

GW Research Limited

Report and Financial Statements

Year ended 30 September 2016

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REPORT AND FINANCIAL STATEMENTS 2016

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REPORT AND FINANCIAL STATEMENTS 2016

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Dr G W Guy
Mr A D George
Dr S Wright
Mr C Tovey

SECRETARY

Mr A D George

REGISTERED OFFICE

Sovereign House
Vision Park
Chivers Way
Histon
Cambridge
CB24 9BZ

PRINCIPAL BANKERS

HSBC Bank plc
70 Pall Mall
London
SW1Y 5EZ

SOLICITORS

Mayer Brown LLP
201 Bishopsgate
London
EC2M 3AF

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

STRATEGIC REPORT

The Directors present their Strategic Report for GW Research Limited (“GWR” or “the Company”) for the year ended 30 September 2016.

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.

During 2016 the Company has made substantial progress with the development of our cannabinoid product pipeline.

- Epidiolex® (CBD) orphan epilepsy program in Dravet syndrome, Lennox-Gastaut Syndrome (LGS), Tuberous Sclerosis Complex (TSC) and infantile spasms (IS)
 - Phase 3 trials:
 - Positive results in a pivotal Phase 3 Dravet syndrome trial
 - Positive results in two pivotal Phase 3 LGS trials
 - Positive data presented at the American Epilepsy Society Annual Meeting
 - Expanded access program and open label extension:
 - 98% of patients who completed Phase 3 trials have entered long term safety extension
 - Over 1,000 patients now on Epidiolex treatment over many types of epilepsy, including Dravet and LGS
 - On track for our 2017 NDA submission to include safety data from over 1,500 patients and over 400 patients with 1 year or more continuous exposure
 - Phase 2 trials:
 - Significant progress for supporting Phase 2 studies for CBD drug-drug interaction studies with existing anti-epileptics
 - Phase 1 trials:
 - Substantial progress in series of novel Phase 1 studies, including hepatic impairment, renal impairment, human abuse liability, sleep impact, and health subject withdrawal
- Advanced clinical programs in multiple cannabinoid pipeline product candidates:
 - CBDV Phase 2 partial-onset epilepsy study in adults ongoing. Part A complete and Part B underway with data expected in 2017
 - CBDV pre-clinical research ongoing within field of autism spectrum disorders. Phase 2 trials expected to commence in 2017
 - Orphan Drug Designation from FDA for CBDV for the treatment of Rett syndrome
 - Neonatal Hypoxic-Ischemic Encephalopathy (NHIE) intravenous CBD program
 - Phase 1 trial commenced in December 2016
 - Orphan Drug and Fast Track Designations granted from FDA and EMA
 - THC:CBD for the treatment of Recurrent Glioblastoma Multiforme (GBM)
 - Phase 1b/2a study completed — data expected in early 2017
 - Orphan Drug Designation from FDA
 - Sativex® Phase 2 study in children with spasticity due to cerebral palsy completed — data expected in early 2017
- Preclinical:
 - Progress across a range of academic collaborations focussing upon anticonvulsant activity associated with CBD and CBDV, using a variety of in vitro and in vivo models, demonstrating that these compounds have the ability to treat seizures in acute animal models of epilepsy with significantly fewer side effects than existing AEDs
 - Completion of toxicology/drug-drug interaction and other safety investigations using a range of animal models and human clinical trials
 - Earlier stage pipeline discovery activity, exploring the utility of a range of cannabinoids to treat Rett syndrome, severe forms of autism, metabolic disorders, inflammatory diseases, effects on neurogenesis and use in oncology.

STRATEGIC REPORT (CONTINUED)

BUSINESS REVIEW (CONTINUED)

- Growing scale up:
 - Successful development of new growing, harvesting and drying techniques for large scale CBD and CBDV growing, covering a variety of indoor and outdoor growing conditions leading to production of 90 tonnes of dried plant material for conversion into R&D materials to be used in our research
 - Development of new extraction, pelleting and storage processes, demonstrating product stability, and batch to batch uniformity
 - Successful scale up of seed and cutting production for a variety of strains of higher yielding CBD and CBDV plants with improved agronomic properties
 - Development of multiple new product formulations leading to enhanced bioavailability, stability and enhanced intellectual property

Research and development costs have increased by £39,041k, or 67%, from £58,557k to £97,598k in the year. This increase has been driven by our rapid progress with the Phase 3 clinical development of Epidiolex® to treat refractory epilepsy patients with Dravet and Lennox Gastaut syndrome.

Other operating income has increased by £434k, or 34%, from £1,281k to £1,715k, as our staff continue to provide support services to other group companies.

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.

STRATEGIC REPORT (CONTINUED)

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.

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. 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 15 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.

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



A D George

Director & Company Secretary

26 January 2017

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 year ended 30 September 2016.

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 year 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.

RESULTS AND DIVIDENDS

The audited financial statements for the year ended 30 September 2016 are set out on pages 10 to 26. The loss for the year after taxation was £97,503,541 (2015: £58,759,214).

The Directors do not recommend the payment of a dividend (2015: £nil).

DIRECTORS

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

Dr G W Guy
Mr A D George
Dr S Wright
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.

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

26 January 2017

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). 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
- 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

We have audited the financial statements of GW Research Limited for the year ended 30 September 2016 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion 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 year 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 and the Directors' Report.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.

David Hedditch

David Hedditch (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
26 January 2017

PROFIT AND LOSS ACCOUNT

Year ended 30 September 2016

	Note	2016 £	2015 £
Other operating income	2	1,715,457	1,280,904
Research and development expenditure	3	(97,597,873)	(58,557,020)
Management and administrative expenses		(12,014,466)	(8,598,602)
Share-based payment charge	15	(3,368,580)	(1,426,924)
Net foreign exchange loss		(336,420)	(53,596)
Total administrative expenses		(113,317,339)	(68,636,142)
OPERATING LOSS		(111,601,882)	(67,355,238)
Interest payable	7	(7,691,621)	(4,209,928)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(119,293,503)	(71,565,166)
Tax credit on loss on ordinary activities	8	21,789,962	12,805,952
LOSS FOR THE FINANCIAL YEAR	6	(97,503,541)	(58,759,214)

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.

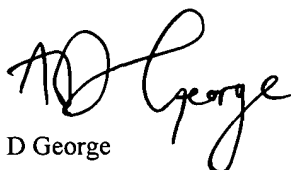
The accompanying notes are an integral part of this profit and loss account.

BALANCE SHEET**As at 30 September**

	Note	2016 £	2015 £
FIXED ASSETS			
Intangible assets	9	403,561	137,500
Tangible assets	10	10,438,387	9,742,355
Investments in subsidiaries	11	1	1
		10,841,949	9,879,856
CURRENT ASSETS			
Debtors	12	1,745,418	1,743,556
Taxation recoverable		21,150,000	12,641,212
Cash and cash equivalents		2,532,763	470,941
		25,428,181	14,855,709
CREDITORS: amounts falling due within one year			
Trade and other payables	13	(27,748,618)	(20,689,416)
Obligations under finance leases	14	(115,989)	(111,478)
		(27,864,607)	(20,800,894)
NET CURRENT LIABILITIES		(2,436,426)	(5,945,185)
TOTAL ASSETS LESS CURRENT LIABILITIES		8,405,523	3,934,671
CREDITORS: amounts falling due after one year			
Trade and other payables	13	(548,050)	-
Amounts owed to parent company	13	(213,864,298)	(115,690,547)
Obligations under finance lease	14	(1,424,106)	(1,540,094)
		(215,836,454)	(117,230,641)
NET LIABILITIES		(207,430,931)	(113,295,970)
CAPITAL AND RESERVES			
Called up share capital	16	130,852	130,852
Share premium account		77,700	77,700
Profit and loss account		(207,639,483)	(113,504,522)
TOTAL SHAREHOLDER'S DEFICIT		(207,430,931)	(113,295,970)

These financial statements of GW Research Limited, registered number 03107561, were approved and authorised for issue by the Board of Directors on 26 January 2017.

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**As at 30 September 2016**

	Share capital £	Share premium account £	Profit and loss account £	Total £
Balance at 30 September 2014	130,852	77,700	(56,172,232)	(55,963,680)
Share-based payment transactions	-	-	1,426,924	1,426,924
Loss for the financial year	-	-	(58,759,214)	(58,759,214)
Total comprehensive loss for the year	-	-	(58,759,214)	(58,759,214)
Balance at 30 September 2015	130,852	77,700	(113,504,522)	(113,295,970)
Share-based payment transactions	-	-	3,368,580	3,368,580
Loss for the financial year	-	-	(97,503,541)	(97,503,541)
Total comprehensive loss for the year	-	-	(97,503,541)	(97,503,541)
Balance at 30 September 2016	130,852	77,700	(207,639,483)	(207,430,931)

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2016

1. ACCOUNTING POLICIES

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

Basis of accounting

GW Research Limited is a company incorporated 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 4

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 18 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, 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 18.

Adoption of new and revised standards

In the current year 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.

Amendments to IAS 19: Defined Benefit Plans: Employee Contributions (Nov 2013)

Annual Improvements to IFRSs 2011–2013 Cycle (Dec 2013)

Annual Improvements to IFRSs 2010–2012 Cycle (Dec 2013)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2016

1. ACCOUNTING POLICIES (CONTINUED)

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.

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	3–10 years
Office and IT equipment	3–4 years
Leasehold improvements	4–15 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.

NOTES TO THE FINANCIAL STATEMENTS**Year ended 30 September 2016****1. ACCOUNTING POLICIES (CONTINUED)****Taxation (continued)**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2016

1. ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2016

1. ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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.

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.

The following are the critical judgements, 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 and that have the most significant effect on the amounts recognised in the financial statements.

Recognition of Clinical Trials Expenditure

The Company recognises expenditure incurred in carrying out clinical trials during the course of conduct of each clinical trial in line with the state of completion of each trial. This involves the calculation of clinical trial accruals at each period end to account for expenditure which has been incurred. This requires estimation of the expected full cost to complete the trial and also estimation of the current stage of trial completion.

Clinical trials usually take place over extended time periods and typically involve a set-up phase, a recruitment phase and a completion phase which ends upon the receipt of a final report containing full statistical analysis of trial results. Accruals are prepared separately for each in-process clinical trial and take into consideration the stage of completion of each trial including the number of patients that have entered the trial, the number of patients that have completed treatment and whether the final report has been received. In all cases, the full cost of each trial is expensed by the time the final report has been received.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2016

1. ACCOUNTING POLICIES (CONTINUED)

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 research and development tax legislation to the Company's specific circumstances and requires the use of certain assumptions in estimating the portion of current year research costs that are eligible for the claim.

2. OTHER OPERATING INCOME

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.

3. RESEARCH AND DEVELOPMENT EXPENDITURE

	2016 £	2015 £
Research and development expenditure	97,597,873	58,557,020

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 Epidiolex or other pipeline product safety and effectiveness data.

4. DIRECTORS' REMUNERATION AND TRANSACTIONS

	2016 £	2015 £
Emoluments	1,568,396	2,136,525
Contributions to defined contribution pension schemes	159,781	199,641
Gains on exercise of share options	6,452,575	7,910,206
	8,180,752	10,246,372

Four directors are members of defined contribution personal pension schemes (2015: four).

During the year, four (2015: two) directors exercised share options.

Included in the above was an amount of £707,086 (2015: £706,896), 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:

	2016 £	2015 £
Emoluments	549,676	573,893
Contributions to defined contribution pension schemes	54,416	36,609
Gain on exercise of share options	4,586,530	6,972,085
	5,190,622	7,582,587

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2016

5. STAFF COSTS

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

	2016 No.	2015 No.
Research and development	262	214
Management and administration	39	27
	301	241

Their aggregate remuneration comprised:

	2016 £	2015 £
Wages and salaries	13,988,419	11,642,422
Social security costs	3,049,402	2,353,120
Other pension costs	1,083,367	586,280
	18,121,188	14,581,822

6. LOSS FOR THE YEAR

Loss for the year is stated after charging:

	2016 £	2015 £
Research and development expenditure (see note 3)	97,597,873	58,557,020
Depreciation of tangible assets:		
- owned	2,278,145	1,451,580
- held under finance leases	126,859	126,859
Amortisation of intangible assets	13,849	3,726
Fees payable to the Company's auditor for the audit of the Company's annual accounts	25,000	22,000
Share-based payment charge (see note 15)	3,368,580	1,426,924
Operating lease rentals – land and buildings	1,008,025	990,018
Foreign exchange losses	336,420	53,596
Staff costs (see note 5)	18,121,188	14,581,822

No non-audit fees were incurred for the years ended 30 September 2016 or 30 September 2015.

The 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 years ended 30 September 2016 and 2015 under the audit committee's policy.

7. INTEREST PAYABLE

	2016 £	2015 £
Intragroup interest payable	7,622,399	4,137,012
Other interest payable	69,222	72,916
	7,691,621	4,209,928

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 30 September 2016

8. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

The tax credit comprises:

	2016 £	2015 £
Current tax		
UK corporation tax	(21,150,000)	(12,641,212)
Adjustment in respect of prior year tax credit	(639,962)	(164,740)
Total tax on loss on ordinary activities	(21,789,962)	(12,805,952)

The UK corporation tax credits relate to UK research and development tax credits claimed under the Finance Act 2000.

Factors affecting the tax credit for the year

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

	2016 £	2015 £
Loss on ordinary activities before tax	(119,293,503)	(71,565,166)
Tax on loss on ordinary activities at UK Corporation tax rate of 20.0% (2015: 20.5%)	(23,858,701)	(14,670,859)
Effects of:		
Expenses not deductible in determining taxable profit	4,386	4,075
Impact of employee share acquisition relief	(1,586,492)	(1,932,205)
Fixed asset timing differences	-	(1,273,501)
Other short term timing differences	-	199,898
R&D tax relief enhancement	(8,466,342)	(4,806,023)
Deferred tax losses not recognised	6,650,111	8,163,909
Adjustment in respect of prior year tax credit	(639,962)	(164,741)
Group relief	6,107,038	1,673,495
	(21,789,962)	(12,805,952)

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

At 30 September 2016 there were tax losses available for carry forward of approximately £97.2m (2015: £68.7m).

Net deferred tax assets of approximately £19.6m (2015: £16.1m) 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.

On 6 September 2016, the UK Government substantively enacted a reduction in the main rate of corporation tax from 20% to 19% with effect from 1 April 2017. The main rate of corporation tax will be reduced by a further 2% to 17% with effect from 1 April 2020. The enacted UK tax rate until 1 April 2015 was 21%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 30 September 2016

9. INTANGIBLE ASSETS

	Intangible assets under the course of construction £	Software £	Licences £	Total £
Cost				
At 1 October 2015	5,874	76,500	58,852	141,226
Additions	221,030	35,208	23,672	279,910
Transfers of completed assets	(37,673)	37,673	-	-
At 30 September 2016	189,231	149,381	82,524	421,136
Accumulated amortisation				
At 1 October 2015	-	-	3,726	3,726
Charge for the year	-	8,530	5,319	13,849
At 30 September 2016	-	8,530	9,045	17,575
Net book value				
At 30 September 2016	189,231	140,851	73,479	403,561
At 30 September 2015	5,874	76,500	55,126	137,500

Included in additions are £nil of other intangible assets which were unpaid at the balance sheet date and are included in trade and other payables (2015: £76,500).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 30 September 2016

10. TANGIBLE ASSETS

	Assets under the course of construction £	Plant, machinery and laboratory equipment £	Office and IT equipment £	Leaschold improve- ments £	Total £
Cost					
At 1 October 2015	117,339	4,940,899	2,973,856	5,818,378	13,850,472
Additions	1,558,560	1,154,098	223,003	166,003	3,101,664
Disposals	-	(27,026)	(667,143)	(121,628)	(815,797)
Reclassification	-	1,463,270	(1,463,270)	-	-
Transfers of completed assets	(1,487,583)	1,143,071	29,198	315,314	-
At 30 September 2016	188,316	8,674,312	1,095,644	6,178,067	16,136,339
Accumulated depreciation and impairment					
At 1 October 2015	-	1,668,176	1,136,314	1,303,627	4,108,117
Charge for the year	-	1,264,896	258,622	881,486	2,405,004
Disposals	-	(27,026)	(666,515)	(121,628)	(815,169)
Reclassification	-	216,183	(216,183)	-	-
At 30 September 2016	-	3,122,229	512,238	2,063,485	5,697,952
Net book value					
At 30 September 2016	188,316	5,552,083	583,406	4,114,582	10,438,387
At 30 September 2015	117,339	3,272,723	1,837,542	4,514,751	9,742,355

The net book value of property, plant and equipment at 30 September 2016 includes £1,384,875 in respect of assets held under finance leases (2015: £1,511,734).

Included in additions is £445,244 of property, plant and equipment which is unpaid and is included in trade and other payables (2015: £431,399).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 30 September 2016

11. INVESTMENTS

Subsidiary undertakings	£
Cost and net book value:	
At 1 October 2015 and 30 September 2016	1

Company	Country of incorporation	Description and proportion of shares held	Principal activity
G-Pharm Trustee Company Limited	England and Wales	100% of Ordinary shares	Dormant

12. DEBTORS

	2016	2015
	£	£
Amounts falling due within one year		
Amounts due from Group undertakings	196,674	152,419
Other debtors	733,720	557,486
Prepayments and accrued income	815,024	1,033,651
	1,745,418	1,743,556

13. TRADE AND OTHER PAYABLES

	2016	2015
	£	£
Amounts falling due within one year:		
Trade creditors	2,243,190	2,956,163
Other taxes and social security	1,321,233	526,260
Clinical trial accruals	9,232,892	5,961,033
Other creditors and accruals	6,979,227	5,703,392
Amounts owing to Group undertakings	7,972,076	5,542,568
	27,748,618	20,689,416
Amounts falling due after more than one year:		
Other creditors and accruals	548,050	-
Amounts owed to parent company	213,864,298	115,690,547

Included in amounts owed to parent company falling due after more than one year, is an amount of £15,350,824 (2015: £7,728,425) relating to loan interest charged by the parent company GW Pharmaceuticals plc. The interest is charged at 5% 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 £213,864,298 (2015: £115,690,547) is due after more than five years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 30 September 2016

14. OBLIGATIONS UNDER FINANCE LEASES

	2016 £	2015 £
Minimum lease payments payable:		
Within one year	175,671	175,671
In the second to fifth years inclusive	702,685	702,685
After five years	1,031,045	1,206,716
	1,909,401	2,085,072
Less: Finance charges allocated to future periods	(369,306)	(433,500)
Present value of lease obligations	1,540,095	1,651,572

	Present value of lease payments 2016 £	2015 £
Amounts payable under finance leases		
Amounts due for settlement within 12 months	115,989	111,478
Amounts due for settlement after 12 months	1,424,106	1,540,094
	1,540,095	1,651,572

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 11.1 years (2015: 12.1 years). For the year ended 30 September 2016, the average effective borrowing rate was 4% (2015: 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.

15. SHARE-BASED PAYMENT CHARGE

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 £4.43 (2015: £5.96). The options outstanding at 30 September 2016 had exercise prices ranging from of £0.001 to £6.710 (2015: £0.001 to £6.710) and a weighted average remaining contractual life of 7.84 years (2015: 6.39 years). During the year to 30 September 2016, options were granted on 15 January 2016, 15 February 2016, 18 March 2016, 14 April 2016 and 9 June 2016. The aggregate of the estimated fair values of the options granted on those dates is £4.2 million. During the year to 30 September 2015, options were granted on 24 December 2014, 9 January 2015, 20 March 2015, 6 May 2015, 24 June 2015 and 22 September 2015. The aggregate of the estimated fair values of the options granted on those dates is £4.3 million (£2.4 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 30 September 2016

16. CALLED UP SHARE CAPITAL

	2016	2015
	£	£
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.

17. FINANCIAL COMMITMENTS

The Company had capital commitments for fixed assets contracted for as at 30 September 2016 of £89,328 (2015: £381,408).

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

	Land and buildings	
	2016	2015
	£	£
Expiring within one year	387,866	257,420
Expiring between two and five years	998,007	985,380
Expiring after five years	1,244,337	1,416,267
	2,630,210	2,659,067

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.

18. 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 Sovereign House, Vision Park, Chivers Way, Histon, Cambridge, CB24 9BZ or via www.gwpharm.com.

19. RELATED PARTY TRANSACTIONS

The Company paid £138 (2015: £263) under a consultancy agreement for medical writing services to Kathryn Wright, wife of the Company's Research and Development Director Stephen Wright. The fees paid were in line with fees paid to other GW medical writers. As at 30 September 2016 there was no amount due to Kathryn Wright (2015: £nil).

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.