

Registered number: 10229259

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS
PATHWAYS LIMITED)
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

TUESDAY



AA67P9AB

A05

08/06/2021

#361

COMPANIES HOUSE

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)

CONTENTS

	Page
Company information	1
Directors' report	2-3
Directors' responsibilities statement	4
Independent auditors' report to the members of COMPASS Pathfinder Limited	5-7
Profit and loss account	8
Balance Sheet	9
Statement of changes in equity	10
Notes to the financial statements	11-20

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)

COMPANY INFORMATION

Directors	G J Goldsmith E Malievskaia
Company secretary	Ben Harber
Registered number	10229259
Registered office	3rd Floor 1 Ashley Road Altrincham Cheshire United Kingdom WA14 2DT
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 3 Forbury Place 23 Forbury Road Reading Berkshire RG1 3JH

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their report and the audited financial statements for COMPASS Pathfinder Limited (the "Company") for the year ended 31 December 2020. On 10 August 2020, the Company changed its name from COMPASS Pathways Limited to COMPASS Pathfinder Limited.

Directors

The directors who served during the year and up to the date of signing the financial statements were:

G J Goldsmith
E Malievskaia

Qualified third party indemnity provision

The Company has granted a qualifying third-party indemnity to each of its directors against liability in respect of proceedings brought by third parties, which remains in force as at the date of approving the Directors' Report.

Future development

The Company intends to continue with its current activities to research and develop therapies for mental health illnesses.

Research and development activities

The Company are researching and developing therapies for mental health illnesses, beginning with the development of psilocybin therapy for treatment-resistant depression.

Charitable contributions

During 2020, the Company made charitable donations in support of planting trees in cities of £5,000 (2019: £nil).

Post balance sheet events

On 4 January 2021, the Company entered into a clinical research agreement with Sheppard Pratt Health System, Inc. in Baltimore, Maryland, or Sheppard Pratt, pursuant to which the Company will, upon receipt of a mutually agreed budget, fund Sheppard Pratt to construct a Center of Excellence, through which certain Investigator Initiated Studies may be conducted.

On 4 May 2021, COMPASS Pathways plc, the ultimate controlling party of the Company, completed an underwritten public offering of 4,000,000 American Depositary Shares ("ADSs") representing 4,000,000 ordinary shares, at a public offering price of \$36.00 per ADS. The offering afforded the underwriters the option to purchase an additional 600,000 ADSs within 30 days of the offering which was exercised on 17 May 2021. Aggregate net proceeds, after underwriting discounts but before estimated offering expenses, were £111.9m (\$155.7m).

Independent auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.


Small companies exemptions

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006. In addition, the Company has taken advantage of the exemption available and has not presented a Strategic Report.

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

This report was approved by the board and signed on its behalf.

DocuSigned by:
George J. Goldsmith
 Signer Name: George J. Goldsmith
Signing Reason: I approve this document
Signing Time: 5/28/2021 | 06:50 PDT
5649BC54F9CA46EB87B8414D25CC064F

Date: 28 May 2021

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" Section 1A, and applicable law).

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 Section 1A have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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 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.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)

Independent auditors' report to the members of COMPASS Pathfinder Limited

Report on the audit of the financial statements

Opinion

In our opinion, COMPASS Pathfinder Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" Section 1A, and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2020; the profit and loss account and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)

Independent auditors' report to the members of COMPASS Pathfinder Limited

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to patent protection, data privacy, product safety and regulatory compliance, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to misappropriation of cash and potential management bias in accounting estimates. Audit procedures performed included:

- Discussions with management and internal legal counsel including consideration of known or suspected instances of non-compliance with laws and regulations and fraud, and obtaining legal confirmations from external legal counsel.
- Review of minutes of meetings with the Board of Directors.
- Obtaining direct confirmation from the third party contract research organisation (CRO) around the clinical trials being performed on behalf of the company.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations impacting cash.

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)

Independent auditors' report to the members of COMPASS Pathfinder Limited

- Challenging assumptions made by management in their accounting estimates, in particular around share-based compensation, the research and development tax credit, and CRO expenses, accruals and prepayments.
There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: prepare financial statements in accordance with the small companies regime; take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Sam Taylor (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
28 May 2021

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	£	£
Research and development expenditure	(19,709,296)	(8,703,525)
Administrative expenses	(22,287,664)	(7,603,297)
Operating loss and loss before tax	(41,996,960)	(16,306,822)
Tax on loss	3,305,448	1,947,612
Loss for the financial year	(38,691,512)	(14,359,210)

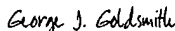
There are no items of other comprehensive income for either the year or the prior year other than the loss for the year. Accordingly, no statement of other comprehensive income has been presented.

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)**BALANCE SHEET AS AT 31 DECEMBER 2020**

	Note	2020 £	2019 £
Fixed assets			
Tangible assets	5	179,305	161,374
Investments	6	1,983,280	595,592
		<u>2,162,585</u>	<u>756,966</u>
Current assets			
Debtors	7	6,700,719	5,116,548
Cash at bank and in hand		435,504	426,900
		<u>7,136,223</u>	<u>5,543,448</u>
Creditors: amounts falling due within one year	8	<u>(25,887,964)</u>	<u>(7,591,601)</u>
Net current liabilities		<u>(18,751,741)</u>	<u>(2,048,153)</u>
Net liabilities		<u>(16,589,156)</u>	<u>(1,291,187)</u>
Capital and reserves			
Called up share capital	9	700	700
Share premium account	10	556,058	556,058
Capital contribution reserve	10	48,043,057	24,649,514
Profit and loss account - deficit		(65,188,971)	(26,497,459)
Total equity		<u>(16,589,156)</u>	<u>(1,291,187)</u>

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime within Part 15 of the Companies Act 2006 and in accordance with Section 1A of Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

DocuSigned by:

 Signer Name: George J. Goldsmith
 Signing Reason: I have reviewed this document
 Time: 5/28/2021 | 06:51 PDT
G J Goldsmith
 Director
 5649BC54F9CA46EB87B8414D25CC064F

Date: 28 May 2021

The notes on pages 11 to 20 form an integral part of these financial statements.

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Called up share capital	Share premium account	Capital contribution reserve	Profit and loss account- deficit	Total equity
	£	£	£	£	£
At 1 January 2019	700	556,058	13,064,755	(12,138,249)	1,483,264
Comprehensive loss for the year					
Loss for the year	—	—	—	(14,359,210)	(14,359,210)
Capital contribution funds from parent company	—	—	15,729,928	—	15,729,928
Recharges of share based payment arrangement from parent company	—	—	(4,145,169)	—	(4,145,169)
At 31 December 2019	700	556,058	24,649,514	(26,497,459)	(1,291,187)
Comprehensive loss for the year					
Loss for the year	—	—	—	(38,691,512)	(38,691,512)
Capital contribution funds from parent company	—	—	40,170,433	—	40,170,433
Recharge of share based payment arrangements from group undertakings	—	—	(16,776,890)	—	(16,776,890)
At 31 December 2020	700	556,058	48,043,057	(65,188,971)	(16,589,156)

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. General information

COMPASS Pathfinder Limited is a private company limited by shares and is incorporated in England and Wales. The address of its registered office is 3rd Floor, 1 Ashley Road, Altrincham, Cheshire, United Kingdom, WA14 2DT.

On 10 August 2020, the Company changed its name from COMPASS Pathways Limited to COMPASS Pathfinder Limited.

The financial statements are presented in Pound Sterling (£).

2. Accounting policies

2.1. Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with the provisions applicable to companies subject to the small companies' regime within Part 15 of the Companies Act 2006 and in accordance with Section 1A of Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102').

The Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of COMPASS Pathways plc, a company incorporated in the United Kingdom. The consolidated financial statements can be obtained from 3rd Floor, 1 Ashley Road, Altrincham, Cheshire, United Kingdom, WA14 2DT.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland."

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 1A Small entities paragraph 14 to 15;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 33 Related Party Disclosures paragraph 33.7;
- the requirements of Section 26 Share-based Payments paragraphs 26.18(b), 26.19-26.21 and 26.23.

2.2. Going concern

The Company has incurred a loss for the year after tax of £38.9m and continued to incur losses after the year end. As of 31 December 2020, the Company had net liabilities of £16.6m. The parent company, COMPASS Pathfinder Holdings Limited, has continued to raise further financing during the year and on 17 April 2020 successfully closed a Series B funding round to secure an additional \$80.0m (£62.3m) of funding, including the conversion of the £15.0m convertible loan notes issued in 2019, through the issuance of new Series B preference shares.

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2. Accounting policies (continued)

On 22 September 2020, COMPASS Pathways plc successfully listed on the Nasdaq Global Exchange, through which a net proceed of £107.2m, after deducting underwriting discounts and commissions and other expenses, was raised. COMPASS Pathways plc wholly owns COMPASS Pathfinder Holdings Limited. The ultimate controlling party of COMPASS Pathfinder Limited is therefore COMPASS Pathways plc. Additionally, on 4 May 2021, COMPASS Pathways plc completed an underwritten public offering and received net cash proceeds of approximately £96.8m (\$134.4m), after deducting underwriting discounts and commissions and other offering expenses. COMPASS Pathways plc received a further net proceed of £14.3m (\$20.3m) as a result of the underwriters exercising the option to purchase an additional 600,000 ADSs on 17 May 2021. The cash raised through fundraising activities is held by the parent company and used to fund operations of COMPASS Pathways plc and its subsidiaries ("the Group"), including those of the Company.

The funding received through the Series B funding round and the successful listing on the Nasdaq exchange should be sufficient to fund the ongoing research and development phase of the business for a period of at least 12 months from the date of approval of the financial statements. The parent company has provided a letter of support which extends to at least 12 months from the anticipated date of approval of the financial statements. Furthermore, the parent company will not seek repayment of amounts advanced to the Company by the parent company and/or other members of the group unless adequate alternative financing has been secured by the Company.

After making enquiries, the directors have a reasonable expectation that the company and group have adequate resources to continue in operational existence and meet its liabilities as they fall due for the foreseeable future, being a period of at least twelve months from the date these financial statements were approved. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

2.3. Financial instruments

The Company has elected to apply Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

The Company's policies for its major classes of financial assets and financial liabilities are set out below.

Financial assets

Basic financial assets, including other debtors, cash and bank balances and intercompany working capital balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest for a similar debt instrument. Financing transactions are those in which payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate.

Such assets are subsequently carried at amortised cost using the effective interest rate method, less any impairment.

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2. Accounting policies (continued)

Financial liabilities

Basic financial liabilities, including trade and other creditors, accruals and deferred income and loans from fellow group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. Financing transactions are those in which payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate.

Impairment of financial assets

Financial assets measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the profit and loss account.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between the asset's carrying amount and the best estimate of the amount the Company would receive for the asset if it were to be sold at the reporting date.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If the financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Derecognition of financial assets and financial liabilities

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.4. Tangible assets

Tangible assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2. Accounting policies (continued)

Depreciation is provided on the following basis:

	Estimated Useful Life
Lab equipment	5 years
Office equipment	3-5 years
Furniture and fixtures	3 years
Leasehold improvements	Shorter of useful life or remaining lease term

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the profit and loss account.

2.5. Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment losses.

2.6. Cash at bank and in hand

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

2.7. Share based payments

Non-cash share-based awards and share options granted to employees, non-employees and members of our board of directors for their services as directors are based on the fair value on the date of the grant. Forfeitures are accounted for as they occur. Non-cash share-based awards are issued with service-based vesting conditions. For equity awards that vest based on a service condition, the non-cash share-based award, and share options, compensation expenses are recognised on a straight-line basis over the requisite service period.

The fair value of each share options grant is estimated using the Black-Scholes option-pricing model, which uses as inputs the fair value of our ordinary shares, assumptions for the volatility of our ordinary shares, the expected term of our share options, the risk-free interest rate for a period that approximates the expected term of our share options and our expected dividend yield. Prior to the Initial Public Offering ("IPO") of COMPASS Pathways plc in September 2020, all equity awards were issued and recognised in the parent company. However, after the corporate reorganisation all equity awards are now issued and recognised in the COMPASS Pathways plc financial statements.

In prior years, expenses related to share based compensation were recognised initially in the parent company. This would be then be recharged to the relevant subsidiaries through the intercompany account. After our corporate reorganisation in 2020, these expenses are initially recorded in COMPASS Pathways plc and subsequently recharged to the relevant companies depending on which subsidiary the relevant employee is employed by.

If any of the assumptions used in the Black-Scholes model change significantly, share-based compensation for future awards may differ materially compared with the awards granted previously.

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2. Accounting policies (continued)

2.8. Operating leases

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

2.9. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.10. Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the profit and loss account when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet (included within 'Creditors: amounts falling due within one year'). The assets of the plan are held separately from the Company in independently administered funds.

2.11. Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

Current tax is the amount of income tax payable in respect of taxable profit for the year or prior years.

Current tax includes research and development tax credits which are calculated in accordance with the UK research and development tax credit regime applicable for small and medium sized companies.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the company operates and generates income.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax is not recognised in respect of permanent differences. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2. Accounting policies (continued)

2.12. Other debtors

Other debtors are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13. Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2.14. Research and development

In the research phase of an internal project, it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred.

2.15. Related party transactions

The company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with its parent company or with members of the same group that are wholly owned.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In the application of the group's accounting policies, which are described in note 2, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and estimates that the directors have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Valuation of share options and ordinary shares

Prior to the IPO in September 2020, options were issued in the Company and valued using the Black Scholes option pricing model. For each relevant option grant, individual valuation assumptions were assessed based upon conditions at the date of grant. Due to the level of judgment involved in valuations of an unquoted company, the estimates and assumptions around the fair value of our ordinary shares and expected volatility regarding the amounts recognised have a greater risk of causing material adjustment to the carrying amounts of assets and liabilities. After a public trading market for our ordinary shares was established following the closing of our IPO, it was no longer necessary for our board of directors to estimate the fair market value of our ordinary shares in connection with our accounting for granted equity awards.

4. Employees

The average monthly number of employees, including directors, during the year was 42 (2019 - 21).

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

5. Tangible assets

	Leasehold improvements £	Furniture and fixtures £	Office equipment £	Lab equipment £	Total £
Cost					
At 1 January 2020	—	27,157	97,027	87,524	211,708
Additions	4,104	—	85,819	15,268	105,191
At 31 December 2020	4,104	27,157	182,846	102,792	316,899
Accumulated depreciation					
At 1 January 2020	—	3,540	22,505	24,289	50,334
Charge for the year	2,320	5,431	48,834	30,675	87,260
At 31 December 2020	2,320	8,971	71,339	54,964	137,594
Net Book Value					
At 31 December 2020	1,784	18,186	111,507	47,828	179,305
At 31 December 2019	—	23,617	74,522	63,235	161,374

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

6. Investments

	Investments in subsidiary companies £
Cost	
At 1 January 2020	595,592
Additions	1,387,688
At 31 December 2020	1,983,280
Net book value	
At 31 December 2020	1,983,280
At 31 December 2019	595,592

The investment relates to a subsidiary undertaking in the US which was incorporated in 2019. Additions in the year related to further capital contributions to the Company's direct subsidiary.

Subsidiary undertaking

The following is a direct subsidiary undertaking of the Company:

Name	Registered office	Class of shares	Holding
COMPASS Pathways Inc.	180 Varick Street, 6th Floor, New York, NY 10014	Ordinary	100 %

7. Debtors

	2020	2019
	£	£
Due after more than one year		
Other debtors	—	130,000
Due within one year		
Other debtors	175,328	195,380
Prepayments and accrued income	2,219,976	1,049,666
Tax recoverable	4,305,415	3,741,502
	6,700,719	5,116,548

8. Creditors: amounts falling due within one year

	2020	2019
	£	£
Trade creditors	1,927,404	932,402
Amounts owed to group undertakings	21,267,122	5,999,212
Other payables	384,379	115,812
Accruals and deferred income	2,309,059	544,175
	25,887,964	7,591,601

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

8. Creditors: amounts falling due within one year (continued)

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

9. Called up share capital

	2020	2019
	£	£
Allotted, called up and fully paid		
700 (2019: 700) Ordinary shares of £1.00 each	<u>700</u>	<u>700</u>

10. Reserves

Share premium account

The share premium account comprises the consideration paid in excess of the par value per share less costs relating to the IPO.

Capital contribution reserve

The capital contribution reserve comprises an intercompany funding balance from the parent company COMPASS Pathfinder Holdings Limited, which is not expected to be repaid in the future.

11. Commitments under operating leases

At 31 December the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2020	2019
	£	£
Not later than 1 year	747,500	780,000
Later than 1 year and not later than 5 years	<u>—</u>	<u>780,000</u>
	<u>747,500</u>	<u>1,560,000</u>

12. Related party transactions

The Company has taken advantage of the exemption contained in FRS 102 section 33 "Related Party Disclosures" from disclosing transactions with entities which are a wholly owned part of the group.

Transactions with other related parties are as follows:

Relationship	Transaction	Amount		Amount due (to)/from related parties	
		2020	2019	2020	2019
		£	£	£	£
Directors	Reimbursable expenses	(29,139)	(22,495)	—	(9,651)
Common directorship	Expenses	(92,759)	—	—	—
		<u>(121,898)</u>	<u>(22,495)</u>	<u>—</u>	<u>(9,651)</u>

Amounts owed to related parties are unsecured, interest free and due for repayment within one year.

COMPASS PATHFINDER LIMITED (FORMERLY COMPASS PATHWAYS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

13. Controlling party

At the year end, the immediate parent undertaking was COMPASS Pathfinder Holdings Limited. Copies of the COMPASS Pathfinder Holdings Limited financial statements can be obtained from 3rd Floor, 1 Ashley Road, Altrincham, Cheshire, United Kingdom, WA14 2DT. The ultimate controlling party at the year end was COMPASS Pathways plc by virtue of owning 100% of the share capital of COMPASS Pathfinder Holdings Limited. Copies of the COMPASS Pathways plc company only financial statements and the consolidated annual report of the Group can be obtained from 3rd Floor, 1 Ashley Road, Altrincham, Cheshire, United Kingdom, WA14 2DT.

14. Post balance sheet events

On 4 January 2021, the Company entered into a clinical research agreement with Sheppard Pratt Health System, Inc. in Baltimore, Maryland, or Sheppard Pratt, pursuant to which the Company will, upon receipt of a mutually agreed budget, fund Sheppard Pratt to construct a Center of Excellence, through which certain Investigator Initiated Studies may be conducted.

On 4 May 2021, COMPASS Pathways plc completed an underwritten public offering of 4,000,000 ADSs representing 4,000,000 ordinary shares, at a public offering price of \$36.00 per ADS. The offering afforded the underwriters the option to purchase an additional 600,000 ADSs within 30 days of the offering, which was exercised on 17 May 2021. Aggregate net proceeds, after underwriting discounts but before estimated offering expenses, were £111.9m (\$155.7m).