

**GW Research Limited**

**Report and Financial Statements**

**Year ended 30 September 2017**

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**REPORT AND FINANCIAL STATEMENTS 2017**

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**REPORT AND FINANCIAL STATEMENTS 2017**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

Dr G W Guy  
Mr A D George  
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  
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 2017.

### 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 2017 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)
  - Submission of the New Drug Application (NDA) to FDA for both Dravet and LGS indications, which was accepted in December 2017
  - European regulatory submission made in December 2017
  - Phase 3 trials:
    - Phase 3 Dravet syndrome trial published in the New England Journal of Medicine
    - Over 25 posters presented at American Epilepsy Society Annual Meeting related to Epidiolex
    - Phase 3 trial in TSC ongoing, with data expected in the second half of 2018
    - Second Phase 3 trial in Dravet syndrome enrolment complete with data expected in the second half of 2018
    - Part A of two-part Phase 2/3 trial in IS underway, with data expected in Q1 2018
  - Expanded access program and open label extension:
    - 97% of patients who complete Phase 3 trials have entered long term safety extension
    - Over 1,700 patients have been exposed to Epidiolex treatment
    - NDA submission included safety data from over 1,500 patients and over 400 patients with 1 year or more continuous exposure
  - Phase 2 trials:
    - Completion of progress for supporting Phase 2 studies for CBD drug-drug interaction studies with existing anti-epileptics
  - Phase 1 trials:
    - Completion of a 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 had significant progress, with patient enrolment complete in Part B of the program. Data expected in Q1 2018
  - CBDV pre-clinical research ongoing within field of autism spectrum disorders. Phase 2 trials expected to commence in 2018
    - Expanded access IND granted by FDA for ten patients with autism underway
    - Investigator-led 100 patient placebo-controlled trial in autism planned to commence in 2018
    - Orphan Drug Designation from FDA for CBDV for the treatment of Rett syndrome
  - 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
  - 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
  - Sativex® Phase 2 study in children with spasticity due to cerebral palsy reported

## **STRATEGIC REPORT (CONTINUED)**

### **BUSINESS REVIEW (CONTINUED)**

- 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 Rett syndrome, autism, 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, covering a variety of indoor and outdoor growing locations across the UK and Europe
  - Achieving agricultural scale up success with our highest yields of plant material which was subsequently consumed in the crystallisation process and clinical program
  - Further evolution of new harvesting and pelleting techniques
  - Successful scale up of seed production of a variety of strains of higher yielding CBD plants

Research and development costs have increased slightly by £84k, from £97,598k to £97,682k in the year. This increase has been driven by our continued development of Epidiolex® to treat refractory epilepsy patients in a wide range of indications.

Other operating income has increased by £389k, or 23%, from £1,715k to £2,104k, 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.

## **STRATEGIC REPORT (CONTINUED)**

### **PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

#### **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.

### **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 4 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

8 February 2018

## **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 2017.

### **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 2017 are set out on pages 11 to 27. The loss for the year after taxation was £124,743,404 (2016: £97,503,541).

The Directors do not recommend the payment of a dividend (2016: £nil).

## **DIRECTORS**

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

Dr G W Guy  
Mr A D George  
Dr S Wright – Resigned 1 May 2017  
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  
8 February 2018



## **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
- 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:

- give a true and fair view of the state of the Company's affairs as at 30 September 2017 and of its loss for the year 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 of GW Research Limited (the 'Company') 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, 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 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 Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **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.

## **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 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 or the directors' report.

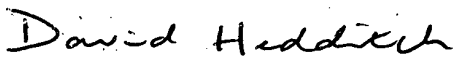
## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GW RESEARCH LIMITED (CONTINUED)**

### **Matters on which we are required to report by exception**

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.



David Hedditch (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
8 February 2018

**PROFIT AND LOSS ACCOUNT****Year ended 30 September 2017**

	Note	2017 £	2016 £
Other operating income	2	2,104,343	1,715,457
Research and development expenditure	3	(97,681,719)	(97,597,873)
Sales, general and administrative expenses		(32,630,755)	(12,014,466)
Share-based payment	4	(3,656,605)	(3,368,580)
Net foreign exchange gain/(loss)		10,790	(336,420)
Total administrative expenses		(133,958,289)	(113,317,339)
<b>OPERATING LOSS</b>		<b>(131,853,946)</b>	<b>(111,601,882)</b>
Interest payable	7	(13,318,417)	(7,691,621)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>(145,172,363)</b>	<b>(119,293,503)</b>
Tax credit on loss on ordinary activities	8	20,428,959	21,789,962
<b>LOSS FOR THE FINANCIAL YEAR</b>	9	<b>(124,743,404)</b>	<b>(97,503,541)</b>

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	2017 £	2016 £
<b>FIXED ASSETS</b>			
Intangible assets	10	662,373	403,561
Tangible assets	11	7,005,112	10,438,387
Investments in subsidiaries	12	-	1
		<b>7,667,485</b>	<b>10,841,949</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	13	3,736,686	1,745,418
Taxation recoverable		19,900,000	21,150,000
Cash and cash equivalents		4,552,013	2,532,763
		<b>28,188,699</b>	<b>25,428,181</b>
<b>LIABILITIES: amounts falling due within one year</b>			
Trade and other payables	14	(27,791,228)	(27,748,618)
Obligations under finance leases	15	(120,683)	(115,989)
		<b>(27,911,911)</b>	<b>(27,864,607)</b>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>276,788</b>	<b>(2,436,426)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>7,944,273</b>	<b>8,405,523</b>
<b>LIABILITIES: amounts falling due after one year</b>			
Trade and other payables	14	(593,407)	(548,050)
Amounts owed to parent Company	14	(334,565,173)	(213,864,298)
Obligations under finance lease	15	(1,303,423)	(1,424,106)
		<b>(336,462,003)</b>	<b>(215,836,454)</b>
<b>NET LIABILITIES</b>		<b>(328,517,730)</b>	<b>(207,430,931)</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	130,852	130,852
Share premium account		77,700	77,700
Profit and loss account		(328,726,282)	(207,639,483)
<b>TOTAL SHAREHOLDER'S DEFICIT</b>		<b>(328,517,730)</b>	<b>(207,430,931)</b>

These financial statements of GW Research Limited, registered number 03107561, were approved and authorised for issue by the Board of Directors on 8 February 2018.

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 2017**

	Share capital £	Share premium account £	Profit and loss account £	Total £
<b>Balance at 30 September 2015</b>	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)
<b>Total comprehensive loss for the year</b>	-	-	<b>(97,503,541)</b>	<b>(97,503,541)</b>
Balance at 30 September 2016	130,852	77,700	(207,639,483)	(207,430,931)
Share-based payment transactions	-	-	3,656,605	3,656,605
Loss for the financial year	-	-	(124,743,404)	(124,743,404)
<b>Total comprehensive loss for the year</b>	-	-	<b>(124,743,404)</b>	<b>(121,743,404)</b>
<b>Balance at 30 September 2017</b>	<b>130,852</b>	<b>77,700</b>	<b>(328,726,282)</b>	<b>(328,517,730)</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

### Year ended 30 September 2017

#### 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.

IFRS 14 Regulatory Deferral Accounts (January 2014)

Annual Improvements to IFRSs 2012–2014 Cycle (September 2014)

Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (May 2014)

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (May 2014)

Amendments to IAS 16 and IAS 41: Bearer Plants (June 2014)

Amendments to IAS 27: Equity Method in Separate Financial Statements (August 2014)

Amendments to IAS 1: Disclosure Initiative (December 2014)

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception (December 2014)

##### **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.



## NOTES TO THE FINANCIAL STATEMENTS

### Year ended 30 September 2017

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### 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.

##### 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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 30 September 2017**

**1. ACCOUNTING POLICIES (CONTINUED)**

**Taxation (continued)**

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS

### Year ended 30 September 2017

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### Leases (continued)

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS

### Year ended 30 September 2017

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### **Financial instruments (continued)**

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS

### Year ended 30 September 2017

#### 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 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 year research costs that are eligible for the claim under the Finance Act 2000. At 30 September 2017, the Company has estimated its research and development tax credit of £19.9 million (2016: £21.1 million) from HMRC.

##### *Deferred Taxation*

At the balance sheet date, the Company has accumulated tax losses of £176.5 million (2016: £97.2 million) and other temporary differences of £10.4 million (2016: £17.9 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 £31.8 million (2016: £19.6 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.

#### 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

	2017	2016
	£	£
Research and development expenditure	97,681,719	97,597,873

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.

## NOTES TO THE FINANCIAL STATEMENTS

### Year ended 30 September 2017

#### 4. 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 year was £7.55 (2016: £4.43). The options outstanding at 30 September 2017 had exercise prices ranging from £0.001 to £7.562 (2016: £0.001 to £6.710) and a weighted average remaining contractual life of 7.80 years (2016: 7.84 years). 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. 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.

#### 5. DIRECTORS' REMUNERATION AND TRANSACTIONS

	2017 £	2016 £
Emoluments	2,133,301	1,568,396
Contributions to defined contribution pension schemes	51,908	159,781
Gains on exercise of share options	9,755,356	6,452,575
	<b>11,940,565</b>	<b>8,180,752</b>

Four directors are members of defined contribution personal pension schemes (2016: four).

During the year, three (2016: four) directors exercised share options.

Included in the above was an amount of £955,526 (2016: £707,086), 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:

	2017 £	2016 £
Emoluments	788,508	549,676
Contributions to defined contribution pension schemes	18,228	54,416
Gain on exercise of share options	3,395,391	4,586,530
	<b>4,202,127</b>	<b>5,190,622</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 30 September 2017**

**6. STAFF COSTS**

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

	2017 No.	2016 No.
Research and development	262	262
Sales, general and administration	59	39
	<b>321</b>	<b>301</b>

Their aggregate remuneration comprised:

	2017 £	2016 £
Wages and salaries	16,441,186	13,988,419
Social security costs	2,419,752	3,049,402
Other pension costs	1,286,584	1,083,367
	<b>20,147,522</b>	<b>18,121,188</b>

**7. INTEREST PAYABLE**

	2017 £	2016 £
Intragroup interest payable	13,257,940	7,622,399
Other interest payable	60,477	69,222
	<b>13,318,417</b>	<b>7,691,621</b>

**8. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES**

The tax credit comprises:

	2017 £	2016 £
<b>Current tax</b>		
UK corporation tax	(19,900,000)	(21,150,000)
Adjustment in respect of prior year tax credit	(528,959)	(639,962)
Total current tax	<b>(20,428,959)</b>	<b>(21,789,962)</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	—	—
Total deferred tax	—	—
Total tax on loss	<b>(20,428,959)</b>	<b>(21,789,962)</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

### Year ended 30 September 2017

#### 8. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

##### 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:

	2017 £	2016 £
Loss on ordinary activities before tax	(145,172,363)	(119,293,503)
Tax on loss on ordinary activities at UK Corporation tax rate of 19.5% (2016: 20.0%)	(28,308,611)	(23,858,701)
Effects of:		
Expenses not deductible in determining taxable profit	89,237	4,386
Impact of employee share acquisition relief	(2,082,284)	(1,586,492)
R&D tax relief enhancement	(8,265,859)	(8,466,342)
Deferred tax losses not recognised	17,140,741	6,650,111
Adjustment in respect of prior year tax credit	(528,959)	(639,962)
Group relief	1,526,776	6,107,038
	(20,428,959)	(21,789,962)

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 2017 there were tax losses available for carry forward of approximately £176.5 million (2016: £97.2 million).

Net deferred tax assets of approximately £31.8 million (2016: £19.6 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.

#### 9. LOSS FOR THE YEAR

Loss for the year is stated after charging/(crediting):	2017 £	2016 £
Research and development expenditure (see note 3)	97,681,719	97,597,873
Depreciation of tangible assets:		
- owned	2,228,526	2,278,145
- held under finance leases	126,859	126,859
Impairment of property, plant and equipment	633,640	-
Loss on disposal of tangible fixed assets	581,985	628
Amortisation of intangible assets	172,129	13,849
Fees payable to the Company's auditor for the audit of the Company's annual accounts	29,000	25,000
Share-based payment charge (see note 4)	3,656,605	3,368,580
Operating lease rentals – land and buildings	1,486,713	1,008,025
Foreign exchange (gains)/losses	(10,790)	336,420
Staff costs (see note 6)	20,147,522	18,121,188

No non-audit fees were incurred for the years ended 30 September 2017 or 30 September 2016.

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 2017 and 2016 under the audit committee's policy.



**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 30 September 2017**

**10. INTANGIBLE ASSETS**

	Intangible assets under the course of construction £	Software £	Licences £	Total £
<b>Cost</b>				
At 1 October 2016	189,231	149,381	82,524	421,136
Additions	161,902	250,509	18,530	430,941
Reclassification from tangible assets (see note 11)	40,617	-	-	40,617
Transfers of completed assets	(305,641)	305,641	-	-
Disposals	(40,617)	-	-	(40,617)
<b>At 30 September 2017</b>	<b>45,492</b>	<b>705,531</b>	<b>101,054</b>	<b>852,077</b>
<b>Accumulated amortisation</b>				
At 1 October 2016	-	8,530	9,045	17,575
Charge for the year	-	159,792	12,337	172,129
<b>At 30 September 2017</b>	<b>-</b>	<b>168,322</b>	<b>21,382</b>	<b>189,704</b>
<b>Net book value</b>				
<b>At 30 September 2017</b>	<b>45,492</b>	<b>537,209</b>	<b>79,672</b>	<b>662,373</b>
<b>At 30 September 2016</b>	<b>189,231</b>	<b>140,851</b>	<b>73,479</b>	<b>403,561</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 30 September 2017**

**11. TANGIBLE ASSETS**

	Assets under the course of construction £	Plant, machinery and laboratory equipment £	Office and IT equipment £	Leasehold improve- ments £	Total £
<b>Cost</b>					
At 1 October 2016	188,316	8,674,312	1,095,644	6,178,067	16,136,339
Additions	1,049,355	7,645	-	125,562	1,182,562
Reclassification to intangible assets (see note 10)	(40,617)	-	-	-	(40,617)
Transfers of completed assets	(746,755)	536,549	40,491	169,715	-
Transfers to assets held for sale in year	-	(1,249,461)	-	-	(1,249,461)
Disposals	-	(734,160)	(24,662)	(182,812)	(941,634)
<b>At 30 September 2017</b>	<b>450,299</b>	<b>7,234,885</b>	<b>1,111,473</b>	<b>6,290,532</b>	<b>15,087,189</b>
<b>Accumulated depreciation and impairment</b>					
At 1 October 2016	-	3,122,229	512,238	2,063,485	5,697,952
Charge for the year	-	1,230,995	243,418	880,972	2,355,385
Transfers to assets held for sale in year	-	(340,425)	-	-	(340,425)
Impairment of assets	-	633,640	-	-	633,640
Disposals	-	(133,537)	(23,399)	(107,539)	(264,475)
<b>At 30 September 2017</b>	<b>-</b>	<b>4,512,902</b>	<b>732,257</b>	<b>2,836,918</b>	<b>8,082,077</b>
<b>Net book value</b>					
<b>At 30 September 2017</b>	<b>450,299</b>	<b>2,721,983</b>	<b>379,216</b>	<b>3,453,614</b>	<b>7,005,112</b>
<b>At 30 September 2016</b>	<b>188,316</b>	<b>5,552,083</b>	<b>583,406</b>	<b>4,114,582</b>	<b>10,438,387</b>

The net book value of property, plant and equipment at 30 September 2017 includes £1,258,016 in respect of assets held under finance leases (2016: £1,384,875).

Included in additions is £93,856 of property, plant and equipment which is unpaid and is included in trade and other payables (2016: £445,244).

Those items identified above as being transferred to assets held for sale during the year were sold before the financial year end. Proceeds of £1,199,791, including recoverable VAT, were held in other receivables as at 30 September 2017.

The impairment loss on plant, machinery and lab equipment arose in connection with the reorganisation of the Group's plant material growing strategy, whereby the recoverable value of the assets did not exceed their carrying value.

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 30 September 2017**

**12. INVESTMENTS IN SUBSIDIARIES**

**Subsidiary undertakings**

	£
Cost and net book value:	
At 1 October 2016	1
Disposals	(1)
At 30 September 2017	-

The above disposal represents the decision to dissolve the Company's dormant subsidiary, G-Pharm Trustee Company Limited. The subsidiary had never traded and no proceeds or distributions on disposal were received by the Company.

**13. TRADE AND OTHER RECEIVABLES**

	2017 £	2016 £
<b>Amounts falling due within one year</b>		
Amounts due from Group undertakings	301,972	196,674
Other receivables	2,015,123	733,720
Prepayments and accrued income	1,419,591	815,024
	<b>3,736,686</b>	<b>1,745,418</b>

**14. TRADE AND OTHER PAYABLES**

	2017 £	2016 £
<b>Amounts falling due within one year:</b>		
Trade payables	3,230,385	2,243,190
Other taxes and social security	1,754,971	1,321,233
Clinical trial accruals	5,519,776	9,232,892
Other payables and accruals	7,279,151	6,979,227
Amounts owing to Group undertakings	10,006,945	7,972,076
	<b>27,791,228</b>	<b>27,748,618</b>
<b>Amounts falling due after more than one year:</b>		
Other payables and accruals	593,407	548,050
Amounts owed to parent Company	334,565,173	213,864,298

Included in amounts owed to parent Company falling due after more than one year, is an amount of £28,608,764 (2016: £15,350,824) 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 £334,565,173 (2016: £213,864,298) is due after more than five years.

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 30 September 2017**

**15. OBLIGATIONS UNDER FINANCE LEASES**

	2017 £	2016 £
Minimum lease payments payable:		
Within one year	175,671	175,671
In the second to fifth years inclusive	699,621	702,685
After five years	858,438	1,031,045
	1,733,730	1,909,401
Less: Finance charges allocated to future periods	(309,624)	(369,306)
Present value of lease obligations	1,424,106	1,540,095

	Present value of lease payments 2017 £	2016 £
Amounts payable under finance leases		
Amounts due for settlement within 12 months	120,683	115,989
Amounts due for settlement after 12 months	1,303,423	1,424,106
	1,424,106	1,540,095

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 10.1 years (2016: 11.1 years). For the year ended 30 September 2017, the average effective borrowing rate was 4% (2016: 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.

**16. CALLED UP SHARE CAPITAL**

	2017 £	2016 £
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

### Year ended 30 September 2017

#### 17. FINANCIAL COMMITMENTS

The Company had capital commitments for fixed assets contracted for as at 30 September 2017 of £684,226 (2016: £89,328).

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

	Land and buildings	
	2017	2016
	£	£
Expiring within one year	260,986	387,866
Expiring between two and five years	901,594	998,007
Expiring after five years	1,036,948	1,244,337
	<b>2,199,528</b>	<b>2,630,210</b>

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](http://www.gwpharm.com).

#### 19. RELATED PARTY TRANSACTIONS

The Company paid £nil (2016: £138) 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 2017 there was no amount due to Kathryn Wright (2016: £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.