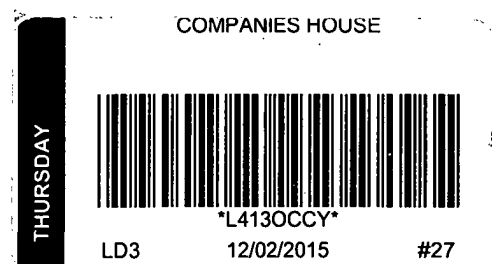


GW Research Limited

Report and Financial Statements

Year ended 30 September 2014



REPORT AND FINANCIAL STATEMENTS 2014

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REPORT AND FINANCIAL STATEMENTS 2014

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Dr G W Guy
Mr J D Gover
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
Reading
United Kingdom

STRATEGIC REPORT

The Directors' present their Strategic Report for GW Research Limited ("GWR" or "the Company") for the year ended 30 September 2014.

BUSINESS REVIEW

GW Research Limited has had a successful year. The Company has increased its other operating income by £513k, or 86%, from £596k to £1,109k, as an increased number of GWR staff have been working on Sativex research and development projects.

GWR is involved with a number of oncology, metabolic, and psychiatric disorder treatments following the acquisition of a license from its sister company, GW Pharma Limited ("GWP"), on 1 October 2011, to develop and commercialise a number of GWP's cannabinoid product candidates.

The Company's research and development costs have increased by £12,050k, or 66%, from £18,174k to £30,224k in the year. This reflects the commencement of and continuation of a number of GW-funded clinical trials.

The Company has significantly expanded its epilepsy research program through commencement of a new orphan paediatric epilepsy program for Epidiolex® (purified extract of Cannabidiol, or CBD). This has led to:

- Company sponsored development programs in Dravet syndrome and Lennox-Gastaut syndrome (LGS)
 - Phase 2/3 Dravet syndrome trial commenced in October 2014
 - Additional Phase 3 Dravet syndrome trial and two LGS Phase 3 trials on track to commence in Q1 2015
 - Orphan Drug Designation granted by the U.S. Food and Drug Administration (FDA) for both Dravet syndrome and LGS, Fast Track Designation for Dravet syndrome
 - Orphan Drug Designation granted by the European Medicines Agency for Dravet syndrome
- FDA authorized physician-led expanded access program
 - Clinical effect data on 58 treatment-resistant children and young adults released in October 2014 showing promising signals of efficacy and safety
 - Approx. 410 children and young adults now authorized for treatment with Epidiolex by FDA under 20 "expanded access" Investigational New Drug Applications (INDs)
 - Approx. 200 children now receiving treatment with Epidiolex in the U.S. at 11 hospital sites
 - 6 patients being treated with Epidiolex under emergency INDs authorised by FDA
- State programs
 - State-based collaborations for Epidiolex clinical trials in epilepsy with the States of Georgia and New York announced.

Furthermore, there has been significant clinical activity for GWR's other cannabinoid pipeline product candidates, including:

- Additional epilepsy pipeline candidate GWP42006 (Cannabidivarin or CBDV), Phase 1 trial completed. Phase 2a trial due to commence H1 2015
- Phase 1b/2a trial of GWP42002:GWP42003 in the treatment of glioma advancing to second phase.
- Top line data from Phase 2a trial of GWP42003 extract for the treatment of ulcerative colitis show promising signals of efficacy in patients who completed course of treatment
- Phase 2a trial of GWP42003 for the treatment of schizophrenia commenced in March 2014 with expected completion in H2 2015
- Phase 2b trial of GWP42004 in type-2 diabetes commenced in March 2014 with expected completion in 2016

STRATEGIC REPORT (CONTINUED)

BUSINESS REVIEW (CONTINUED)

The Directors of GWR consider that the cannabinoid product pipeline that is available to GWR to develop has promise in variety of disease areas and has the potential to produce a number of first in class medicines to treat diseases where there is significant unmet medical need, as demonstrated by the development of Epidiolex in the year. We will continue to conduct research with this valuable pipeline asset with a view to developing commercial products within the near-term.

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 of its product candidate 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.

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

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

A D George

Director & Company Secretary

9 February 2015

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 2014.

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 money market investments. Risk is minimised through an investment policy restricting the investment of surplus cash to interest bearing deposits principally held with the major UK banking groups and with UK subsidiaries of banking groups with acceptable credit ratings.

Trade receivables are due from fellow Group companies, where the risk of default is considered to be low.

Liquidity Risk

This risk is minimised by placing surplus funds in low risk cash deposits for periods up to 365 days and at call.

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 365 days, on a breakable deposit basis. The majority of funds are deposited for terms of less than 90 days. This allows the Group 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 2014 are set out on pages 10 to 21. The loss for the year after taxation was £26,248,205 (2013: £15,300,608).

The Directors do not recommend the payment of a dividend (2013: £nil).

DIRECTORS

The Directors who served throughout the year and to the date of signing these financial statements are detailed on page 1.

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.

DIRECTORS' REPORT (CONTINUED)

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

A D George
Director & Company Secretary
9 February 2015

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 2014 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 20. 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).

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 (APB'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 2014 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 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.

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.



Anna Marks (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
9 February 2015

PROFIT AND LOSS ACCOUNT

Year ended 30 September 2014

	Note	2014 £	2013 £
Other operating income	2	1,109,315	596,229
Research and development expenditure	3	(28,119,288)	(18,174,453)
Management and administrative expenses		(1,842,691)	(1,114,568)
Share-based payment charge	14	(761,300)	(316,935)
Total administrative expenses		(30,723,279)	(19,605,956)
OPERATING LOSS		(29,613,964)	(19,009,727)
Interest payable		(2,165,148)	(1,202,654)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	6	(31,779,112)	(20,212,381)
Tax credit on loss on ordinary activities	7	5,530,907	4,911,773
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION, BEING RETAINED			
LOSS FOR THE FINANCIAL YEAR	16, 17	(26,248,205)	(15,300,608)

All activities relate to continuing operations.

The Company has no recognised gains and losses other than the loss above, and therefore no separate statement of total recognised gains and losses has been presented.

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

BALANCE SHEET**As at 30 September 2014**

	Note	2014 £	2013 £
FIXED ASSETS			
Tangible assets	8	4,507,597	3,244,295
Investments	9	1	1
		<u>4,507,598</u>	<u>3,244,296</u>
CURRENT ASSETS			
Stock	10	-	-
Debtors	11	6,892,653	3,495,349
Cash at bank and in hand		305,660	226,335
		<u>7,198,313</u>	<u>3,721,684</u>
CREDITORS: amounts falling due within one year	12	<u>(7,415,301)</u>	<u>(5,100,475)</u>
NET CURRENT LIABILITIES		<u>(216,988)</u>	<u>(1,378,791)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,290,610</u>	<u>1,865,505</u>
CREDITORS: amounts falling due after one year	12	<u>(60,254,290)</u>	<u>(32,342,280)</u>
NET LIABILITIES		<u>(55,963,680)</u>	<u>(30,476,775)</u>
CAPITAL AND RESERVES			
Called up share capital	15	130,852	130,852
Share premium account	16	77,700	77,700
Profit and loss account	16	(56,172,232)	(30,685,327)
SHAREHOLDER'S DEFICIT	17	<u>(55,963,680)</u>	<u>(30,476,775)</u>

These financial statements of GW Research Limited, registered number 03107561, were approved and authorised for issue by the Board of Directors on 9 February 2015.

Signed on behalf of the Board of Directors.



Mr A D George

Director

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

NOTES TO THE FINANCIAL STATEMENTS**Year ended 30 September 2014****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

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by section 401 of the Companies Act 2006 because it is a wholly owned subsidiary of GW Pharmaceuticals plc which prepares consolidated financial statements that are publicly available. The Company is also, on this basis, exempt from the requirements of FRS 1 *Cash flow statements* to present a cash flow. The financial statements contain information about GW Research Limited as an individual undertaking and do not contain consolidated financial information as the parent of a group.

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.

Research and development

Research and development expenditure is recognised as an intangible asset only when the Company has achieved reasonable certainty that future economic benefits will flow to the Company and then only to the extent that the asset created is separately identifiable and the costs of which can be measured reliably. All research and development expenditure incurred prior to achieving regulatory approval is therefore expensed as incurred.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is measured on a non-discounted basis.

NOTES TO THE ACCOUNTS (CONTINUED)

Year Ended 30 September 2014

1. ACCOUNTING POLICIES (CONTINUED)

Tangible fixed assets

Tangible fixed assets are stated at cost, net of accumulated depreciation and any provision for impairment. No depreciation is provided on assets under the course of construction. On other fixed assets, depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Plant, machinery and laboratory equipment	3 to 10 years
Office and IT equipment	3-4 years
Leasehold improvements	4 to 15 years or term of lease if shorter

Residual value is calculated on prices prevailing at the date of acquisition.

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.

Investments

Investments are shown at cost less provision for impairment.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Cost includes materials, direct labour, depreciation of manufacturing assets and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is the estimated selling price, less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

If net realisable value is lower than the carrying amount, a write down provision is recognised for the amount by which the carrying amount exceeds its net realisable value.

Stocks manufactured prior to regulatory approval are capitalised as an asset but provided for until there is a high probability of regulatory approval of the product. Prior to achieving regulatory approval, provision is made against the carrying value to its recoverable amount. At the point when a high probability of regulatory approval is obtained, the provision is adjusted appropriately to adjust the carrying value to expected net realisable value, which may not exceed original cost.

Adjustments to the provision against stocks manufactured prior to regulatory approval are recorded as a component of research and development expenditure.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

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 charges are charged directly to the profit and loss account.

Pension costs and other post-retirement benefits

The Company does not maintain any pension plans, but makes defined contributions to the personal pension arrangements of all its executive Directors and employees. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

NOTES TO THE ACCOUNTS (CONTINUED)
Year Ended 30 September 2014

1. ACCOUNTING POLICIES (CONTINUED)

Share-based payment

The Company has applied the requirements of FRS 20 Share-based payment.

The Group issues equity-settled share-based payments to certain employees of the Company. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based 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 and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Foreign currency

Transactions in 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 reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

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

	2014 £	2013 £
Research and development expenditure	28,119,288	18,174,453

Research and development expenditure includes all of the costs incurred in conducting our cannabinoid research programmes. This includes the cost of growing the plant materials, from which our research materials are derived, the cost of extraction of cannabinoids, formulation of research materials and the costs of conducting both pre-clinical and clinical studies.

4. DIRECTORS' REMUNERATION AND TRANSACTIONS

	2014 £	2013 £
Emoluments	2,570,984	1,628,662
Contributions to defined contribution pension schemes	203,261	200,096
	2,774,245	1,828,758

Five directors are members of defined contribution personal pension schemes (2013: five).

Included in the above was an amount of £881,871 (2013: £502,267), the cost of which has been borne by a fellow Group undertaking.

NOTES TO THE ACCOUNTS (CONTINUED)
Year Ended 30 September 2014

4. DIRECTORS' REMUNERATION AND TRANSACTIONS (CONTINUED)

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

	2014 £	2013 £
Emoluments	700,688	472,685
Contributions to defined contribution pension schemes	53,248	56,204
	<u>753,936</u>	<u>528,889</u>

5. STAFF COSTS

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

	2014 No.	2013 No.
Research and development	155	134
Management and administration	17	14
	<u>172</u>	<u>148</u>

Their aggregate remuneration comprised:

	2014 £	2013 £
Wages and salaries	8,509,155	6,470,848
Social security costs	2,264,395	891,993
Other pension costs	392,822	409,445
	<u>11,166,372</u>	<u>7,772,286</u>

6. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging/(crediting):	2014 £	2013 £
Research and development expenditure (see note 3)	28,119,288	18,174,453
Depreciation of tangible fixed assets – owned	661,103	705,676
Depreciation of tangible fixed assets – leased	210,593	42,178
Fees payable to the Company's auditor for the audit of the Company's annual accounts	20,600	20,000
Share-based payment charge (see note 14)	761,300	316,935
Operating lease rentals – land and buildings	1,090,365	469,229
Foreign exchange (gains)/losses	18,551	(11,395)

No non-audit fees were incurred for the years ended 30 September 2014 or 30 September 2013.

7. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

	2014 £	2013 £
UK Corporation tax credit		
Current year credit	(5,250,000)	(2,900,000)
Adjustment in respect of prior year	(280,907)	(2,011,773)
	<u>(5,530,907)</u>	<u>(4,911,773)</u>
UK corporation tax on loss for the year		

NOTES TO THE ACCOUNTS (CONTINUED)

Year Ended 30 September 2014

The UK Corporation tax credits relate to R&D tax credits claimed under the Finance Act 2000.

7. 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:

	2014 £	2013 £
Loss on ordinary activities before tax	(31,779,112)	(20,212,381)
Tax credit on loss at UK Corporation tax rate of 22% (2013: 23.5%)	(6,991,404)	(4,749,910)
Effects of:		
Expenses not deductible for tax purposes	10,523	19,128
Share options exercised	(473,486)	-
Fixed asset timing differences	55,256	(379,105)
Other short term timing differences	288,127	79,879
R&D tax relief enhancement	(1,252,520)	(398,281)
Deferred tax losses not recognised	2,223,909	2,528,289
Over provision in respect of prior years – current tax	(280,907)	(2,011,773)
Group relief	889,595	-
	(5,530,907)	(4,911,773)

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 2014 there were tax losses available for carry forward of approximately £24.3m (2013: £16.7m).

Net deferred tax assets of approximately £5.0m (2013: £3.0m) 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.

8. TANGIBLE FIXED ASSETS

	Assets under the course of construction £	Plant, machinery and laboratory equipment £	Office and IT equipment £	Leasehold improve- ments £	Total £
Cost					
At 1 October 2013	-	1,540,180	875,419	2,576,428	4,992,027
Additions	1,608,412	272,980	229,641	23,965	2,134,998
At 30 September 2014	1,608,412	1,813,160	1,105,060	2,600,393	7,127,025
Depreciation					
At 1 October 2013	-	882,716	480,339	384,677	1,747,732
Charge for the year	-	338,815	217,019	315,862	871,696
At 30 September 2014	-	1,221,531	697,358	700,539	2,619,428
Net book value					
At 30 September 2014	1,608,412	591,629	407,702	1,899,854	4,507,597
At 30 September 2013	-	657,464	395,080	2,191,751	3,244,295

The net book value of property, plant and equipment at 30 September 2014 includes £1,715,349 in respect of assets held under finance leases (2013: £1,925,942).

NOTES TO THE ACCOUNTS (CONTINUED)
Year Ended 30 September 2014

9. FIXED ASSET INVESTMENTS

Subsidiary undertakings	£
Cost and net book value:	
At 1 October 2013 and 30 September 2014	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

10. STOCKS

Stock is stated net of a provision relating to stocks expected to be used in Research and Development activities of £nil (2013: £0.4m).

11. DEBTORS

	2014 £	2013 £
Amounts falling due within one year		
Amounts due from Group undertakings	1,118,226	237,432
Taxation Recoverable	5,250,000	2,900,000
Other debtors	337,836	76,694
Prepayments and accrued income	186,591	281,223
	6,892,653	3,495,349

12. CREDITORS

	2014 £	2013 £
Amounts falling due within one year:		
Trade creditors	1,048,781	868,836
Amounts owing to Group undertakings	2,564,844	2,464,575
Other taxes and social security	417,826	261,813
Other creditors and accruals	3,258,106	1,405,509
Obligations under finance lease (note 13)	125,744	99,742
	7,415,301	5,100,475
Amounts falling due after more than one year:		
Amounts owed to parent company	58,473,426	30,437,295
Obligations under finance lease (note 13)	1,780,864	1,904,985
	60,254,290	32,342,280

Included in amounts owed to parent company falling due after more than one year, is an amount of £3,591,413 (2013: £1,486,454) 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.

NOTES TO THE ACCOUNTS (CONTINUED)
Year Ended 30 September 2014

13. OBLIGATIONS UNDER FINANCE LEASES

	2014 £	2013 £
Minimum lease payments payable:		
Within one year	199,990	177,273
In the second to fifth years inclusive	838,152	861,055
After five years	1,382,387	1,558,059
	2,420,529	2,596,387
Less: Finance charges allocated to future periods	(513,921)	(591,660)
Present value of lease obligations	1,906,608	2,004,727

	Present value of lease payments	
	2014 £	2013 £
Amounts payable under finance leases		
Amounts due for settlement within 12 months	125,744	99,742
Amounts due for settlement after 12 months	1,780,864	1,904,985
	1,906,608	2,004,727

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 12.3 years (2013: 13.1 years). For the year ended 30 September 2014, the average effective borrowing rate was 4% (2013: 4%). Interest rates are fixed at the contract date. All leases to date have been on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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.

14. SHARE-BASED PAYMENT CHARGE

Equity-settled share option scheme

The Company, as part of the GW Pharmaceuticals plc group, operates share option schemes for all employees. Options over the shares of GW Pharmaceuticals plc, the parent company, are granted by GW Pharmaceuticals plc at the market price on the day of grant with the exception of options issued under the GW Pharmaceuticals Long Term Incentive Plan "LTIP" which are issued with an exercise price equivalent to the par value of the shares under option.

The vesting period is three years from the date of grant and the options lapse after ten years.

Options usually lapse if the employee leaves the Company before the options vest. Vested options usually need to be exercised within six months of leaving.

Under the terms of the LTIP employees are awarded options to subscribe for the parent Company's ordinary shares at an exercise price equivalent to the par value of the shares under option. These options are subject to service and performance conditions which must be achieved before the options vest and become exercisable. In the event that the performance conditions are not achieved within the required three year vesting period these options will lapse. Once vested, an award may be exercised at any time prior to the tenth anniversary of the date of grant.

NOTES TO THE ACCOUNTS (CONTINUED)

Year Ended 30 September 2014

14. SHARE-BASED PAYMENT CHARGE (CONTINUED)

LTIP awards granted to Executive Directors are subject to service and performance conditions which are determined by the Remuneration Committee. These are usually a mixture of market-based and non-market based performance conditions which are intended to link executive compensation to the key value drivers for the business whilst aligning the interests of the Executive Directors with those of shareholders and employees.

LTIPs are also granted to other employees from time to time. These grants are usually made subject to service conditions which are linked to a combination of corporate objectives and personal objectives for the individual to achieve prior to the vesting date.

Details of the share options outstanding, for employees of the Company, during the year are as follows:

Employee LTIP and total options		
	Number of share options	Weighted average exercise price £
Outstanding at 1 October 2012	1,012,017	0.001
Granted during the year	1,025,078	0.001
Exercised during the year	-	-
Lapsed during the year	(35,413)	0.001
Outstanding at 1 October 2013	2,001,682	0.001
Granted during the year	781,748	0.001
Exercised during the year	-	-
Lapsed during the year	(92,500)	0.001
Outstanding at 30 September 2014	2,690,930	0.001

The options outstanding at 30 September 2014 had a weighted average remaining contractual life of 8.6 years (2013: 8.5 years).

In the current year, options were granted on 17 January 2014, 9 May 2014, 11 August 2014, 12 August 2014 and 21 August 2014. The aggregate of the estimated fair values of the options granted on those dates is £2.2m.

In the prior year, options were granted on 30 November 2012, 20 February 2013, 28 March 2013 and 24 September 2013. The aggregate of the estimated fair values of the options granted on those dates is £0.95m.

	2014	2013
Weighted average share price	303p	55p
Weighted average exercise price	0.1p	0.1p
Expected volatility	58%	44%
Expected life	5.0 years	5 Years
Risk-free rate	0.5%	0.5%
Expected dividend yield	Nil	nil

The inputs into the Black-Scholes Option Pricing Model are as follows:

Expected volatility was determined by calculating the historical volatility of GW Pharmaceutical plc's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Company recognised a total charge of £761,300 (2013: £316,935) related to equity-settled share-based payment transactions in 2014. This consists of the amortisation of the options granted by GW Research during the year, plus the on-going amortisation of the unvested options previously granted to GW Research employees by GW Pharma Limited.

NOTES TO THE ACCOUNTS (CONTINUED)
Year Ended 30 September 2014

15. CALLED UP SHARE CAPITAL

	2014 £	2013 £
Allotted, called up and fully paid 130,852 ordinary shares of £1 each	130,852	130,852

16. RESERVES

	Share premium account £	Profit and loss account £	Total £
At 1 October 2013	77,700	(30,685,327)	(30,607,627)
Share-based payment charge	-	761,300	761,300
Loss for the financial year	-	(26,248,205)	(26,248,205)
At 30 September 2014	77,700	(56,172,232)	(56,094,532)

17. RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S DEFICIT

	2014 £	2013 £
Loss for the financial year	(26,248,205)	(15,300,608)
Share-based payment charge	761,300	316,935
Opening shareholder's deficit	(30,476,775)	(15,493,102)
Closing shareholder's deficit	(55,963,680)	(30,476,775)

18. FINANCIAL COMMITMENTS

The Company had capital commitments for fixed assets contracted for as at 30 September 2014 of £1,157,616 (2013: £5,994).

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings 2014 £	2013 £
Expiring between two and five years	-	293,342
Expiring after five years	195,603	195,603
	195,603	488,945

NOTES TO THE ACCOUNTS (CONTINUED)

Year Ended 30 September 2014

19. ULTIMATE CONTROLLING COMPANY

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

GW Pharmaceuticals plc is the parent company of the largest and smallest group of which the Company is a member and for which group financial statements are drawn up. Copies are available from Porton Down Science Park, Salisbury, Wiltshire, SP4 0JQ.

20. RELATED PARTY TRANSACTIONS

As a subsidiary undertaking of GW Pharmaceuticals plc, the Company has taken advantage of the exemption in FRS 8 *Related party disclosures* from disclosing transactions with other members of the group headed by GW Pharmaceuticals plc.

The Company paid £3,441 (2013: £nil) 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 2014 there was no amount due to Kathryn Wright (2013: £nil).