

GW PHARMACEUTICALS PLC

AUDIT COMMITTEE – TERMS OF REFERENCE

The Audit Committee was established as a Board committee in June 2001.

The following revised and updated terms of reference were proposed and readopted on 14 March 2017 by a resolution of the Board.

The Audit Committee is established under article 27.3 of the Articles of Association of the Company.

1. MEMBERSHIP

- (a) The members of the Audit Committee shall be appointed by the Board on the recommendation of the Nomination Committee from amongst the non-executive Directors.
- (b) The Audit Committee shall have at least three members. Each member shall be an independent non-executive Director, that is, independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment. At least one member shall qualify as an "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K under the United States Securities Act of 1933, as amended¹. A quorum shall be two members. A

¹ For purposes of this Item, an **audit committee financial expert** means a person who has the following attributes:

- A. An understanding of generally accepted accounting principles and financial statements;
- B. The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- C. Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising one or more persons engaged in such activities;
- D. An understanding of internal control over financial reporting; and
- E. An understanding of audit committee functions.

A person shall have acquired such attributes through:

- A. Education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;
- B. Experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
- C. Experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
- D. Other relevant experience.

duly convened meeting of the Audit Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Audit Committee. The chairman of the Company may not be a member of the Audit Committee.

- (c) The Audit Committee's chairman shall be appointed by the Board on the recommendation of the Nomination Committee, which will also determine his or her period of office. In the absence of the chairman of the Audit Committee, the remaining members present shall elect one of their number to chair the meeting.
- (d) If a regular member is unable to act due to absence, illness or other cause, the Audit Committee's chairman may, if there are any other independent non-executive directors, appoint another independent non-executive director to serve as an alternate member.
- (e) The appointment of an Audit Committee member shall be for a period of up to three years. The appointment of any committee member may be extended for further periods of up to three years if he or she remains independent at the time of extension of the appointment.

2. **SECRETARY**

The secretary of the Audit Committee shall be the Company Secretary or such other person as the Audit Committee may appoint.

3. **ATTENDANCE AT MEETINGS**

- (a) The Audit Committee may invite any person it thinks appropriate to join the members of the Audit Committee at its meetings.
- (b) The Chief Financial Officer and a at least one representative of the external auditors shall normally attend meetings of the Audit Committee.
- (c) At least once a year the Audit Committee shall meet with the external auditors without the Chief Financial Officer , any other executive Director or other member of the finance or management team.

4. **FREQUENCY OF MEETINGS**

- (a) At least four meetings shall be held each year. These meetings shall be convened by the secretary of the Audit Committee at the request of its chairman.
- (b) Additionally, any of the chairman of the Audit Committee, the Chief Financial Officer or the external auditors may ask the secretary of the

Audit Committee to convene a meeting if he/they consider that such a meeting is necessary or appropriate. Further, the external auditors and the Chief Financial Officer may have access to the Chairman or any other member of the Audit Committee as required in relation to any matter falling within the remit of the Audit Committee.

- (c) Meetings will be arranged to tie in with the publication of the Company's financial statements, allowing at least two working days prior to a Board meeting where accounts or financial statements are to be approved.
- (d) Unless otherwise agreed, notice of each meeting confirming the venue, time and date (together with an agenda of items to be discussed and supporting papers, as appropriate) shall be forwarded to each member of the Audit Committee and any other person required to attend no fewer than two working days prior to the date of the meeting.

5. **AUTHORITY**

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference, including:

- seeking any information it requires from any employee and calling any employee to be questioned at a meeting of the Audit Committee;
- obtaining internal or external legal or other independent professional advice, at the Company's expense; and
- securing internal or external professional advisers to attend any meeting if it considers this necessary or appropriate, at the Company's expense.

All employees are directed to co-operate with any request made by the Audit Committee.

The Audit Committee shall have the right to publish in the Company's annual report details of any issues that cannot be resolved between the committee and the Board.

6. **FUNCTION AND DUTIES**

Generally, the function of the Audit Committee is to:

- oversee the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company;
- consider how the Board should apply the Company's financial reporting and internal control principles for the purposes of the annual s4-04a Sarbanes Oxley certification; and

- maintain an appropriate relationship with the Company's external auditors.

6.1 External audit

The duties of the committee shall be:

- to consider and determine the appointment, compensation, retention and oversight of the work of the Company's external auditors (including resolution of disagreements between management and the Company's external auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and to remove the external auditors if circumstances warrant such removal;
- to meet with the auditors at least four times per year, once at the planning stage, where the nature and scope of the audit will be considered, and once post audit at the reporting stage, and to obtain, at least annually, a report from the external auditors regarding the following:
 - all critical accounting policies and practices and any significant changes thereto;
 - all material alternative treatments of financial information within generally accepted accounting principles related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors;
 - other material written communications between the external auditors and management, including, but not limited to, the management letter and any schedule of unadjusted differences;
 - issues and recommendations arising from the audit and any matters which the external auditors wish to discuss (in the absence of management, where necessary);
- to obtain and review, at least annually, a formal written statement of the external auditors, which statement shall:
 - describe the external auditors' internal quality-control procedures;
 - describe any material issues raised by the most recent internal quality control review or peer review, or by any inquiry or investigation conducted by governmental or professional authorities during the preceding five years with respect to independent audits carried out by the external auditors; and

- delineate all relationships between the external auditors and the Company
- to review the findings of the audit with the auditors, including discussing any major issues arising from the audit, any accounting and audit judgements and levels of any errors identified during the audit; and
- to keep under review the relationship with the auditors including (but not limited to):
 - the independence and objectivity of the auditors as well as their qualifications, expertise and resources, and the effectiveness of the audit process;
 - to consider the need for audit firm rotation in accordance with best practice
 - the consideration and recommendation to the Board of the terms of engagement and audit fees which should be paid as well as any other fees payable to the auditors in respect of non-audit activities provided by them;
 - discussions with the auditors concerning such issues as compliance with accounting standards and any proposals which the auditors have made regarding the Company's internal auditing standards;
 - agreeing a policy with the Board on employment of former employees of the auditors and monitoring that policy;
 - ensuring co-ordination with the activities of the Company's internal audit function; and
 - considering the risk of the withdrawal of the auditors from the market.

6.2 **Financial Statements**

The duties of the committee shall be:

- to keep under review and challenge where necessary the consistency of, and any changes to accounting policies on a year to year basis;
- to monitor, review and challenge where necessary the Company's financial statements (including its quarterly reports and interim management statements), annual accounts and accompanying reports to shareholders and preliminary announcements of results and any other announcement regarding the Company's results, other financial

information or risk management to be made public with particular reference to:

- critical accounting policies and practices and any changes to them;
 - major judgmental decisions or areas;
 - the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
 - the clarity and completeness of disclosures;
 - significant adjustments resulting from the audit;
 - the going concern assumption;
 - compliance with applicable accounting standards; and
 - compliance with the SEC Rules, NASDAQ listing rules, legal requirements, and all applicable codes of corporate governance practices;
- to discuss whether the committee should recommend that the financial statements and accompanying reports should be approved by the Board in the Board meeting following the Committee meeting and, if so, whether that approval should be granted subject to any matters discussed by the Committee; and

6.3 Internal control and risk assessment

The committee shall:

- keep under review the effectiveness of the Company's financial reporting and internal control framework and policies as well as the policies and procedures for the identification, assessment and reporting of financial and non-financial risks and the management of those risks by the Company in accordance with the requirements of the Sarbanes Oxley Act; and
- establish procedures for:
 - the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
 - the confidential, anonymous submission by employees of the listed issuer of concerns regarding potential fraud, questionable accounting or auditing matters. See whistleblowing policy

- documentation and testing of the key internal controls required to give assurance that the internal controls system is operating effectively, sufficient to allow management to make s404a certifications in accordance with Sarbanes Oxley requirements at each period end.

6.4 Internal audit

The duties of the committee shall be:

- to consider applications for the post of and advise the Board and Nominations committee with respect to the appointment/removal of the Chief Financial Officer

Where there is no internal audit or risk management function, the committee shall consider annually whether there is a need for one and make a recommendation to the Board. In the absence of an internal audit function, the committee shall oversee the appointment by management of appropriate external advisers to assist management with the design of internal controls and internal controls testing to assist with monitoring of the control environment and satisfactory operation of internal controls.

Where there is an internal audit/risk management function the duties of the Committee shall be:

- to consider and approve the terms of reference of the internal audit function;
- to review the management of financial matters and focus upon the freedom allowed to internal auditors;
- to keep under review the operation, effectiveness and integrity of the internal audit and risk management functions and ensure that they are adequately resourced and have/ appropriate standing within the Company;
- to review promptly all reports on the Company from the internal auditors and management's response;
- to review and assess the annual internal audit plan (the committee to be advised of the planned programme of audits and the reason for any change or delay in the programme); and
- to meet the head of internal audit annually (without management being present) to discuss the committee's remit and any issues arising from the carrying out of internal audits. The head of internal audit shall have direct access to the Chairman of the Company and to the committee.

6.5 Reporting responsibilities

The duties of the committee shall be:

- to meet (or its chairman shall meet) formally with the Board at least once a year to discuss matters such as the annual report and the relationship with Auditors;
- its chairman shall report formally to the Board after each meeting on all matters within its duties and responsibilities; and
- in light of its other duties, to make whatever recommendations to the Board it deems appropriate and to compile a report to shareholders to be included in the Company's annual report.

6.6 Other matters

The committee shall:

- have access to sufficient resources in order to carry out its duties and functions including access to the company secretariat for assistance as required;
- perform all its duties on the basis of the considerations required to be taken into account by the AIM Rules, UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules (where applicable) and the rules of Nasdaq and any other stock exchange on which the Company's shares are traded, all applicable codes of practice and laws (including the UK Corporate Governance Code and associated guidance) and the committee's view of good practice at the relevant time;
- be responsible for co-ordination of the internal audit function and the auditors;
- keep under review the Company's procedures for detecting fraud;
- review the Company's systems and controls for the prevention of bribery and receiving reports on non-compliance;
- review and consider the adequacy and effectiveness of the Company's anti-money laundering systems and controls;
- maintain oversight over related party transactions to ensure that they are appropriately pre-authorised and disclosed;

- keep under review the adequacy and effectiveness of the Company's compliance procedures (including oversight of the open door whistleblowing policy for reporting suspected violations and complaints);
- oversee the establishment and maintenance, and review the operation of good business practices throughout the Company and investigate, at the request of any member of management, any issues of concern to that person relating to the Company's management, reporting, control or business procedures;
- address any other matters relating to its duties referred to the committee by the Board;
- ensure that its terms of reference are available on the Company's website and include an explanation of its role and the authority delegated to it by the Board;
- ensure that its terms of reference, performance and constitution are reviewed at least annually and, where necessary, that any changes are recommended to the Board for approval;
- be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- while carrying out its duties, have regard to their duties as Directors of the Company, including their duties under the Companies Act 2006;
- monitor and/or make recommendations on the potential implications of legal actions being taken against the Company;
- monitor and/or make recommendations on the adequacy of arrangements for managing conflicts of interest;
- monitor and/or make recommendations on the expenses incurred by the Chairman of the Company; and
- monitor and/or make recommendations on treasury management policies.

7. **REPORTING**

- (a) The Audit Committee shall report to the Board, identifying any matters in respect of which it considers that action or improvement is needed or when it is not satisfied with any aspect of the proposed financial reporting, and making recommendations as to the steps to be taken.

- (b) The Audit Committee should review any statement to be made by the Company in its annual report and accounts on internal control systems, and any other areas within its remit, prior to endorsement by the Board.
- (c) The Chairman of the Audit Committee should attend the Company's Annual General Meeting for the purpose of handling any questions or enquiries through the Chairman of the Board, on the Audit Committee's activities and their responsibilities.
- (d) The Audit Committee shall produce an annual report to be included in a separate section of the directors' report describing the committee's role and detailing its activities.

8. **MINUTES**

- (a) The secretary of the Audit Committee shall minute all decisions and proceedings of all meetings of the committee including the names of all those present and in attendance.
- (b) The secretary of the Audit Committee shall promptly circulate draft minutes of each meeting of the Audit Committee to all committee members. Once approved, minutes should be circulated to all other members of the Board (unless it would be inappropriate to do so) and to the external auditors.

9. **FUNDING**

- (a) The Audit Committee shall have access to adequate funding, as determined by the Audit Committee, for the payment of:
 - compensation to the external auditors for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;
 - compensation to any advisers employed by the Audit Committee pursuant to Section 5 above;
 - ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

Adopted by resolution of the Board of Directors of GW Pharmaceuticals plc at a meeting held on 14 March 2017.

Date of adoption: 14 March 2017

Committee membership at date of adoption:

James Noble – Chairman of Audit Committee and independent non-executive

Thomas Lynch – independent non-executive

Cabot Brown – independent non-executive