applying IFRS9 Financial Instruments with IFRS4 Insurance Contracts (Sept 2016)

Amendments to IAS 23: Annual Improvements to IFRSs 2015 – 2017 Cycle

Amendments to IAS 40: Transfer of Investment Property (Dec 2016)

Amendments to IFRS 9: Prepayment Features with Negative Compensation (Oct 2017)

Amendments to IAS 28: Annual Improvements to IFRSs 2014 – 2016 Cycle

Amendments to IAS 28: Long-Term Interests in Associates and Joint Ventures (Oct 2017)

NOTES TO THE FINANCIAL STATEMENTS

For the 15 months ended 31 December 2018

1. ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised standards (continued)

IFRS 15 Revenue from Contracts with Customers: IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue and its related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company has early-adopted IFRS 15 with practical expedients, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 October 2017). Accordingly, the comparative information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

IFRS 15 did not have a significant impact on the Company's accounting policies, and so no adjustments were required during the current or comparative financial periods.

IFRS 16 Leases: The Company is required to adopt IFRS 16 Leases from 1 January 2019. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Company will recognise new assets and liabilities for its operating leases of office space, warehouse and production facilities. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. In addition, the Company will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Company will include the payments due under the lease in its lease liability. No significant impact is expected for the Company's finance leases.

While the Company is still finalising the adoption procedures, the Company estimates that the adoption of this standard will result in recognition of additional lease assets and lease liabilities on its balance sheet as of 1 January 2019 of approximately £1.7 to 2.1 million. The Company does not believe the adoption of IFRS 16 will materially affect its consolidated net loss or liquidity. The Company plans to apply IFRS 16 initially using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The Directors do not expect that the adoption of the remaining Standards and Interpretations in future periods will have a material impact on the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS**For the 15 months ended 31 December 2018****1. ACCOUNTING POLICIES (CONTINUED)****Going concern**

In view of the Company's losses and net liabilities, the Company is reliant upon the continuing financial support of its parent Company, GW Pharmaceuticals plc. The Directors of the parent Company, having considered the financial position of GW Pharmaceuticals plc, have stated that it is their intention to continue to provide financial support to the Company for at least twelve months from the date of signing of these financial statements and have provided a letter of support.

The Directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, despite the current economic uncertainty. Thus, they continue to adopt the going concern basis in preparing these financial statements.

Revenue

The Company has adopted IFRS 15: *Revenue from Contracts with Customers* ("IFRS 15"), and all the related amendments to all contracts using the modified approach. As required by the modified implementation method, revenue for the current period is accounted for under the new guidance. The comparative revenue is not restated for the impact of adopting IFRS 15; instead the current period opening balances are adjusted for the cumulative impact of adopting IFRS 15. As noted above, no adjustments were required during the current or comparative financial periods in order to adopt IFRS 15.

Royalties

Royalty income for use of the Company's intellectual property is recognised on an accrual basis in accordance with the substance of the relevant agreement, provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Other operating income**Staff support services**

The Company provides the services of its staff to other Group companies to support their research and commercial activities. Revenue is recognised as these services are performed.

Research and development

Expenditure on research and development activities is recognised as an expense in the period in which it is incurred prior to achieving regulatory approval.

An internally generated intangible asset arising from the Company's development activities is recognised only if the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

The Company has determined that regulatory approval is the earliest point at which the probable threshold can be achieved. All research and development expenditure incurred prior to achieving regulatory approval is therefore expensed as incurred.

Intangible assets

Other intangible assets are stated at cost less provisions for amortisation and impairments. Licences, patents, know-how, software and marketing rights separately acquired or acquired as part of a business combination are amortised over their estimated useful lives using the straight-line basis from the time they are available for use. The estimated useful lives for determining the amortisation take into account patent lives and related product application, but do not exceed their lifetime. Asset lives are reviewed annually and adjusted where necessary. Contingent milestone payments are recognised at the point that the contingent event becomes certain. Any subsequent development costs incurred by the Company and associated with acquired licences, patents, know-how or marketing rights are written off to the profit and loss account when incurred, unless the criteria for recognition of an internally generated intangible asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable.

NOTES TO THE FINANCIAL STATEMENTS**For the 15 months ended 31 December 2018****1. ACCOUNTING POLICIES (CONTINUED)****Intangible assets (continued)**

Amortisation is provided so as to write off the cost of assets, less their estimated residual values, over their useful lives using the straight-line method, as follows:

Software	3 years
Licences	3 years or term of licence if longer

Amortisation is expensed as incurred and is included within profit and loss as part of research and development expenditure, and sales, general and administrative expenses.

Tangible fixed assets

Property, plant and equipment are stated at cost, net of accumulated depreciation and any recognised impairment loss. Depreciation is provided so as to write off the cost of assets, less their estimated residual values, over their useful lives using the straight-line method, as follows:

Plant, machinery and lab equipment	3 – 20 years
Office and IT equipment	3 – 5 years
Leasehold improvements	4 – 20 years or term of the lease if shorter

Assets under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

No depreciation is provided on assets under the course of construction. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Depreciation on these assets commences when the assets are available for use.

The gain or loss arising on disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in operating profit.

Taxation

The tax expense represents the sum of the tax currently payable or recoverable and deferred tax. Current and deferred taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The tax payable or recoverable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the Profit and Loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the asset to be recovered.

NOTES TO THE FINANCIAL STATEMENTS**For the 15 months ended 31 December 2018****1. ACCOUNTING POLICIES (CONTINUED)****Taxation (continued)**

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Investments in subsidiaries

Investments are shown at cost less provision for impairment.

The Company considers the recoverability of investments in subsidiaries and intercompany receivables on an ongoing basis, whenever indicators of impairment are present. If facts and circumstances indicate that investment in subsidiaries may be impaired, the estimated future cash flows associated with these subsidiaries would be compared to their carrying amounts to determine if a write down to fair value is necessary.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals under operating leases are charged on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as an expense in the periods in which they are incurred.

Retirement benefit costs

The Company does not operate any pension plans, but makes contributions to personal pension arrangements of its Executive Directors and employees. The amounts charged to the Profit and Loss account in respect of pension costs are the contributions payable in the year. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the Balance Sheet.

Share-based payment

The Group operates a number of equity-settled share-based compensation plans under which the Company receives services from employees as consideration for equity instruments (options). The fair value of the employee services received in exchange for the grant of the awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted (excluding the effect of any non-market-based performance and service vesting conditions) at the date of grant.

NOTES TO THE FINANCIAL STATEMENTS

For the 15 months ended 31 December 2018

1. ACCOUNTING POLICIES (CONTINUED)**Share-based payment (continued)**

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based performance and service vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

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

Financial instruments

Financial assets and liabilities are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss", "held-to-maturity" investments, "available-for-sale" financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

For each reporting period covered herein, the Company's financial assets were restricted to "loans and receivables".

Loans and Receivables

Trade receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Trade receivables are assessed for indicators of impairment at each balance sheet date. Trade receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the receivables have been affected. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and on-call deposits held with banks and other short-term highly liquid investments with a maturity of three months or less.

Financial Liabilities

Financial liabilities are classified as either financial liabilities "at fair value through profit and loss" or "other financial liabilities". For each reporting period covered herein, the Company's financial liabilities were restricted to "other financial liabilities".

Other Financial Liabilities

Trade payables are initially recognised at fair value and then held at amortised cost which equates to nominal value. Long-term payables are discounted where the effect is material.

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, using the effective interest method. The difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the profit and loss account over the period of the relevant borrowing.

NOTES TO THE FINANCIAL STATEMENTS**For the 15 months ended 31 December 2018****1. ACCOUNTING POLICIES (CONTINUED)****Financial instruments (continued)****Other Financial Liabilities (continued)**

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Foreign currency

The financial statements of the Company are presented in the currency of the primary economic environment in which it operates (its functional currency). The results and financial position of the Company is expressed in Pounds Sterling.

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Critical Judgements in Applying the Company's Accounting Policies

In the application of the Company's accounting policies, which are described above, the Board of Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revisions and future periods if the revision affects both current and future periods.

As part of this review process no critical judgements were identified, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies or that have the most significant effect on the amounts recognised in the financial statements.

Key Sources of Estimation Uncertainty***Research and Development Tax Credit***

The Company's research and development tax credit claim is complex and requires management to interpret and apply UK and US research and development and orphan credit tax legislation to the Company's specific circumstances. The recognition of the estimated UK research and development tax credit requires the use of certain assumptions in estimating the portion of current period research costs that are eligible for the claim under the Finance Act 2000. At 31 December 2018, the Company has transitioned from the SME R&D scheme to the Large Company scheme and has estimated its net research and development tax credit of £3.9 million (30 September 2017: £19.9 million) from HMRC.

Deferred Taxation

At the balance sheet date, the Company has accumulated tax losses of £317.6 million (30 September 2017: £176.5 million) and other temporary differences of £13.6 million (30 September 2017: £10.4 million) available to offset against future profits. If the value of these losses and other temporary differences were recognised within the Company's balance sheet at the balance sheet date, the Company would be carrying an additional deferred tax asset of £56.3 million (30 September 2017: £31.8 million). However, as explained in the tax accounting policy note, the Company's policy is to recognise deferred tax assets only to the extent that it is probable that future taxable profits, feasible tax-planning strategies, and deferred tax liabilities will be available against which the brought-forward trading losses can be utilised. Estimation of the level of future taxable profits is therefore required in order to determine the appropriate carrying value of the deferred tax asset at each balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the 15 months ended 31 December 2018

2. REVENUE

Revenue by class of business:	15 months to 31 December 2018 £	12 months to 30 September 2017 £
Royalty fee income	12,871,231	–
	12,871,231	–
Geographical analysis of revenue:	15 months to 31 December 2018 £	12 months to 30 September 2017 £
United Kingdom	12,871,231	–
	12,871,231	–

All royalties received during the period relate to the use of the Company's intellectual property by a fellow group Company. Royalty fee income commenced during the current period as a result of the commercial launch of Epidiolex in the United States. All associated revenue, profits and losses before taxation originated in the UK. All assets and liabilities are held in the UK. The revenue recognised in the current and prior accounting periods were unaffected by the adoption of IFRS 15.

3. OTHER OPERATING INCOME

	15 months to 31 December 2018 £	12 months to 30 September 2017 £
Staff support services	4,410,877	2,104,343
	4,410,877	2,104,343

Other operating income consists of staff recharges for activities carried out on behalf of a fellow group Company. All activity was carried out wholly within the UK.

4. RESEARCH AND DEVELOPMENT EXPENDITURE

	15 months to 31 December 2018 £	12 months to 30 September 2017 £
Research and development expenditure	119,184,950	97,681,719
	119,184,950	97,681,719

Research and development expenditure consists of costs associated with the Company's research activities. These costs include costs of conducting pre-clinical studies or clinical trials, payroll costs associated with employing a team of research and development staff, share-based payment expenses, property costs associated with leasing laboratory and office space to accommodate research teams, costs of growing botanical raw material, costs of consumables used in the conduct of in-house research programs, payments for research work conducted by sub-contractors and collaboration work with a network of academic collaborative research scientists, costs associated with safety studies and costs associated with the development of further pipeline product safety and effectiveness data.

NOTES TO THE FINANCIAL STATEMENTS**For the 15 months ended 31 December 2018****5. SHARE-BASED PAYMENT**

The Company participates in a share option scheme for all employees. Options are exercisable on the shares of the parent Company at a price equal to the estimated fair value of the parent Company's shares on the date of grant. The vesting periods range from one to four years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options are forfeited if the employee leaves the Company before the options vest.

The weighted average share price at the date of exercise for share options exercised during the period was £9.00 (year ended 30 September 2017: £7.55). The options outstanding at 31 December 2018 had exercise prices ranging from £0.001 to £6.894 (30 September 2017: £0.001 to £7.562) and a weighted average remaining contractual life of 7.80 years (30 September 2017: 7.80 years). During the period ended 31 December 2018, options were granted on 13 October 2017, 19 December 2017, 26 February 2018, 16 July 2018, 20 August 2018, 16 October 2018, and 21 December 2018. The aggregate of the estimated fair values of the options granted on those dates is £7.1 million. During the year to 30 September 2017, options were granted on 11 January 2017, 21 February 2017, 15 March 2017, 28 June 2017, 10 August 2017, and 6 September 2017. The aggregate of the estimated fair values of the options granted on those dates is £7.0 million.

6. DIRECTORS' REMUNERATION AND TRANSACTIONS

	15 months to 31 December 2018 £	12 months to 30 September 2017 £
Emoluments	1,829,342	2,133,301
Contributions to defined contribution pension schemes	–	51,908
Gains on exercise of share options	2,487,605	9,755,356
	4,316,947	11,940,565

No Director is a member of a defined contribution personal pension scheme (year ended 30 September 2017: four).

During the period, one Director (year ended 30 September 2017: three Directors) exercised share options.

Included in the above was an amount of £797,147 (year ended 30 September 2017: £955,526), the cost of which has been borne by a fellow Group undertaking.

The above amounts for remuneration include the following in respect of the highest paid director:

	15 months to 31 December 2018 £	12 months to 30 September 2017 £
Emoluments	797,147	788,508
Contributions to defined contribution pension schemes	–	18,228
Gain on exercise of share options	2,487,605	3,395,391
	3,284,752	4,202,127

NOTES TO THE FINANCIAL STATEMENTS

For the 15 months ended 31 December 2018

7. STAFF COSTS

The monthly average number of employees (including executive Directors) was:

	15 months to 31 December 2018 No.	12 months to 30 September 2017 No.
Research and development	254	262
Sales, general and administration	73	59
	327	321

Their aggregate remuneration comprised:

	15 months to 31 December 2018 £	12 months to 30 September 2017 £
Wages and salaries	21,383,707	16,441,186
Social security costs	1,820,555	2,419,752
Other pension costs	1,765,537	1,286,584
	24,969,799	20,147,522

8. OTHER INCOME AND INTEREST PAYABLE

	15 months to 31 December 2018 £	12 months to 30 September 2017 £
Intragroup interest payable	26,964,671	13,257,940
Other interest payable	71,827	60,477
Total interest expense	27,036,498	13,318,417
Other income	3,875,070	–
Total other income	3,875,070	–

Other income relates to an “above the line” credit associated with the UK large company R&D tax scheme. This represents an amount which was claimable from UK tax authorities in relation to qualifying expenditure incurred in the same period. In the prior year the Company instead qualified for the SME R&D relief scheme.

NOTES TO THE FINANCIAL STATEMENTS
For the 15 months ended 31 December 2018

9. TAX CREDIT ON LOSS

The tax credit comprises:

	15 months to 31 December 2018 £	12 months to 30 September 2017 £
Current tax		
UK corporation tax	–	(19,900,000)
Adjustment in respect of prior year tax credit	(41,161)	(528,959)
Total current tax	(41,161)	(20,428,959)
Deferred tax		
Origination and reversal of timing differences	–	–
Total deferred tax	–	–
Total tax on loss	(41,161)	(20,428,959)

Tax credits relate to UK research and development tax credits claimed under the Corporation Tax 2009. In the period to 31 December 2018, the Group was no longer eligible to claim research and development tax credits under the SME scheme. Tax credits are now claimed under the large company RDEC scheme and are recorded as other income in the profit and loss account.

The Company recognises in full the estimated benefit for qualifying current period UK research and development expenditures and resulting tax credits. Any difference in the credit ultimately received is recorded as an adjustment in respect of prior year.

Factors affecting the tax credit for the period

The tax credit for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	15 months to 31 December 2018 £	12 months to 30 September 2017 £
Loss on ordinary activities before tax	(174,329,724)	(145,172,363)
Tax on loss on ordinary activities at UK Corporation tax rate of 19.0% (year ended 30 September 2017: 19.5%)	(33,122,648)	(28,308,611)
Effects of:		
Expenses not deductible in determining taxable profit	1,496,759	89,237
Impact of employee share acquisition relief	(1,033,503)	(2,082,284)
R&D tax relief enhancement	–	(8,265,859)
R&D tax credit under Large Company scheme	169,699	–
Deferred tax losses not recognised	26,831,829	17,140,741
Adjustment in respect of prior year tax credit	(41,161)	(528,959)
Group relief	5,657,864	1,526,776
	(41,161)	(20,428,959)

The tax credit and trading losses to be carried forward are subject to the agreement of HM Revenue & Customs.

NOTES TO THE FINANCIAL STATEMENTS

For the 15 months ended 31 December 2018

9. TAX CREDIT ON LOSS (CONTINUED)

On 15 September 2016 the reduction in the main rate of corporation tax from 19% to 17% was enacted from 1 April 2020. This reduction to 17% received Royal Assent in February 2019. The enacted UK tax rate until 31 March 2017 was 20%.

At 31 December 2018 there were tax losses available for carry forward of approximately £317.6 million (30 September 2017: £176.5 million).

Net deferred tax assets of approximately £56.3 million (30 September 2017: £31.8 million) have not been recognised as there is insufficient evidence that the assets will be recovered. These assets would be utilised if the Company were to make future taxable income.

10. LOSS FOR THE PERIOD

Loss for the period is stated after charging/(crediting):	15 months to 31 December 2018 £	12 months to 30 September 2017 £
Research and development expenditure (see note 4)	119,184,950	97,681,719
Depreciation of tangible assets:		
- owned	1,680,665	2,228,526
- held under finance leases	158,573	126,859
Impairment of property, plant and equipment	–	633,640
Loss on disposal of tangible fixed assets	136,532	581,985
Amortisation of intangible assets	480,439	172,129
Fees payable to the Company's auditor for the audit of the Company's annual accounts	31,000	29,000
Share-based payment charge (see note 5)	8,233,971	3,656,605
Operating lease rentals – land and buildings	1,751,574	1,486,713
Foreign exchange gains	(194,432)	(10,790)
Staff costs (see note 7)	24,969,799	20,147,522

No non-audit fees were incurred for the period ended 31 December 2018 or year ended 30 September 2017.

The GW Pharmaceuticals plc Audit Committee's policy is to pre-approve all audit, audit-related and other services performed by the auditor. All such services were pre-approved during the period ended 31 December 2018 and year ended 30 September 2017 under the Audit Committee's policy.

NOTES TO THE FINANCIAL STATEMENTS

For the 15 months ended 31 December 2018

11. INTANGIBLE ASSETS

	Intangible assets under the course of construction £	Software £	Licences £	Total £
Cost				
At 1 October 2017	45,492	705,531	101,054	852,077
Additions	750,539	5,090	–	755,629
Disposals	–	(105,720)	–	(105,720)
Transfers of completed assets	(791,048)	791,048	–	–
At 31 December 2018	4,983	1,395,949	101,054	1,501,986
Accumulated amortisation				
At 1 October 2017	–	168,322	21,382	189,704
Charge for the period	–	462,415	18,024	480,439
Disposals	–	(3,153)	–	(3,153)
At 31 December 2018	–	627,584	39,406	666,990
Net book value				
At 31 December 2018	4,983	768,365	61,648	834,996
At 30 September 2017	45,492	537,209	79,672	662,373

NOTES TO THE FINANCIAL STATEMENTS

For the 15 months ended 31 December 2018

12. TANGIBLE ASSETS

	Assets under the course of construction £	Plant, machinery and laboratory equipment £	Office and IT equipment £	Leasehold improve- ments £	Total £
Cost					
At 1 October 2017	450,299	7,234,885	1,111,473	6,290,532	15,087,189
Additions	1,015,932	70,104	7,318	137,970	1,231,324
Disposals	–	–	(193,950)	–	(193,950)
Transfer of completed assets	(1,149,720)	529,116	196,296	424,308	–
Sale to group entity	–	(2,477,590)	–	(2,824,808)	(5,302,398)
At 31 December 2018	316,511	5,356,515	1,121,137	4,028,002	10,822,165
Accumulated depreciation					
At 1 October 2017	–	4,512,902	732,257	2,836,918	8,082,077
Charge for the period	–	886,132	256,351	696,755	1,839,238
Disposals	–	–	(159,984)	–	(159,984)
Sale to group entity	–	(1,303,205)	–	(1,396,791)	(2,699,996)
At 31 December 2018	–	4,095,829	828,624	2,136,882	7,061,335
Net book value					
At 31 December 2018	316,511	1,260,686	292,513	1,891,120	3,760,830
At 30 September 2017	450,299	2,721,983	379,216	3,453,614	7,005,112

The net book value of property, plant and equipment at 31 December 2018 includes £1,099,443 in respect of assets held under finance leases (30 September 2017: £1,258,016).

Included in additions is £534 of property, plant and equipment which is unpaid and is included in trade and other payables (30 September 2017: £93,856).

NOTES TO THE FINANCIAL STATEMENTS

For the 15 months ended 31 December 2018

13. FIXED ASSET INVESTMENTS

Subsidiary undertakings	£
Cost and net book value:	
At 1 October 2017	-
Additions	883
At 31 December 2018	883

Company	Country of incorporation	Description and proportion of shares held	Principal activity
GW Pharma International BV <i>Prins Bernhardplein 200, 1097JB Amsterdam</i>	Netherlands	100% of Ordinary	Subgroup holding company

During the current period, a new subsidiary was incorporated in the Netherlands as part of the Group's preparations for commercialising cannabidiol oral solution in Europe.

14. TRADE AND OTHER RECEIVABLES

	31 December 2018	30 September 2017
	£	£
Amounts falling due within one year		
Amounts due from Group undertakings	13,196,103	301,972
Other receivables	1,196,115	2,015,123
Prepayments and accrued income	2,334,610	1,419,591
	16,726,828	3,736,686

15. TRADE AND OTHER PAYABLES

	31 December 2018	30 September 2017
	£	£
Amounts falling due within one year:		
Trade payables	1,435,728	3,230,385
Other taxes and social security	613,224	1,754,971
Clinical trial accruals	7,684,718	5,519,776
Other payables and accruals	5,377,847	7,279,151
Amounts owing to Group undertakings	6,085,441	10,006,945
	21,196,958	27,791,228
Amounts falling due after more than one year:		
Other payables and accruals	-	593,407
Amounts owed to parent Company	503,282,735	334,565,173
	503,282,735	335,158,580

Included in amounts owed to parent Company falling due after more than one year, is an amount of £55,573,435 (30 September 2017: £28,608,764) relating to loan interest charged by the parent Company GW Pharmaceuticals plc. The interest is charged at 5.25% per annum and is calculated based on the loan amount outstanding at the end of each month.

Of the amounts falling due after more than one year £503,282,735 (30 September 2017: £334,565,173) is due after more than five years.

NOTES TO THE FINANCIAL STATEMENTS

For the 15 months ended 31 December 2018

16. OBLIGATIONS UNDER FINANCE LEASES

	31 December 2018 £	30 September 2017 £
Minimum lease payments payable:		
Within one year	175,671	175,671
In the second to fifth years inclusive	689,407	699,621
After five years	649,063	858,438
	1,514,141	1,733,730
Less: Finance charges allocated to future periods	(241,645)	(309,624)
Present value of lease obligations	1,272,496	1,424,106

	Present value of lease payments 31 December 2018 £	30 September 2017 £
Amounts payable under finance leases		
Amounts due for settlement within 12 months	126,819	120,683
Amounts due for settlement after 12 months	1,145,677	1,303,423
	1,272,496	1,424,106

It is the Company's policy to lease certain of its property, plant and equipment under finance leases. The weighted average lease term remaining is 8.9 years (30 September 2017: 10.1 years). For the period ended 31 December 2018, the average effective borrowing rate was 4% (year ended 30 September 2017: 4%). Interest rates are fixed at the contract date.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling.

The Company's obligations under finance leases are usually secured by the lessors' rights over the leased assets.

17. CALLED UP SHARE CAPITAL

	31 December 2018 £	30 September 2017 £
Allotted, called up and fully paid		
130,852 ordinary shares of £1 each	130,852	130,852

The Company has one class of ordinary shares which carry no right to fixed income.

NOTES TO THE FINANCIAL STATEMENTS

For the 15 months ended 31 December 2018

18. FINANCIAL COMMITMENTS

The Company had capital commitments for fixed assets contracted for as at 31 December 2018 of £533,516 (30 September 2017: £684,226).

Outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings	
	31 December	30 September
	2018	2017
	£	£
Expiring within one year	395,911	260,986
Expiring between two and five years	1,353,624	901,594
Expiring after five years	777,711	1,036,948
	2,527,246	2,199,528

Operating lease payments represent rentals payable by the Company for certain of its leased properties. Manufacturing and laboratory facilities are subject to 5 to 15-year leases, some of which have a lease break three years prior to the conclusion of the lease at the Company's option. Office properties are subject to 1 to 10-year leases.

19. ULTIMATE CONTROLLING COMPANY

The Directors regard GW Pharmaceuticals plc, a Company incorporated in England and Wales, as the ultimate parent Company and the controlling party.

GW Pharmaceuticals plc is the parent Company of the largest and smallest group of which the Company is a member and for which group financial statements are drawn up. Copies are available from its registered address Sovereign House, Vision Park, Chivers Way, Histon, Cambridge, CB24 9BZ or via www.gwpharm.com.

20. RELATED PARTY TRANSACTIONS

The Company had no material related party transactions which might reasonably be expected to influence decisions made by the users of these Financial Statements.

As a wholly-owned subsidiary undertaking of GW Pharmaceuticals plc, the Company has taken advantage of the exemption available under FRS 101 from the requirements of IAS 24 *Related Party Disclosures* from disclosing transactions with other members of the group headed by GW Pharmaceuticals plc.

21. SUBSEQUENT EVENTS

In June 2018, the Company received a Rare Pediatric Disease Priority Review Voucher ("PRV") from the US FDA on their approval of Epidiolex® in the United States. This PRV entitles the Company to request a priority review of a subsequent US drug application that would otherwise not qualify for a priority review. At 31 December 2018 the PRV is held on the balance sheet at a carrying value of £nil, which equates to its historic cost.

On 15 March 2019, subsequent to the period end, the Company completed the sale of its Rare Pediatric Disease Priority Review Voucher for \$105 million.