

**GW Research Limited**

**Annual Report and Financial Statements**

**Year ended 31 December 2020**



**ANNUAL REPORT AND FINANCIAL STATEMENTS 2020**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS 2020**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

Mr C Tovey  
Mr I Ward  
Mr A Campbell

**SECRETARY**

Mr I Ward

**REGISTERED OFFICE**

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Chivers Way  
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**PRINCIPAL BANKERS**

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**SOLICITORS**

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201 Bishopsgate  
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EC2M 3AF

**AUDITOR**

Deloitte LLP  
Statutory Auditor  
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Cambridge  
CB1 2GA  
United Kingdom

## **STRATEGIC REPORT**

The Directors present their Strategic Report for GW Research Limited (“GWR” or “the Company”) for the year ended 31 December 2020.

### **BUSINESS REVIEW**

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

Our proprietary cannabinoid product platform consists of our:

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

During 2020 the Company has made further progress with the development of our cannabinoid product pipeline.

- Epidiolex (CBD) the Company’s orphan epilepsy programme utilising a formulation of cannabidiol oral solution in Dravet syndrome, Lennox-Gastaut Syndrome (LGS), Tuberous Sclerosis Complex (TSC).
  - Approved by the Federal Drug Administration (FDA) in the United States of America for Dravet syndrome, LGS, and TSB. Commercially launched in the US since late 2018.
    - Epidiolex descheduled in the US in April 2020.
    - FDA approved Epidiolex to treat seizures associated with TSB in August 2020.
  - Approved in Europe, under the trade name Epidyolex, from the European Medicines Agency (EMA) since late 2019. Commercially in the UK and Germany.
    - Received positive recommendation from the UK’s National Institute for Health and Care Excellence (NICE) for Epidyolex, allowing the routine reimbursement from NHS England.
    - Epidiolex reclassified by the UK Home Office as a Schedule 5 drug during June 2020.
    - Received positive Committee for Medicinal Products for Human Use (CHMP) opinion in Europe for the use of Epidyolex to treat seizures associated with TSC. Following this positive CHMP recommendation, the European Commission will in 2021 consider whether to expand the use of Epidyolex in the European Union to include TSC.
  - Received regulatory approval September 2020 in Australia for the treatment of the treatment of seizures in patients with Dravet and LGS.
- Sativex, for use in treating Multiple Sclerosis-associated spasticity. Approved and commercially launched in multiple countries outside the United States.
  - Pivotal Phase 3 trial initiated in the United States for the use of Sativex, under its US-name Nabiximols, for the treatment of Multiple Sclerosis-associated spasticity.

## STRATEGIC REPORT (CONTINUED)

### BUSINESS REVIEW (CONTINUED)

- Advanced clinical programmes in multiple cannabinoid pipeline product candidates:
  - CBDV pre-clinical research ongoing within field of autism spectrum disorders.
    - Company sponsored open-label trial commenced. Investigator-led placebo-controlled trial has also been commenced.
  - Neonatal Hypoxic-Ischemic Encephalopathy (NHIE) intravenous CBD programme
    - Orphan Drug and Fast Track Designations granted from FDA and EMA in a prior year
    - Recruiting Phase 1b trial in neonates.
- Preclinical and formulation:
  - Novel research with a series of University institutions to consider the anti-epileptiform and anticonvulsant activity associated with CBD and CBDV, using a variety of in vitro and in vivo models, demonstrating that the compounds have the ability to treat seizures in acute animal models of epilepsy with significantly fewer side effects than existing AEDs
  - Furthering of toxicology knowledge arising from a variety of human and animal models
  - Earlier stage pipeline analysis of other conditions, including metabolic disorders, inflammatory diseases, neurogenesis and oncology with a series of University collaborators
  - Several new formulations of CBD have been in development, including liquid formulations, solid dose forms and an intravenous formulation

### KEY PERFORMANCE INDICATORS

The GW Pharmaceuticals group (“the Group”) as a whole considers that the primary key performance indicators are the progress on the regulatory approval, rescheduling and sales volumes of Epidiolex in the U.S. and around the world. The progress of regulatory filings and product launches are not easily quantifiable, but best represent the Group’s progress during 2020.

Turnover for the year ended 31 December 2020 was £254.8 million, compared to £38.1 million for the year ended 31 December 2019. This increase is driven by an increase in royalties payable to the Company for the use of the Company’s intellectual property by a fellow group company following the commercial launch of Epidiolex by the GW Pharmaceuticals group in 2018.

Research and development costs for the year ended 31 December 2020 were £144.8 million, compared to £105.6 million for the year ended 31 December 2019. This increase is driven by further investment in the Group’s pipeline-product R&D programmes.

The £18.8 million profit for the year ended 31 December 2020 (year ended 31 December 2019: loss of £80.1 million) reflects the increase in the Company’s royalty turnover arising from the exploitation of the Company’s intellectual property.

### PRINCIPAL RISKS AND UNCERTAINTIES

In common with other pharmaceutical development companies the Company faces multiple risks and uncertainties.

The principal financial risks to which the Company is exposed are listed below. Each of these is managed in accordance with GW Pharmaceuticals Board-approved policies. For full details of these financial risks and GW Pharmaceuticals Group’s approach to financial risk management, please see the GW Pharmaceuticals 2020 Annual Report, which is available online or can be obtained from the address given in note 17.

#### 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.

## STRATEGIC REPORT (CONTINUED)

### PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

#### Legislative

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

#### Orphan drug designation

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

#### Formulation and bioavailability, effect on commercial viability

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

#### Safety

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

#### Intellectual property

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

#### Funding

The Company currently relies on funding from its parent company, GW Pharmaceuticals Ltd. 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.

#### Brexit

The United Kingdom officially left the European Union as a member state on 31 December 2020. As a result, the UK now has third country status outside of the EU. Before the end of 2020, the U.K. and the EU concluded a Trade and Cooperation Agreement ("TCA") which took effect from 1 January 2021. The terms of the TCA allow for tariff free and quota free access to the EU market for the UK so long as the UK does not diverge from EU laws. To the extent the UK does diverge from EU laws, access to EU markets may be made more restricted than it currently is. In addition, the EU has not yet made a declaration of adequacy for the UK in relation to Data Privacy. The EU has said it will announce whether any such declaration will be made at the latest by the end of June 2021. If there is no declaration of adequacy, this could impact our ability to transfer personal data in and out of the EU which may adversely affect our ability to operate efficiently.

#### COVID-19 Pandemic

In March 2020, the World Health Organization categorised the coronavirus disease 2019 (COVID-19) as a pandemic. COVID-19 continues to spread across the world, and the duration and severity of its effects are currently unknown. The current COVID-19 pandemic has presented a substantial public health and economic challenge around the world and is affecting our employees, patients, communities and business operations, as well as the global economy and global financial markets. The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning COVID-19, the actions taken to contain or treat it, its impact and the economic impact on local, regional, national and international markets.

To date, the GW Pharmaceuticals Group have been able to continue to supply our products to our patients and license partners and currently do not anticipate any interruptions in supply. However, we are continuing to assess the potential impact of the COVID-19 pandemic on our business and operations.

While we are continuing the clinical trials we have underway in sites across the globe, we temporarily stopped enrolling new patients for existing trials in the second quarter of 2020. Enrolment of new patients in our trials resumed in the third quarter, but COVID-19 precautions continue to directly and indirectly impact the timeline for some of our planned clinical trials and other research and development activities.

Our office-based employees have been working from home since early March 2020, while ensuring essential staffing levels in our operations remain in place, including maintaining key personnel in our laboratories.

## STRATEGIC REPORT (CONTINUED)

### KEY STAKEHOLDERS: CONNECTING WITH OUR STAKEHOLDERS

The Group has made reasonable endeavours to comply with the requirements of section 172(1) of the Companies Act 2006. Our business touches the lives of many people and organisations. We exist in a complex and evolving regulatory and scientific environment and we have a number of key stakeholder groups, some examples of which are included below.

#### **a) the likely consequences of any decision in the long term:**

GW Research Limited is a part of the GW Pharmaceuticals Group ("the Group"). Decisions made relating to the Company feed into Group strategies on how best to engage with customers and stakeholders as well as developing its cannabinoid product pipeline. The Company's primary purpose is to research and develop new pipeline products for the GW Pharmaceuticals Group. The Directors remain conscious of decisions taken that impact the Company and how that relates to wider strategic goals of the Group. The Company's ability to fulfil the requirements and aims of the Group is considered to be the way in which the Company creates long term value.

#### **b) the interests of the company's employees:**

Considerable importance is placed on the value of employee engagement. Each individual employee's contribution is a key element to the future success of the Company and the wider Group. Employees are regularly briefed on significant activities in company-wide update meetings, and have regular opportunities to share their views with senior leadership as part of online and in-person meetings across our sites. The majority of employees are given the opportunity to participate in the Parent Company's share capital through the award of equity share options.

#### **c) the need to foster the company's business relationships with suppliers, customers and others:**

Having an effective supplier process is critical to success of the Company. There is regular engagement with suppliers, which allows discussion and the development of sustainable working partnerships. Third parties and suppliers are required to comply with the GW Group Code of Conduct for Business Partners, with which GW Research Limited requires suppliers, vendors, customers, agents, consultants and contractors to conform. Processes have been established to ensure that suppliers are paid as promptly as possible according to agreed payment terms, whilst ensuring that appropriate measures are in place to protect the assets of the Company.

#### **d) the impact of the company's operations on the community and the environment:**

The patient is placed at the centre of the Company's activities, and as such engagement is required to understand the needs of the patient, caregivers, and the wider community. There is close collaboration with patient advocacy groups in the U.S and Europe, and patients are engaged in our development and clinical trial programmes to foster patient-informed medicine.

As part of the GW Group's evolving environmental strategy, our business processes are subject to monitoring to identify and implement improved ways of working that mitigate the environmental impact of the Company's activities. The Company encourages remote working and promoting online conferencing facilities to reduce business-related travel and is actively exploring ways to reduce the energy needs of its plant growing facilities.

#### **e) the desirability of the company maintaining a reputation for high standards of business conduct:**

The GW Pharmaceuticals Group maintains and operates a Code of Business Conduct and Ethics called "i-CARE". This sets out the group-wide approach to ensure that our corporate values are maintained throughout our global business through five main arms: Integrity, Compliance, Accountability, Respect, and Ethics.

This Code applies to all employees of GW Group companies, including those of the Company, and all employees are required to attest compliance with the policy.

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 and senior management to ensure that any issues are identified and resolved.

#### **f) the need to act fairly as between members of the company:**

For the 2020 financial year the Company was a wholly owned subsidiary of GW Pharmaceuticals Ltd. The results of the Company were included in the consolidated Group financial statements of its parent. Transactions between the Company and other members of the GW Pharmaceuticals Group occur at arm's length and on a commercial basis.

There is regular communication between the Company's Directors and the GW Pharmaceuticals Group through their inclusion in the Group's wider strategic decision-making processes.

**STRATEGIC REPORT (CONTINUED)****ENVIRONMENTAL MATTERS**

The Company is aware of the risks of climate change and actively looks to minimise areas of emissions by encouraging energy-efficient means of working. During 2020 we initiated a project to better identify emissions resulting from production and business activities, with a view to implementing mitigation strategies going forwards.

We have reported here for the first time on the emission sources required under the Streamlined Energy and Carbon Reporting (SECR) requirements, a new requirement for large UK companies for accounting periods commencing after 1 April 2019. We have used the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition, 2015), and emission factors from UK Government's GHG Conversion Factors for Company Reporting.

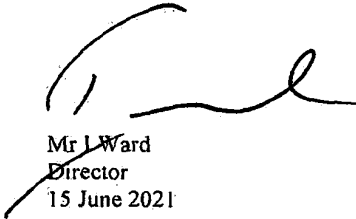
Our sources of emission relate principally to our office facilities, the costs of which are included within these financial statements. We do not have responsibility for any emission sources that are not included in our financial statements. We have used the most recent evidence or estimates provided by our energy suppliers to calculate emissions for the year ended 31 December 2020. Scope 1 emissions are the Company's direct emissions from sources owned or controlled by the Company, including the combustion of fuel and operation of facilities. Scope 2 emissions are those indirect emissions generated as a result of the purchase of electricity, heat, steam and cooling from suppliers for use at the Company's locations.

We estimate that the annual quantity of emissions for the Company during the current and prior year were:

	2020			2019		
	UK tCO <sub>2</sub> e	Overseas tCO <sub>2</sub> e	Total tCO <sub>2</sub> e	UK tCO <sub>2</sub> e	Overseas tCO <sub>2</sub> e	Total tCO <sub>2</sub> e
Scope 1	–	–	–	–	–	–
Scope 2	1,165	–	1,165	1,215	–	1,215
Total	1,165	–	1,165	1,215	–	1,215

The Company considers that the intensity ratio of tonnes of carbon dioxide per employee is a suitable metric for its operations, reflecting the Company's investment in its research and development activities. This was 3.0 tonnes per head average for the year ended 31 December 2020 (year ended 31 December 2019: 3.6 tonnes).

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



Mr J Ward  
Director  
15 June 2021



## **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 31 December 2020.

### **PRINCIPAL ACTIVITY**

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.

### **FUTURE DEVELOPMENTS**

The Company's future developments are referred to in the Strategic Report.

### **STAKEHOLDER ENGAGEMENT**

See page 5 of the Strategic Report for the Company's SI72(1) statement highlighting engagement with stakeholders.

### **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 (€) and US Dollars (US\$). The Company's policy is to maintain natural hedges, where possible, by matching cash balances and receipts with planned expenditure.

### **RESEARCH AND DEVELOPMENT ACTIVITIES**

The R&D undertaken by the Company amounted to £144.8 million (year ended 31 December 2019: £105.8 million), all of which was expensed during the year ended 31 December 2020.

### **RESULTS AND DIVIDENDS**

The audited financial statements for the year ended 31 December 2020 are set out on pages 15 to 33. The profit for the year after taxation was £18.8 million (year ended 31 December 2019: loss after taxation of £80.1 million).

The Directors do not recommend the payment of a dividend (year ended 31 December 2019: £nil).

### **DIRECTORS**

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

Dr G W Guy (resigned 5 May 2021)

Mr A D George (resigned 18 December 2020)

Mr C Tovey

Mr I Ward (appointed 18 December 2020)

Mr A Campbell (appointed 18 December 2020)

## **DIRECTORS' REPORT (CONTINUED)**

### **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 as 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.

### **GOING CONCERN**

The Company has historically been reliant upon the continuing financial support of its parent Company, GW Pharmaceuticals Ltd. Having assessed the principal risks and other matters, including the potential impact of the COVID-19 pandemic, the Directors are of the opinion that the current level of activity remains sustainable. In relation to the challenges that arise from the COVID-19 pandemic, the considerations have included the potential risks related to the activities of the Company.

The Directors believe that preparing the financial statements on the going concern basis is appropriate after having considered expected future trading forecasts and as a result of the continued availability of financial support from GW Pharmaceuticals Ltd. The Directors of the parent Company, having considered the financial position of GW Pharmaceuticals Ltd, have committed 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. On the basis of those considerations, the Directors believe that it remains appropriate to adopt the going concern basis of accounting in preparing the financial statements.

### **FUTURE DEVELOPMENTS**

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

### **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.

## **DIRECTORS' REPORT (CONTINUED)**

### **SUBSEQUENT EVENTS**

On 3 February 2021 GW Pharmaceuticals Ltd, the parent Company, entered into a definitive agreement with Jazz Pharmaceuticals plc (Jazz), under which Jazz would acquire all the outstanding share capital of GW Pharmaceuticals Ltd for \$200 in cash and \$20 in Jazz Ordinary Shares for each GW Pharmaceuticals Ltd ADS (or \$16.67 in cash and \$1.67 in Jazz Ordinary Shares for each GW Pharmaceuticals Ltd Ordinary Share). The transaction completed on 5 May 2021 and from that date Jazz Pharmaceuticals Plc became the ultimate parent of the Company.

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



Mr I Ward  
Director  
15 June 2021

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

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

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

## **Report on the audit of the financial statements**

### **Opinion**

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit 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 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 Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard

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

### **Responsibilities of directors**

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

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the wider GW Pharmaceuticals group's ("the Group") remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was presented at the Audit Committee meeting on 3 August 2020;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team, including the US Component Auditor Team and relevant internal specialists, including tax and IT specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

### **Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)**

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the following relevant laws and regulations applicable to the group (including its components) and the sector it operates in:

- local tax legislation; and
- UK Companies Act.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the following:

- Good Clinical Practice (GCP);
- Medical and Healthcare Product Regulatory Agency (MHRA); and
- UK Bribery Act.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and the MHRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

### **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 Directors' Report has 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.

### **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.



Paul Cooper (FCA Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Cambridge, United Kingdom  
15 June 2021



**PROFIT AND LOSS ACCOUNT**

For the year ended 31 December 2020

		Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
	Note		
<b>TURNOVER</b>	2	<b>254,768</b>	<b>38,126</b>
<b>GROSS PROFIT</b>		<b>254,768</b>	<b>38,126</b>
Other operating income	3	4,883	8,010
Research and development expenditure		(144,845)	(105,636)
Sales, general and administrative expenses		(93,704)	(69,176)
Share-based payment	4	(7,623)	(6,958)
Net foreign exchange loss		(556)	(878)
Total administrative expenses		(246,728)	(182,648)
<b>OPERATING PROFIT/(LOSS)</b>		<b>12,923</b>	<b>(136,512)</b>
Other income	7	6,129	82,999
Interest payable	7	(207)	(26,539)
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>18,845</b>	<b>(80,052)</b>
Tax on profit/loss	8	—	—
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>	9	<b>18,845</b>	<b>(80,052)</b>

All activities relate to continuing operations.

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

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

**BALANCE SHEET**

As at 31 December 2020 and 2019

	Note	31 December 2020 £'000	31 December 2019 £'000
<b>FIXED ASSETS</b>			
Intangible assets	10	2,862	1,537
Tangible assets	11	10,003	6,539
Right-of-use lease assets	14	4,573	2,970
		17,438	11,046
<b>CURRENT ASSETS</b>			
Trade and other receivables	12	104,932	7,075
Taxation recoverable		9,268	6,967
Cash and cash equivalents		8,956	41,299
		123,156	55,341
<b>CREDITORS: amounts falling due within one year</b>			
Trade and other payables	13	(129,489)	(83,480)
Leases liabilities	14	(660)	(414)
		(130,149)	(83,894)
<b>NET CURRENT LIABILITIES</b>		<b>(6,993)</b>	<b>(28,553)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>10,445</b>	<b>(17,507)</b>
<b>CREDITORS: amounts falling due after one year</b>			
Amounts owed to parent Company	13	–	(547,320)
Lease liabilities	14	(4,323)	(2,839)
		(4,323)	(550,159)
<b>NET ASSETS/LIABILITIES</b>		<b>6,122</b>	<b>(567,666)</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	5,604	131
Share premium account	15	541,925	78
Profit and loss account		(541,407)	(567,875)
<b>TOTAL SHAREHOLDER'S FUNDS/(DEFICIT)</b>		<b>6,122</b>	<b>(567,666)</b>

These financial statements of GW Research Limited, registered number 03107561, were approved and authorised for issue by the Board of Directors on 15 June 2021.

Signed on behalf of the Board of Directors.



Mr I Ward  
Director

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

**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2020

	Note	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
<b>Balance at 31 December 2018</b>		<b>131</b>	<b>78</b>	<b>(494,781)</b>	<b>(494,572)</b>
Loss for the financial year		–	–	(80,052)	(80,052)
<b>Total comprehensive loss for the year</b>		<b>–</b>	<b>–</b>	<b>(80,052)</b>	<b>(80,052)</b>
Share-based payment transactions		–	–	6,958	6,958
<b>Balance at 31 December 2019</b>		<b>131</b>	<b>78</b>	<b>(567,875)</b>	<b>(567,666)</b>
Profit for the financial year		–	–	18,845	18,845
<b>Total comprehensive profit for the year</b>		<b>–</b>	<b>–</b>	<b>18,845</b>	<b>18,845</b>
Issue of share capital	15	5,473	541,847	–	547,320
Share-based payment transactions		–	–	7,623	7,623
<b>Balance at 31 December 2020</b>		<b>5,604</b>	<b>541,925</b>	<b>(541,407)</b>	<b>6,122</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

**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 private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. 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 6.

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 presented in pounds sterling which is the currency of the primary economic environment in which the Company operates.

These financial statements are separate financial statements. Details of the parent, GW Pharmaceuticals Ltd in whose consolidated financial statements the Company is included are shown in note 17.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to turnover, 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 financial statements of GW Pharmaceuticals Ltd. The financial statements of GW Pharmaceuticals Ltd are available to the public and can be obtained as set out in note 17.

**Adoption of new and revised standards**

In the current year the following revised standards have been adopted in these financial statements. With the exception of the adoption of IFRS 16, adoption has not had a material impact on the amounts reported in these financial statements but may impact the accounting for future transactions.

*Amendments to References to the Conceptual Framework in IFRS Standards (Mar 2018)*

*Amendments to IFRS 3: Definition of a Business (Oct 2018)*

*Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Sept 2016)*

*Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (Sept 2019)*

*Amendments to IAS 1 and IAS 8: Definition of Material (Oct 2018)*

**Going concern**

The Company has historically been reliant upon the continuing financial support of its parent Company, GW Pharmaceuticals Ltd. Having assessed the principal risks and other matters, including the potential impact of the COVID-19 pandemic, the Directors are of the opinion that the current level of activity remains sustainable. In relation to the challenges that arise from the COVID-19 pandemic, the considerations have included the potential risks related to the activities of the Company.

The Directors believe that preparing the financial statements on the going concern basis is appropriate after having considered expected future trading forecasts and as a result of the continued availability of financial support from GW Pharmaceuticals Ltd. The Directors of the parent Company, having considered the financial position of GW Pharmaceuticals Ltd, have committed 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. On the basis of those considerations, the Directors believe that it remains appropriate to adopt the going concern basis of accounting in preparing the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 1. ACCOUNTING POLICIES (CONTINUED)

#### Turnover

#### Royalties

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

#### Other operating income

#### *Staff support services*

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

#### Research and development

Expenditure on research and development activities is recognised as an expense in the year 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.

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

**1. ACCOUNTING POLICIES (CONTINUED)****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

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 scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in operating profit.

**Taxation**

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

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the year 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.

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2020

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### Leases

At inception of a contract the Company assesses whether a contract is, or contains, a lease. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if unavailable, the Company's incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office or production equipment.

The Company presents right-of-use assets that do not meet the definition of investment property in "right of use assets" and lease liabilities in "lease liabilities" on the balance sheet. All lease balances recognised relate to lessee leases, as the Company does not carry out lessor lease activities.

##### Retirement benefit costs

The Company does not operate any pension plans, but makes contributions to personal pension arrangements of its Directors and employees where applicable. 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 Company recognises share-based payment expense for grants of share options under the Group's Long-Term Incentive Plans to employees based on the grant-date fair value of those awards. The grant-date fair value of an award is generally recognised as compensation expense over the award's requisite service period. Expense related to awards with graded vesting is generally recognised over the vesting period using the accelerated attribution method.

The Company uses the Black-Scholes model to compute the estimated fair value of market-priced share option awards. Using this model, fair value is calculated based on assumptions with respect to (i) expected volatility of the Parent Company's ADS market price, (ii) the periods of time over which employees and members of the board of directors are expected to hold their options prior to exercise (expected lives), (iii) expected dividend yield on the ordinary shares, and (iv) risk-free interest rates. Share-based payment expense also includes an estimate, which is made at the time of grant, of the number of awards that are expected to be forfeited. This estimate is revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

**1. ACCOUNTING POLICIES (CONTINUED)****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**

Financial assets are classified into "amortised cost", "at fair value through other comprehensive income", and "at fair value through profit or loss".

**Trade and other receivables**

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

Trade and other receivables are assessed for indicators of impairment at each balance sheet date. Appropriate allowances for expected credit losses 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 into "amortised cost", and "at fair value through profit or loss".

Trade payables are initially recognised at fair value and then held at amortised cost which equates to fair 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 is recognised as a charge to the profit and loss over the period of the relevant borrowing.

**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.



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

**1. ACCOUNTING POLICIES (CONTINUED)****Critical accounting judgements and key sources of estimation uncertainty**

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 Directors do not consider that there are any critical accounting judgements or estimates that have been made in the process of applying the Company's accounting policies and that have had a significant effect on the amounts recognised in the financial statements.

**2. TURNOVER**

Turnover by class of business:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Royalty fee income	254,768	38,126
	<b>254,768</b>	<b>38,126</b>

Geographical analysis of turnover:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
United Kingdom	254,768	38,126
	<b>254,768</b>	<b>38,126</b>

All royalties received during the year relate to the use of the Company's intellectual property by a fellow group Company. All associated turnover, profits and losses before taxation originated in the UK. All assets and liabilities are held in the UK.

**3. OTHER OPERATING INCOME**

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Staff support services	4,883	8,010
	<b>4,883</b>	<b>8,010</b>

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

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2020****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 £7.47 (year ended 31 December 2019: £10.66). The options outstanding at 31 December 2020 had exercise prices ranging from £0.001 to £10.82 (31 December 2019: £0.001 to £10.82) and a weighted average remaining contractual life of 7.8 years (31 December 2019: 7.9 years). During the year ended 31 December 2020, options were granted on 28 February 2020, 4 June 2020, 5 June 2020, 7 September 2020 and 7 December 2020. The aggregate of the estimated fair values of the options granted on those dates is £10.2 million. During the year ended 31 December 2019, options were granted on 1 March 2019, 21 May 2019, 17 July 2019, 16 August 2019, 15 November 2019 and 9 December 2019. The aggregate of the estimated fair values of the options granted on those dates is £7.7 million.

**5. DIRECTORS' REMUNERATION AND TRANSACTIONS**

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Emoluments	1,862	1,438
Gains on exercise of share options	2,959	11,122
	<b>4,821</b>	<b>12,560</b>

No Director is a member of a defined contribution personal pension scheme (year ended 31 December 2019: none).

Included in emoluments above is £0.5 million relating to termination benefits (31 December 2019: £nil).

During the year, two Directors (year ended 31 December 2019: three Directors) exercised share options.

Included in the above was an amount of £1.4 million (year ended 31 December 2019: £0.4 million), the cost of which has been borne by fellow Group undertakings.

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Emoluments	426	415
Gain on exercise of share options	2,141	5,830
	<b>2,567</b>	<b>6,245</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2020**

**6. STAFF COSTS**

The monthly average number of employees was:

	<b>Year ended 31 December 2020 No.</b>	<b>Year ended 31 December 2019 No.</b>
Research and development	290	256
Sales, general and administration	100	78
	<b>390</b>	<b>334</b>

Their aggregate remuneration comprised:

	<b>Year ended 31 December 2020 £'000</b>	<b>Year ended 31 December 2019 £'000</b>
Wages and salaries	25,749	19,031
Social security costs	3,609	3,823
Other pension costs	2,188	1,556
	<b>31,546</b>	<b>24,410</b>

**7. OTHER INCOME AND INTEREST PAYABLE**

	<b>Year ended 31 December 2020 £'000</b>	<b>Year ended 31 December 2019 £'000</b>
Intragroup interest payable	–	26,420
Lease interest payable	123	102
Other interest payable	84	17
<b>Total interest expense</b>	<b>207</b>	<b>26,539</b>
Proceeds on sale of Priority Review Voucher	–	79,837
UK Research and Development Expenditure Credit	6,129	3,162
<b>Total other income</b>	<b>6,129</b>	<b>82,999</b>

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

In April 2019, the Company sold its rare paediatric disease Priority Review Voucher (PRV), which it received from the US FDA in connection with the United States approval of Epidiolex, to Biohaven Pharmaceutical Holding Ltd for consideration of \$105.0 million (£79.8 million). The one-off net proceeds of \$104.1 million (£79.2 million) from the sale of the PRV was recognised as a gain on the sale.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

**8. TAX ON RESULT FOR THE YEAR**

The tax for the year comprises:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
<b>Current tax</b>		
UK corporation tax	–	–
Adjustment in respect of prior year tax credit	–	–
<b>Total current tax</b>	<b>–</b>	<b>–</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	–	–
<b>Total deferred tax</b>	<b>–</b>	<b>–</b>
<b>Total tax on profit/(loss)</b>	<b>–</b>	<b>–</b>

Tax credits relate to UK research and development tax credits claimed under the Corporation Tax 2009. These are claimed under the large company RDEC scheme and are recorded as other income in the profit and loss account.

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

**Factors affecting tax 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:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Profit/(loss) before tax	18,845	(80,052)
Tax on profit/loss at UK Corporation tax rate of 19.0% (year ended 31 December 2019: 19.0%)	3,581	(15,210)
Effects of:		
Expenses not deductible in determining taxable profit	4	30
Impact of employee share acquisition relief	446	(1,605)
R&D tax credit under Large Company scheme	(71)	141
Deferred tax losses not recognised	(185)	11,448
Group relief without reimbursement	(3,775)	5,196
	–	–

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

**8. TAX ON RESULT FOR THE YEAR (CONTINUED)****Factors affecting tax for the year (continued)**

On 11 March 2020 it was announced that the corporation tax rate would remain at 19% from 1 April 2020, which received Royal Assent in July 2020. On 3 March 2021 the UK's Chancellor of the Exchequer delivered a new budget in which it was announced that the UK Corporation Tax rate will increase to 25% with effect from 1 April 2023, which received Royal Assent on 10 June 2021. The UK Deferred Tax attributes have been calculated at the 19% rate.

At 31 December 2020 there were tax losses available for carry forward of approximately £389.2 million (31 December 2019: £391.5 million).

Net deferred tax assets of approximately £75.8 million (31 December 2019: £76.6 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. PROFIT/LOSS FOR THE YEAR**

Profit/loss for the year is stated after charging/(crediting):	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Research and development expenditure	144,845	105,636
Depreciation of tangible fixed assets	1,533	974
Depreciation of right-of-use lease assets	567	418
Gain on disposal of tangible fixed assets	–	(38)
Amortisation of intangible assets	626	446
Share-based payment charge (see note 4)	7,623	6,958
Fees payable to the Company's auditor for the audit of the Company's financial statements	60	44
Short-term lease rentals	–	4
Foreign exchange loss	556	878
Staff costs (see note 6)	31,546	24,410

No non-audit fees were incurred for the year ended 31 December 2020 or year ended 31 December 2019.

Company policy is to pre-approve all audit, audit-related and other services performed by the auditor. All such services were pre-approved during the year ended 31 December 2020 and year ended 31 December 2019 under this policy.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

**10. INTANGIBLE ASSETS**

	<b>Intangible assets under the course of construction £'000</b>	<b>Software £'000</b>	<b>Licences £'000</b>	<b>Total £'000</b>
<b>Cost</b>				
At 1 January 2020	947	1,601	101	2,649
Additions	1,651	300	–	1,951
Transfers of completed assets	(1,009)	1,009	–	–
<b>At 31 December 2020</b>	<b>1,589</b>	<b>2,910</b>	<b>101</b>	<b>4,600</b>
<b>Accumulated amortisation</b>				
At 1 January 2020	–	1,059	53	1,112
Charge for the year	–	619	7	626
<b>At 31 December 2020</b>	<b>–</b>	<b>1,678</b>	<b>60</b>	<b>1,738</b>
<b>Net book value</b>				
<b>At 31 December 2020</b>	<b>1,589</b>	<b>1,232</b>	<b>41</b>	<b>2,862</b>
At 31 December 2019	947	542	48	1,537

Included in additions are £0.2 million of other intangible assets which were unpaid at the balance sheet date and are included in trade and other payables (31 December 2019: £0.3 million).

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2020**

**11. TANGIBLE ASSETS**

	Assets under the course of construction £'000	Plant, machinery and laboratory equipment £'000	Office and IT equipment £'000	Leasehold improve- ments £'000	Total £'000
<b>Cost</b>					
At 1 January 2020	1,047	5,742	1,593	5,585	13,967
Additions	4,693	240	25	39	4,997
Transfer of completed assets	(2,319)	1,530	740	49	–
<b>At 31 December 2020</b>	<b>3,421</b>	<b>7,512</b>	<b>2,358</b>	<b>5,673</b>	<b>18,964</b>
<b>Accumulated depreciation</b>					
At 1 January 2020	–	4,596	1,000	1,832	7,428
Charge for the year	–	590	366	577	1,533
<b>At 31 December 2020</b>	<b>–</b>	<b>5,186</b>	<b>1,366</b>	<b>2,409</b>	<b>8,961</b>
<b>Net book value</b>					
<b>At 31 December 2020</b>	<b>3,421</b>	<b>2,326</b>	<b>992</b>	<b>3,264</b>	<b>10,003</b>
At 31 December 2019	1,047	1,146	593	3,753	6,539

Included in additions is £1.3 million of property, plant and equipment which is unpaid and is included in trade and other payables (31 December 2019: £2.1 million).

During the current year, the Company has elected to reclassify the disclosures of its right of use assets to a separate balance sheet line in accordance with the disclosure options available under IFRS 16. In accordance with this, £3.0 million of right-of-use assets previously disclosed at 31 December 2019 within property, plant and equipment have been reclassified to ensure comparability. Further details of the Company's leasing activities, including the details of the Company's right-of-use assets, are provided in note 14.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2020**

**12. TRADE AND OTHER RECEIVABLES**

	31 December 2020 £'000	31 December 2019 £'000
<b>Amounts falling due within one year</b>		
Amounts due from group undertakings	96,865	1,172
Other receivables	1,751	1,343
Prepayments	6,316	4,560
	<b>104,932</b>	<b>7,075</b>

The amounts due from group undertakings are interest-free, unsecured, and are due within the following year.

**13. TRADE AND OTHER PAYABLES**

	31 December 2020 £'000	31 December 2019 £'000
<b>Amounts falling due within one year:</b>		
Trade payables	5,817	2,093
Other taxes and social security	1,516	820
Clinical trial accruals	7,483	7,135
Other payables and accruals	12,288	12,031
Amounts owing to group undertakings	102,385	61,401
	<b>129,489</b>	<b>83,480</b>
<b>Amounts falling due after more than one year:</b>		
Amounts owed to parent company	–	547,320
	–	<b>547,320</b>

The amounts owing to group undertakings are interest-free, unsecured, and payable within the following year.

During the year the Company converted £547.3 million of loan liabilities owed to the parent company into equity share capital of the Company. See note 15 for more information.



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

**14. LEASES**

The Company has leases for offices and laboratory facilities. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Company discloses its right-of-use assets separately on the face of the balance sheet.

Leases of laboratory facilities are subject to 5 to 20-year leases. Office properties are typically subject to 1 to 10-year leases.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by GW Pharmaceuticals Group companies. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term.

**Right-of-use assets**

Additional information on the right-of-use assets by class of assets is as follows:

	Leasehold property £'000	Plant, machinery and laboratory equipment £'000	Total £'000
At 1 January 2019	1,839	1,099	2,938
Additions	450	—	450
Depreciation	(291)	(127)	(418)
<b>At 31 December 2019</b>	<b>1,998</b>	<b>972</b>	<b>2,970</b>
Additions	2,083	—	2,083
Modifications	87	—	87
Depreciation	(440)	(127)	(567)
<b>At 31 December 2020</b>	<b>3,728</b>	<b>845</b>	<b>4,573</b>

**Lease liabilities**

Lease liabilities are presented in the balance sheet as follows:

	Present Value of Lease Payments	
	31 December 2020 £'000	31 December 2019 £'000
Amounts payable under leases:		
Amounts due for settlement within 12 months	660	414
Amounts due for settlement after 12 months	4,323	2,839
	<b>4,983</b>	<b>3,253</b>

The weighted average lease term remaining is 7.4 years (31 December 2019: 6.9 years). For the year ended 31 December 2020, the average effective borrowing rate was 4.7% (year ended 31 December 2019: 4.5%). Interest rates are fixed at the contract date and all leases to date have been on a fixed repayment basis. The total cash outflow for leases during the year ended 31 December 2020 was £0.6 million (year ended 31 December 2019: £0.5 million).

The carrying value of the Company's lease obligations as at 31 December 2020 approximates to their fair value. The Company's lease liabilities are secured by the related underlying assets.

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2020****14. LEASES (CONTINUED)**

The undiscounted maturity analysis of lease liabilities at recognised at 31 December 2020 is as follows:

	31 December 2020 £'000	31 December 2019 £'000
Within one year	882	552
One to two years	886	565
Two to three years	855	606
Three to four years	744	575
Four to five years	656	464
Greater than five years	1,940	1,055
Total gross payments	5,963	3,817
Less: future finance charges	(980)	(564)
Present value of lease obligations	4,983	3,253

**15. CALLED UP SHARE CAPITAL**

	31 December 2020 £'000	31 December 2019 £'000
<b>Allotted, called up and fully paid</b>		
5,604,054 ordinary shares of £1 each	5,604	131

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

Changes to the number of ordinary shares in issue have been as follows:

	Number of Shares	Share Capital £'000	Share Premium £'000	Total £'000
As at 31 December 2019 and 2018	130,852	131	78	209
Issue of share capital	5,473,202	5,473	541,847	547,320
<b>As at 31 December 2020</b>	<b>5,604,054</b>	<b>5,604</b>	<b>541,925</b>	<b>547,529</b>

During the year the Company converted £547.3 million of loan liabilities owed to the parent company into equity share capital of the Company.

**16. FINANCIAL COMMITMENTS**

The Company had capital commitments for property, plant and equipment contracted but not provided for at 31 December 2020 of £2.2 million (31 December 2019: £1.4 million).

**17. ULTIMATE CONTROLLING COMPANY**

The Company is a subsidiary undertaking of GW Pharmaceuticals Ltd, a company incorporated in England and Wales.

The Directors regard Jazz Pharmaceuticals Plc, a company incorporated in the Republic of Ireland, as the ultimate parent Company and the controlling party.

GW Pharmaceuticals Ltd is the parent Company of the largest and smallest group of which the Company is a member and for which group financial statements were drawn up for the year ended 31 December 2020. Copies are available from its registered address Sovereign House, Vision Park, Chivers Way, Histon, Cambridge, CB24 9BZ or [www.gwpharm.com](http://www.gwpharm.com).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 18. RELATED PARTY TRANSACTIONS

As a wholly-owned subsidiary undertaking included in the consolidated financial statements of GW Pharmaceuticals Ltd for the year ended 31 December 2020, 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 Ltd.

Aside from the above-mentioned transactions with fellow members of the group headed by GW Pharmaceuticals Ltd, the Company had no material related party transactions which might reasonably be expected to influence decisions made by the users of these Financial Statements.

### 19. SUBSEQUENT EVENTS

On 3 February 2021 GW Pharmaceuticals Ltd, the parent Company, entered into a definitive agreement with Jazz Pharmaceuticals plc (Jazz), under which Jazz would acquire all the outstanding share capital of GW Pharmaceuticals Ltd for \$200 in cash and \$20 in Jazz Ordinary Shares for each GW Pharmaceuticals Ltd ADS (or \$16.67 in cash and \$1.67 in Jazz Ordinary Shares for each GW Pharmaceuticals Ltd Ordinary Share). The transaction completed on 5 May 2021 and from that date Jazz Pharmaceuticals Plc became the ultimate parent of the Company.