

Registered Number:SC243330

M SQUARED LASERS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2021



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M SQUARED LASERS LIMITED

COMPANY INFORMATION

Directors	Graeme Malcolm Angus Morrison John Nicholls Douglas Bain (resigned 11 March 2021) Stuart Malcolm Gareth Maker Patrick Graham (resigned 13 November 2020) Andy Roberts (resigned 13 November 2020)
Company secretary	Stuart Malcolm
Registered number	SC243330
Registered office	Venture Building 1 Kelvin Campus, West of Scotland Science Park Maryhill Road Glasgow G20 0SP
Independent auditor	Anderson Anderson & Brown Audit LLP 1 Lochrin Square 92 Fountainbridge Edinburgh EH3 9QA

M SQUARED LASERS LIMITED

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M SQUARED LASERS LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 28 FEBRUARY 2021

Introduction

M Squared Lasers Limited and subsidiaries ("Group" or "M Squared") are private companies limited by shares incorporated in the United Kingdom (registered in Scotland), United States of America and Germany. The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

This strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to M Squared Lasers Limited and its subsidiary undertakings (see Note 15) when viewed as a whole.

Principal Activities

M Squared makes the world's purest light – a technology that has transformative, real-world applications that can take on the climate emergency, greatly improve biomedical imaging, realise the next generation of semiconductors, and now truly unlock the coming quantum age.

The Group focuses on photonics and quantum technology and is on a mission to harness the power of light to change the world. The Group is a developer of photon and quantum technologies that enable new applications and industries, addressing some of society's greatest challenges. The Group continues to export in excess of 90% of its products and services overseas, including North America, Europe, China and Japan.

The Group has c. 112 employees, with its headquarters in Glasgow, Scotland, alongside offices in England, USA and Germany.

Business Review

Financial year 2020/21 ("FY21") revenue was £16.5m (an increase of 15% on FY20), showing strong year on year growth.

The EBITDA performance for FY21 is £6.4m representing a 39% return on revenue prior to financing costs.

Profit before tax in FY21 is £0.7m (4%) compared with £1.4m (6%) in FY20. Profitability was limited within FY21 due to a number of exceptional costs incurred throughout the refinancing that was completed in November 2020.

FY21 saw the completion of a refinancing project ('Project Greenfield') setting the groundwork for the future growth of the group for years to come. This refinancing welcomes Santander and Scottish National Investment Bank as partners and supporters of the group and their activities.

On 13th November 2020, the Group completed a corporate reorganisation and new financing of £32.5 million to, inter alia, implement a shareholder buy-out and support its further growth and technology developments. Santander UK Plc provided a £20 million debt facility, allowing the Group to fund the buy-out of a substantial part of BGF's shareholding, along with fuelling the next stage of development in business and technological growth. These facilities are in place until November 2025 and meet the Group's working capital requirements for the medium term.

Scottish National Investment Bank Plc also provided growth capital of £12.5 million.

As part of the Project Greenfield refinancing, a new Group holding company, M Squared Technologies Group Limited, acquired 100% of the share capital of M Squared Lasers Limited. M Squared Technologies Group Limited is now the ultimate parent company of the Group and is responsible for the Group-wide strategic direction and control of the Group, together with responsibility for the overarching financing and treasury functions.

In this report, due to restrictions on short period accounts, the Group consolidation has been prepared and reported at the level of M Squared Lasers Limited. Future Group-wide consolidated reporting, incorporating the new group structure, will begin in respect of financial year 2021/22.

M SQUARED LASERS LIMITED

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2021

The Group order book grew across all segments of the business during FY21, putting the Group in an advantageous opening position to underpin growth in its core areas during FY22 and beyond. The Group is also strategically well positioned to take advantage of key growth in markets stimulated by the COVID-19 pandemic, including semiconductors, displays, AR (augmented-reality) and VR (virtual-reality), metrology, and life sciences, alongside the break-through novel strategic area of quantum technology.

The Group has a long-term proven and acknowledged strength in identifying and commercialising its R&D efforts with key global technology companies and governmental customers seeking the Group's support in areas of key technology or scientific challenges. The Group allocates a significant proportion of its available resources to R&D endeavours, in both existing and new product areas, primarily through a dedicated Innovation business unit which provides support across the business, which itself facilitates cashflow through customer partnerships, engineering service and support to end-users and grant funding.

The Group has adopted an agile methodology to ensure that time and resource is efficiently invested to provide the best short- and long-term outcomes for the business. The Group is globally recognised as being at the vanguard of frontier science and deep-tech and made significant progress across a range of core growth areas during FY20 which has continued into FY21, despite the many practical challenges which the COVID-19 pandemic has brought.

Current areas of focus and growth for the Group include:

The Group has made significant progress over the period in **Making Quantum Technology a Reality**, supported by a two-year £2.9 million R&D grant from Scottish Enterprise and also through a quantum technology partnership with the University of Strathclyde of £4.6 million to progress quantum computing capabilities. In both externally and internally funded initiatives and partnerships in quantum computing the Group has achieved key successes in the area of "ultra-cold matter" quantum computing as both a supplier and integrator to many of the key global programs in this emerging and scaling area. The Group continues to develop expertise in quantum accelerometers, quantum gravimeters and the optical lattice clock.

The Group has consolidated its position in supporting the space industry **Making Breakthroughs in Space**, developing industry-leading state-of-the-art precision light sources covering the broadest spectral regions yet demonstrated for applications in leading Earth observation missions which are mapping atmospheric pollution and climate change gases for prevention of the climate emergency. This field is currently at the forefront of scientific and media attention in the run up to the UN Climate Change Conference (COP 26) in Glasgow, where the Group is headquartered, in November 2021. These sources were successfully developed and applied with lead customers during FY21 producing precision light across the spectrum from deep ultra-violet to mid-infrared. The Group's mission heritage in these keystone missions both underpins our market position in this field and has also yielded a product roadmap of new laser sources that will be compelling for many other sectors.

Powering Industry: FY21 saw further expansion of the Group's precision light laser products into new areas of manufacturing for underpinning technology manufacture in such areas as semiconductors, conventional digital displays and also AR and VR capabilities and several novel metrology applications, as new industrial accounts qualified our products, improving precision of their manufacturing processes, whilst also producing improved yields, increased up-time and lowers costs of ownership. These products also contribute to substantial reduction in energy used and associated carbon-dioxide emissions from these industrial processes.

Behind cutting-edge healthcare: The Group's advanced imaging product lines were developed for higher resolution, imaging performance and are now pushing boundaries in life-sciences including neuroscience, cancer biology and plant biology. During the year additional imaging capability was demonstrated for a range of important bio-medical imaging applications and novel UV-laser-sterilisation capabilities demonstrated as part of COVID-19 mitigation innovation projects.

The coming era of quantum technology is set to play a major, transformative role in both the economy and society alike. The Group has made substantial **Investment in Strategic Partnerships** which are a critical success factor in this high barrier to entry field. M Squared has a strong track record in identifying and building multi-skilled partnerships united under common goals and this has made M Squared an obvious partner to many key global corporations as they seek to become quantum-ready in their future roadmaps.

M SQUARED LASERS LIMITED

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2021

Financial Key Performance Indicators

The directors review a wide range of daily, monthly and other financial key performance indicators as a matter of routine, focusing on areas such as cash collection, procurement and manufacturing.

Research and Development

The Group's innovation unit continues to develop a number of new laser-based photonic solutions aimed at addressing global issues in the fields of physical, biological and chemical sciences.

The progress made in development of certain innovation programs was such that the directors consider it appropriate to capitalise £3,542,801 (FY20: £4,654,796) of related expenditure as an intangible asset with amortisation in the year of £1,571,950 (FY20: £986,653).

Principal Risks and Uncertainties

COVID-19: The directors have given due consideration to the impact of the worldwide COVID-19 pandemic on future operations and the impact this has had since March 2020. While challenges remain in the short and medium term, the Group has developed a resilient strategy and infrastructure to ensure that growth can continue despite the daily challenges COVID-19 brings and continued focus on this area is expected to provide mitigation to any short-term challenges.

Brexit: The directors have introduced a package of measures throughout FY21 to mitigate the impact of Brexit to Group-wide operations, supply chain and growth, including the development of activities in its Berlin facility where direct EU-market sales and service activities have been expanded. These measures have allowed the Group to navigate the risks and practical issues caused by Brexit and develop new working models to integrate this into future growth.

The directors are confident that the business can continue to manage any impact of Brexit.

Financial Exposure: The Group's principal financial assets are cash balances, trade and other debtors. The Group's credit risk is primarily attributable to its trade debtors. The directors are of the opinion that the Group has no concentration of credit risk, with exposure spread over a large number of customers, many of whom are long established research institutions or government bodies.

The directors retain overall responsibility for the Group's system of internal financial control, which is designed to give reasonable assurance against material financial misstatement or loss. Financial controls have been established which the directors believe enable them to meet their responsibility for the integrity and accuracy of the Group's accounting records.

The directors consider that the current global economic conditions create uncertainty, particularly over movements in exchange rates between GBP (the Group's reporting currency) and the principal currencies in which the Group trades globally, and the impact that could have on financial and trading performance.

Interest rate risk: The Group has a mix of borrowings (with interest rates which can be fixed or floating), providing a certain degree of interest rate risk mitigation. The directors regularly reviewed interest rates throughout the year to determine the optimum risk mitigation strategy.

Credit risk: The Group monitors credit risk closely and considers that its current policies of credit checks meets its objectives of managing exposure to credit risk. All customers who wish to trade on credit terms are subject to credit verification procedures. Trade debtors are reviewed on a regular basis and provision is made for doubtful debts when necessary, although this is considered a rare occurrence.

Liquidity risk: The Group manages its cash and borrowing requirements in order to minimise interest expense, whilst ensuring the Group has sufficient liquid resources to meet the operating needs of the business.

M SQUARED LASERS LIMITED

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2021

Currency risk: The Group is exposed in its trading operations to the risk of changes in foreign currency exchange rates. The main currencies in which the Group operates are GBP, Euro and the US dollar. The Group considers that it has a natural hedge in that many of its key suppliers invoice in the same currency as its main customers. However, this is reviewed on a regular basis and the use of foreign currency hedging would be considered if the directors concluded that foreign currency fluctuations could have a material impact.

Future Developments

The directors believe that trading for FY22 will continue strongly despite the challenges noted above.

The end-markets for the Group's products, particularly in the field of quantum technology, continue to be well funded by many national governments and the directors expect there to be scope for further growth in the business.

The Group intends to maintain its investments within the valuable R&D projects that have underpinned its growth so far.

The directors wish to place on record their sincere thanks and appreciation to all members of staff for their support and commitment provided during this challenging reporting period.

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



.....
Dr Graeme P A Malcolm OBE FREng FRSE FInstP
Director

Date: 23rd August 2021

M SQUARED LASERS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 28 FEBRUARY 2021

The directors present their report and the financial statements for the year ended 28 February 2021.

Results and dividends

The profit for the year, after taxation, amounted to £717,604 (2020 - £1,420,968).

Existence of branches outside the UK

The Company has no branches, as defined in section 1046(3) of the Companies Act 2006, outside the UK other than its subsidiaries listed in note 15.

Going concern

The Group is funded by its shareholders, bank term loans, working capital facility and cash flow arising from its trading activities. As discussed above, the directors are pleased with the level of commercial adoption for certain of its technology propositions and have a reasonable expectation of continuing workflow.

In order to assess the appropriateness of adopting the going concern basis, the directors have reviewed the detailed forecasts of the Group and related potential scenarios. These forecasts show continued growth in both revenue and profitability across the Group and a positive cash flow, with the ability to meet financing requirements as they fall due for repayment.

Taking these factors into account and after making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis in preparing the annual financial statements.

Details of research and development in the year, future developments and financial risk management policies can be found in the Strategic Report on pages 1 to 3 and form part of this report by cross-reference.

Directors

The directors who served during the year were:

Graeme Malcolm
Angus Morrison
John Nicholls
Douglas Bain (resigned 11 March 2021)
Stuart Malcolm
Gareth Maker
Patrick Graham (resigned 13 November 2020)
Andy Roberts (resigned 13 November 2020)

Directors' indemnities

The Group has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

M SQUARED LASERS LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 28 FEBRUARY 2021**

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

Auditor

Under section 487(2) of the Companies Act 2006, Anderson Anderson & Brown Audit LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 23rd August 2021 and signed on its behalf.



Dr Graeme P A Malcolm OBE FREng FRSE FInstP
Director

M SQUARED LASERS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2021

The directors are responsible for preparing the Group strategic report, the Directors' report and the consolidated 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Group's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

M SQUARED LASERS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M SQUARED LASERS LIMITED

Opinion

We have audited the financial statements of M Squared Lasers Limited (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 28 February 2021, which comprise the Group Statement of comprehensive income, the Group and Company Balance sheets, the Group Statement of cash flows, the Group and Company Statement of changes in equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent Company's affairs as at 28 February 2021 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council'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 Group's or the parent 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.

M SQUARED LASERS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M SQUARED LASERS LIMITED (CONTINUED)

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.

Opinion 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 Group 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 Group strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 7, 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 Group's and the parent 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 Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

M SQUARED LASERS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M SQUARED LASERS LIMITED (CONTINUED)

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 Group 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:

We considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: timing of recognition of commercial income, posting of unusual journals along with complex transactions and manipulating the Company's key performance indicators to meet targets. We discussed these risks with client management, designed audit procedures to test the timing of commercial revenue, tested a sample of journals to confirm they were appropriate and reviewed areas of judgement for indicators of management bias to address these risks.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Anderson Anderson & Brown Audit LLP

Derek Mair (Senior statutory auditor)

for and on behalf of

Anderson Anderson & Brown Audit LLP

1 Lochrin Square
92 Fountainbridge
Edinburgh
EH3 9QA

Date: 23 August 2021

M SQUARED LASERS LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 28 FEBRUARY 2021**

	Note	2021 £	2020 £
Turnover	4	16,480,569	14,325,839
Cost of sales		(7,763,512)	(8,242,461)
Gross profit		<u>8,717,057</u>	<u>6,083,378</u>
Administrative expenses		(8,470,802)	(4,804,160)
Other operating income	5	1,834,152	867,591
Operating profit	6	<u>2,080,407</u>	<u>2,146,809</u>
Interest payable and similar expenses	10	(780,285)	(713,514)
Profit before tax		<u>1,300,122</u>	<u>1,433,295</u>
Tax on profit	11	(582,518)	(12,327)
Profit for the financial year		<u>717,604</u>	<u>1,420,968</u>
Other comprehensive income for the year			
Exchange differences on retranslation of subsidiary undertakings		5,775	(2,429)
Other comprehensive income for the year		<u>5,775</u>	<u>(2,429)</u>
Total comprehensive income for the year		<u>723,379</u>	<u>1,418,539</u>
Profit for the year attributable to:			
Owners of the parent company		<u>717,604</u>	<u>1,420,968</u>

The notes on pages 20 to 42 form part of these financial statements.

M SQUARED LASERS LIMITED

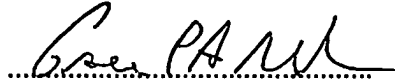
**CONSOLIDATED BALANCE SHEET
AS AT 28 FEBRUARY 2021**

	Note	28 February 2021 £	29 February 2020 £
Fixed assets			
Intangible assets	13	11,954,553	9,177,088
Tangible assets	14	455,644	315,678
		<u>12,410,197</u>	<u>9,492,766</u>
Current assets			
Stocks	16	4,515,055	4,163,923
Debtors: amounts falling due within one year	17	7,195,120	6,216,847
Cash at bank and in hand	18	878,303	303,158
		<u>12,588,478</u>	<u>10,683,928</u>
Creditors: amounts falling due within one year	19	(19,486,487)	(15,478,347)
Net current liabilities		<u>(6,898,009)</u>	<u>(4,794,419)</u>
Total assets less current liabilities		<u>5,512,188</u>	<u>4,698,347</u>
Creditors: amounts falling due after more than one year	20	(2,895,965)	(3,185,938)
Provisions for liabilities			
Deferred tax	22	(483,214)	(65,374)
		<u>(483,214)</u>	<u>(65,374)</u>
Net assets		<u>2,133,009</u>	<u>1,447,035</u>
Capital and reserves			
Called up share capital	23	47,105	47,105
Share premium account		463,862	463,862
Foreign exchange reserve		(77,555)	(145,774)
Profit and loss account		1,699,597	1,081,842
		<u>2,133,009</u>	<u>1,447,035</u>

M SQUARED LASERS LIMITED

**CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 28 FEBRUARY 2021**

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



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Dr Graeme P A Malcolm OBE FREng FRSE FInstP
Director

Date: 23rd AUGUST 2021

The notes on pages 20 to 42 form part of these financial statements.

M SQUARED LASERS LIMITED

**COMPANY BALANCE SHEET
AS AT 28 FEBRUARY 2021**

	Note	28 February 2021 £	29 February 2020 £
Fixed assets			
Intangible assets	13	10,771,060	8,608,025
Tangible assets	14	445,805	315,322
Investments	15	30,407	10,819
		<u>11,247,272</u>	<u>8,934,166</u>
Current assets			
Stocks	16	4,515,055	4,163,923
Debtors: amounts falling due within one year	17	6,668,286	6,142,974
Cash at bank and in hand	18	807,099	(35,088)
		<u>11,990,440</u>	<u>10,271,809</u>
Creditors: amounts falling due within one year	19	(18,426,564)	(14,391,017)
Net current liabilities		<u>(6,436,124)</u>	<u>(4,119,208)</u>
Total assets less current liabilities		<u>4,811,148</u>	<u>4,814,958</u>
Creditors: amounts falling due after more than one year	20	(1,501,520)	(2,513,938)
Provisions for liabilities			
Deferred taxation	22	(483,214)	(65,374)
		<u>(483,214)</u>	<u>(65,374)</u>
Net assets		<u>2,826,414</u>	<u>2,235,646</u>
Capital and reserves			
Called up share capital	23	47,105	47,105
Share premium account		463,862	463,862
Foreign exchange reserve		537	537
Profit and loss account		2,314,910	1,724,142
		<u>2,826,414</u>	<u>2,235,646</u>

M SQUARED LASERS LIMITED

**COMPANY BALANCE SHEET (CONTINUED)
AS AT 28 FEBRUARY 2021**

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


.....
Dr Graeme P A Malcolm OBE FREng FRSE FInstP
Director

Date: 23rd August 2021

The notes on pages 20 to 42 form part of these financial statements.

M SQUARED LASERS LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 28 FEBRUARY 2021**

	Called up share capital £	Share premium account £	Foreign exchange reserve £	Profit and loss account £	Total equity £
At 1 March 2019	47,105	463,862	(143,345)	(339,126)	28,496
Comprehensive income for the year					
Profit for the year	-	-	-	1,420,968	1,420,968
Exchange differences on retranslation of subsidiary undertakings	-	-	(2,429)	-	(2,429)
At 1 March 2020	47,105	463,862	(145,774)	1,081,842	1,447,035
Profit for the year	-	-	-	717,604	717,604
Exchange differences on retranslation of subsidiary undertakings	-	-	68,219	-	68,219
Dividends: Equity capital	-	-	-	(99,849)	(99,849)
At 28 February 2021	47,105	463,862	(77,555)	1,699,597	2,133,009

The notes on pages 20 to 42 form part of these financial statements.

M SQUARED LASERS LIMITED

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 28 FEBRUARY 2021**

	Called up share capital £	Share premium account £	Foreign exchange reserve £	Profit and loss account £	Total equity £
At 1 March 2019	47,105	463,862	-	(415,702)	95,265
Profit for the year	-	-	-	2,139,844	2,139,844
Exchange differences on retranslation of subsidiary undertakings	-	-	537	-	537
At 1 March 2020	47,105	463,862	537	1,724,142	2,235,646
Profit for the year	-	-	-	690,617	690,617
Dividends: Equity capital	-	-	-	(99,849)	(99,849)
At 28 February 2021	47,105	463,862	537	2,314,910	2,826,414

The notes on pages 20 to 42 form part of these financial statements.

M SQUARED LASERS LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 28 FEBRUARY 2021**

	28 February 2021 £	29 February 2020 £
Cash flows from operating activities		
Profit for the financial year	717,604	1,420,968
Adjustments for:		
Amortisation of intangible assets	1,962,273	1,340,844
Depreciation of tangible assets	152,810	139,776
Government grants	(1,834,152)	(867,591)
Interest payable	780,285	713,514
Taxation charge	582,518	12,327
(Increase) in stocks	(351,132)	(454,225)
(Increase)/decrease in debtors	(549,196)	1,360,188
(Decrease)/increase in creditors	(186,537)	2,565,135
Corporation tax received	17,506	56,959
Foreign exchange	68,219	(2,429)
Tax credits included in operating profit	(611,261)	(419,011)
Net cash generated from operating activities	748,937	5,866,455
Cash flows from investing activities		
Capitalised development costs	(4,739,738)	(5,092,628)
Purchase of tangible fixed assets	(292,776)	(217,325)
Government grants received	1,834,152	867,591
Net cash from investing activities	(3,198,362)	(4,442,362)
Cash flows from financing activities		
Repayment of bank loans	(1,950,000)	(401,064)
New loan notes	1,394,445	-
Repayment of other loans	(6,048,839)	-
Increase in amounts owed to parent company	10,509,098	-
Dividends paid	(99,849)	-
Interest paid	(780,285)	(713,514)
Net cash used in financing activities	3,024,570	(1,114,578)
Net increase in cash and cash equivalents	575,145	309,515
Cash and cash equivalents at beginning of year	303,158	(6,357)
Cash and cash equivalents at the end of year	878,303	303,158

M SQUARED LASERS LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 28 FEBRUARY 2021**

	28 February 2021 £	29 February 2020 £
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	878,303	303,158
	<u>878,303</u>	<u>303,158</u>

The notes on pages 20 to 42 form part of these financial statements.

M SQUARED LASERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2021

1. General information

M Squared Lasers Limited is a limited liability company incorporated in Scotland. The registered office is Venture Building, 1 Kelvin Campus, West of Scotland Science Park, Maryhill Road, Glasgow, G20 0SP.

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 Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies (see note 3).

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of comprehensive income in these financial statements. The Company's profit for the year was £946,368.

For their respective years ended 28 February 2021 the following subsidiaries are entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies: Solus Technologies Limited (SC303447) and M Squared Life Limited (SC522938).

The following principal accounting policies have been applied:

2.2 Basis of consolidation

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

M SQUARED LASERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2021

2. Accounting policies (continued)

2.3 Going concern

At the balance sheet date the Group has net current liabilities of £6,898,009. As referenced in the Strategic Report, due to restrictions on short period accounts, the Group consolidation has been prepared and reported at the level of M Squared Lasers Limited, rather than incorporating the new Group holding company, M Squared Technologies Group Limited. This has resulted in a balance payable to the immediate and ultimate parent company of £10,509,098. This balance is not intended to be payable within the coming twelve months.

The directors, having made due and careful enquiry, are of the opinion that the group has adequate working capital to execute its operations over the next 12 months. The directors, therefore, have made an informed judgement, at the time of approving the financial statements, that there is a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. As a result the directors have continued to adopt the going concern basis of accounting in preparing the annual financial statements.

As a result, the directors have continued to adopt the going concern basis of accounting in preparing the annual financial statements.

2.4 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Consolidated statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other operating income'.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2021**

2. Accounting policies (continued)

2.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has transferred the significant risks and rewards of ownership to the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

2.6 Operating leases: the Group as lessee

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

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.7 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. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 7 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2021**

2. Accounting policies (continued)

2.8 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to profit or loss at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Consolidated statement of comprehensive income in the same period as the related expenditure.

2.9 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.10 Borrowing costs

All borrowing costs are recognised in profit or loss in the year in which they are incurred.

2.11 Pensions

Defined contribution pension scheme

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

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance sheet. The assets of the scheme are held separately from the Group in independently administered funds.

2.12 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Group keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, profit or loss is charged with fair value of goods and services received.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2021**

2. Accounting policies (continued)

2.13 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss 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.

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 and the Group operate and generate income.

Deferred tax balances are 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;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.14 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Research and Development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised as an intangible asset and amortised over the period during which the Group is expected to benefit. This period is over 7 years on a straight line basis. Provision is made for impairment.

Patents and Trademarks

Separately acquired patents and trademarks are included at cost and amortised in equal annual instalments over a period of 5 years and 25 years respectively which is their estimated useful economic life. Provision is made for any impairment.

2.15 Tangible fixed assets

Tangible fixed assets under the cost model 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2021**

2. Accounting policies (continued)

2.15 Tangible fixed assets (continued)

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.

Depreciation is provided on the following basis:

Long-term leasehold property	- Over period of lease (up to 6 years)
Office & laboratory equipment	- 25% per annum
Computer equipment	- 25% per annum

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 profit or loss.

2.16 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted Group shares, whose market value can be reliably determined, are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in the Consolidated statement of comprehensive income for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

2.17 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.18 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.19 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Consolidated statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2021**

2. Accounting policies (continued)

2.20 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.21 Provisions for liabilities

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the Balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance sheet.

2.22 Financial instruments

The Group only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

Investments in non-derivative instruments that are equity to the issuer are measured:

- at fair value with changes recognised in the Consolidated statement of comprehensive income if the shares are publicly traded or their fair value can otherwise be measured reliably;
- at cost less impairment for all other investments.

Financial assets that are 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 Consolidated statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a 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.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Group would receive for the asset if it were to be sold at the balance sheet date.

M SQUARED LASERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2021

2. Accounting policies (continued)

2.22 Financial instruments (continued)

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.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate. The company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

2.23 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below:

Capitalisation of development expenditure

During the year £3,678,989 of development expenditure was capitalised. The directors had to assess the technical, commercial and financial viability of individual projects. The directors prepared market research reports and technical feasibility project proposals in order to satisfy themselves that these projects had reached the required development stage and requirements for capitalisation. The assets are amortised over 7 years on a straight line basis.

Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the future cash generation relative to carrying value of the intangible assets. Based on current market knowledge, the directors consider there was no impairment during the year (2020: nil). The carrying amount of intangible assets (excluding development costs) at the balance sheet date was £1,870,170 (2020: £1,063,556).

4. Turnover

The whole of the turnover is attributable to the Group's principal activity and represents the sale of goods and related services. A geographical analysis of turnover is not included as the directors believe it would be prejudicial to the Group's interests.

M SQUARED LASERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2021****5. Other operating income**

	2021 £	2020 £
Government grants receivable	1,834,152	867,591
	<u>1,834,152</u>	<u>867,591</u>

6. Operating profit

The operating profit is stated after charging:

	2021 £	2020 £
Research & development charged as an expense	83,798	697,060
Exchange differences	301,281	8,520
Other operating lease rentals	816,672	705,258
Depreciation of tangible fixed assets	152,810	139,776
Amortisation of intangible fixed assets	<u>1,962,273</u>	<u>1,175,706</u>

7. Auditor's remuneration

	2021 £	2020 £
Fees payable to the Group's auditor and its associates for the audit of the Group's annual financial statements	<u>34,000</u>	<u>34,000</u>

M SQUARED LASERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2021

8. Employees

Staff costs, including directors' remuneration, were as follows:

	Group 28 February 2021 £	Group 29 February 2020 £	Company 28 February 2021 £	Company 29 February 2020 £
Wages and salaries	6,083,078	5,418,604	4,890,475	4,792,979
Social security costs	579,792	612,592	457,456	536,934
Cost of defined contribution scheme	199,643	222,887	158,187	195,750
	<u>6,862,513</u>	<u>6,254,083</u>	<u>5,506,118</u>	<u>5,525,663</u>

The average monthly number of employees, including the directors, during the year was as follows:

	Group 2021 No.	Group 2020 No.	Company 2021 No.	Company 2020 No.
Production and installation	37	35	33	32
Research and development	36	36	32	33
Sales and marketing	18	11	12	8
Administration	21	23	21	23
	<u>112</u>	<u>105</u>	<u>98</u>	<u>96</u>

9. Directors' remuneration

	2021 £	2020 £
Directors' emoluments	1,283,801	1,167,612
Company contributions to defined contribution pension schemes	70,290	68,925
	<u>1,354,091</u>	<u>1,236,537</u>

During the year retirement benefits were accruing to 6 directors (2020 - 5) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £362,500 (2020 - £299,586).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £20,300 (2020 - £20,300).

M SQUARED LASERS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2021**

10. Interest payable and similar expenses

	2021 £	2020 £
Other loan interest payable	780,285	713,514
	<u>780,285</u>	<u>713,514</u>

11. Taxation

	2021 £	2020 £
Corporation tax		
Current tax on profits for the year	116,140	(133,666)
Adjustments in respect of previous periods	33,032	78,663
	<u>149,172</u>	<u>(55,003)</u>
Foreign tax		
Foreign tax on income for the year	15,506	1,956
	<u>15,506</u>	<u>1,956</u>
Total current tax	<u>164,678</u>	<u>(53,047)</u>
Deferred tax		
Origination and reversal of timing differences	396,440	108,493
Changes to tax rates	41,135	(43,119)
Adjustment in respect of previous periods	(19,735)	-
Total deferred tax	<u>417,840</u>	<u>65,374</u>
Taxation on profit on ordinary activities	<u>582,518</u>	<u>12,327</u>

M SQUARED LASERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2021

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is the same as (2020 - the same as) the standard rate of corporation tax in the UK of 19% (2020 - 19 %) as set out below:

	2021 £	2020 £
Profit on ordinary activities before tax	1,300,122	1,433,295
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	247,023	272,326
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	403,379	111,698
Unrecognised deferred tax	-	642,600
Non-taxable income less expenses not deductible for tax purposes, other than goodwill and impairment	(122,316)	(933,572)
Tax rate changes	41,135	(43,113)
Unrelieved loss on foreign subsidiaries	-	(37,612)
Current tax prior year adjustment	33,032	-
Deferred tax prior year adjustment	(19,735)	-
Total tax charge for the year	582,518	12,327

Factors that may affect future tax charges

Finance Act 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax balance at 29 February 2020 had been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction will not occur and the Corporation Tax Rate will be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances have been re-calculated to 19% at the year end.

The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date and as a result, deferred tax balances as at 28 February 2021 continue to be measured at 19%. If all of the deferred tax was to reverse at the amended 25% rate the impact on the closing DT position would be to increase the deferred tax liability by £285k.

M SQUARED LASERS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2021**

12. Dividends

	28 February 2021 £	29 February 2020 £
Dividends at £0.035 per ordinary share	99,849	-
	<u>99,849</u>	<u>-</u>

13. Intangible assets

Group

	Patents £	Development expenditure £	Trademarks £	Total £
Cost				
At 1 March 2020	2,424,610	9,932,518	127,687	12,484,815
Additions	1,170,123	3,542,801	26,814	4,739,738
At 28 February 2021	<u>3,594,733</u>	<u>13,475,319</u>	<u>154,501</u>	<u>17,224,553</u>
Amortisation				
At 1 March 2020	1,460,727	1,818,986	28,014	3,307,727
Charge for the year	380,366	1,571,950	9,957	1,962,273
At 28 February 2021	<u>1,841,093</u>	<u>3,390,936</u>	<u>37,971</u>	<u>5,270,000</u>
Net book value				
At 28 February 2021	<u>1,753,640</u>	<u>10,084,383</u>	<u>116,530</u>	<u>11,954,553</u>
At 29 February 2020	<u>963,883</u>	<u>8,113,532</u>	<u>99,673</u>	<u>9,177,088</u>

M SQUARED LASERS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2021**

13. Intangible assets (continued)

Company

	Patents £	Development expenditure £	Trademarks £	Total £
Cost				
At 1 March 2020	1,563,980	9,932,518	127,687	11,624,185
Additions	398,744	3,542,801	26,814	3,968,359
At 28 February 2021	<u>1,962,724</u>	<u>13,475,319</u>	<u>154,501</u>	<u>15,592,544</u>
Amortisation				
At 1 March 2020	1,169,160	1,818,986	28,014	3,016,160
Charge for the year	223,417	1,571,950	9,957	1,805,324
At 28 February 2021	<u>1,392,577</u>	<u>3,390,936</u>	<u>37,971</u>	<u>4,821,484</u>
Net book value				
At 28 February 2021	<u>570,147</u>	<u>10,084,383</u>	<u>116,530</u>	<u>10,771,060</u>
At 29 February 2020	<u>394,820</u>	<u>8,113,532</u>	<u>99,673</u>	<u>8,608,025</u>

M SQUARED LASERS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2021**

14. Tangible fixed assets

Group

	Leasehold improvements £	Office equipment £	Computer equipment £	Total £
Cost or valuation				
At 1 March 2020	161,295	1,037,049	235,630	1,433,974
Additions	10,617	12,730	269,429	292,776
At 28 February 2021	171,912	1,049,779	505,059	1,726,750
Depreciation				
At 1 March 2020	48,298	860,171	209,827	1,118,296
Charge for the year on owned assets	34,365	75,311	43,134	152,810
At 28 February 2021	82,663	935,482	252,961	1,271,106
Net book value				
At 28 February 2021	89,249	114,297	252,098	455,644
At 29 February 2020	112,997	176,878	25,803	315,678

M SQUARED LASERS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2021**

14. Tangible fixed assets (continued)

Company

	Long-term leasehold property £	Office equipment £	Computer equipment £	Total £
Cost or valuation				
At 1 March 2020	161,295	1,034,852	232,034	1,428,181
Additions	10,617	4,600	264,456	279,673
At 28 February 2021	171,912	1,039,452	496,490	1,707,854
Depreciation				
At 1 March 2020	48,298	857,974	206,587	1,112,859
Charge for the year on owned assets	34,365	74,176	40,649	149,190
At 28 February 2021	82,663	932,150	247,236	1,262,049
Net book value				
At 28 February 2021	89,249	107,302	249,254	445,805
At 29 February 2020	112,997	176,878	25,447	315,322

M SQUARED LASERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2021

15. Fixed asset investments

Company

	Investments in subsidiary companies £
Cost or valuation	
At 1 March 2020	10,819
Additions	19,588
At 28 February 2021	<u>30,407</u>

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Holding
M Squared Lasers, Inc	1209 Orange Street, Wilmington, New Castle, DE, 19801, USA	100%
Solus Technologies Limited	Venture Building, 1 Kelvin Campus, Maryhill Road, Glasgow, United Kingdom	100%
M Squared Lasers GmbH	Alstertwiete 3, 20099, Hamburg, Germany	100%
M Squared Oil and Gas Limited	Venture Building, 1 Kelvin Campus, Maryhill Road, Glasgow, United Kingdom	100%
M Squared Life Limited	Venture Building, 1 Kelvin Campus, Maryhill Road, Glasgow, United Kingdom	100%

The aggregate of the share capital and reserves as at 28 February 2021 and the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

Name	Aggregate of share capital and reserves £	Profit/(Loss) £
M Squared Lasers, Inc	37,881	(43,819)
Solus Technologies Limited	(157,501)	-
M Squared Lasers GmbH	9,049	(2,128)
M Squared Oil and Gas Limited	-	45,686
M Squared Life Limited	(742,464)	28,092

M Squared Oil and Gas Limited was dissolved on 18 May 2021. M Squared Lasers UG converted to M Squared Lasers GmbH on 4 March 2021.

M SQUARED LASERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2021****16. Stocks**

	Group 28 February 2021 £	Group 29 February 2020 £	Company 28 February 2021 £	Company 29 February 2020 £
Raw materials and consumables	2,212,377	2,060,527	2,212,377	2,060,527
Work in progress (goods to be sold)	1,625,420	1,482,340	1,625,420	1,482,340
Finished goods and goods for resale	677,258	621,056	677,258	621,056
	<u>4,515,055</u>	<u>4,163,923</u>	<u>4,515,055</u>	<u>4,163,923</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

M SQUARED LASERS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2021**

17. Debtors

	Group 28 February 2021 £	Group 29 February 2020 £	Company 28 February 2021 £	Company 29 February 2020 £
Trade debtors	2,030,754	2,538,031	1,348,810	1,476,291
Amounts owed by group undertakings	-	-	1,217,622	1,683,867
Other debtors	1,403,308	877,001	1,311,359	866,944
Prepayments and accrued income	3,761,058	2,801,815	2,790,495	2,115,872
	<u>7,195,120</u>	<u>6,216,847</u>	<u>6,668,286</u>	<u>6,142,974</u>

18. Cash and cash equivalents

	Group 28 February 2021 £	Group 29 February 2020 £	Company 28 February 2021 £	Company 29 February 2020 £
Cash at bank and in hand	878,303	303,158	807,099	(35,088)
	<u>878,303</u>	<u>303,158</u>	<u>807,099</u>	<u>(35,088)</u>

19. Creditors: Amounts falling due within one year

	Group 28 February 2021 £	Group 29 February 2020 £	Company 28 February 2021 £	Company 29 February 2020 £
Bank loans	-	1,937,500	-	1,937,500
Loan notes	-	3,241,472	-	3,241,472
Trade creditors	3,134,358	4,400,031	3,045,664	4,467,512
Amounts owed to group undertakings	10,509,098	-	10,509,098	8,462
Other taxation and social security	1,358,109	420,825	1,267,130	403,219
Other creditors	620,893	215,956	223,322	91,979
Accruals and deferred income	3,864,029	5,262,563	3,381,350	4,240,873
	<u>19,486,487</u>	<u>15,478,347</u>	<u>18,426,564</u>	<u>14,391,017</u>

M SQUARED LASERS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2021**

20. Creditors: Amounts falling due after more than one year

	Group 28 February 2021 £	Group 29 February 2020 £	Company 28 February 2021 £	Company 29 February 2020 £
Bank loans	-	12,500	-	12,500
Loan notes	1,394,445	2,807,367	-	2,135,367
Accruals and deferred income	1,501,520	366,071	1,501,520	366,071
	<u>2,895,965</u>	<u>3,185,938</u>	<u>1,501,520</u>	<u>2,513,938</u>

21. Loans

	Group 28 February 2021 £	Group 29 February 2020 £	Company 28 February 2021 £	Company 29 February 2020 £
Amounts falling due within one year				
Bank loans	-	1,937,500	-	1,937,500
Other loans	-	3,241,472	-	3,241,472
	<u>-</u>	<u>5,178,972</u>	<u>-</u>	<u>5,178,972</u>
Amounts falling due 1-2 years				
Bank loans	-	12,500	-	12,500
Other loans	794,445	2,807,367	-	2,135,367
	<u>794,445</u>	<u>2,819,867</u>	<u>-</u>	<u>2,147,867</u>
Amounts falling due 2-5 years				
Other loans	600,000	-	-	-
	<u>1,394,445</u>	<u>7,998,839</u>	<u>-</u>	<u>7,326,839</u>

M SQUARED LASERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2021

22. Deferred taxation

Group

	2021 £
At beginning of year	65,374
Charged to profit or loss	(417,840)
At end of year	<u>483,214</u>

Company

	2021 £
At beginning of year	65,374
Charged to profit or loss	(417,840)
At end of year	<u>483,214</u>

	Group 28 February 2021 £	Group 29 February 2020 £	Company 28 February 2021 £	Company 29 February 2020 £
Accelerated capital allowances	(1,838,697)	(1,300,530)	(1,838,697)	(1,300,530)
Tax losses carried forward	1,328,408	1,206,451	1,328,408	1,206,451
Pension surplus	27,075	28,705	27,075	28,705
	<u>(483,214)</u>	<u>(65,374)</u>	<u>(483,214)</u>	<u>(65,374)</u>

23. Share capital

	28 February 2021 £	29 February 2020 £
Allotted, called up and fully paid		
4,710,485 (2020 - 2,863,630) Ordinary shares of £0.01 each	47,105	28,636
Nil (2020 - 1,846,855) A Ordinary shares of £0.01 each	-	18,469
	<u>47,105</u>	<u>47,105</u>

On 13 November 2020, all of the A Ordinary £0.01 shares were converted to Ordinary £0.01 shares.

M SQUARED LASERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2021

24. Share based payments

Equity-settled share option schemes

The Group has a share option scheme for some of its employees.

Options are exercisable at a price equal to the estimated fair value as agreed with HMRC of the Company's shares on the date of grant. The options are exercisable on an exit only and, where applicable, on achievement of certain performance criteria. The maximum vesting period is ten years, after which the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	28 February Weighted average exercise price (pence) 2021	28 February Number 2021	29 February Weighted average exercise price (pence) 2020	29 February Number 2020
Outstanding at the beginning of the year	1	149,500	1	80,000
Granted during the year		-	1	69,500
Forfeited during the year	1	(50,000)		-
Outstanding at the end of the year		99,500		149,500

25. Pension commitments

The group operates a defined contribution pension scheme for its employees. At the balance sheet date the group had outstanding pension contributions of £108,234 (2020 - £100,274).

26. Commitments under operating leases

At 28 February 2021 the Group and the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	Group 28 February 2021 £	Group 29 February 2020 £	Company 28 February 2021 £	Company 29 February 2020 £
Not later than 1 year	291,450	188,455	291,450	188,455
Later than 1 year and not later than 5 years	4,267	4,267	4,267	4,267
	295,717	192,722	295,717	192,722

M SQUARED LASERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2021

27. Related party transactions

During the year the Group made sales to a company with common directors and shareholders, totalling £21,000 (2020 - £35,000).

28. Securities

The Company has entered into cross-corporate guarantees with its immediate parent company as part of security arrangements with the group's bankers.

29. Post balance sheet events

No post balance sheet events occurred.

30. Controlling party

The immediate and ultimate parent company is M Squared Technologies Group Limited, a company incorporated in Scotland and having its registered office at Venture Building, 1 Kelvin Campus, West of Scotland Science Park, Glasgow, G20 0SP, United Kingdom.