

**M-Squared Lasers Limited**  
**Annual report and financial statements**  
**for the year ended 28 February 2019**

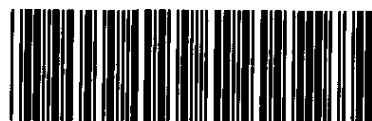
Registered number: SC243330

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## **M-Squared Lasers Limited**

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# **M-Squared Lasers Limited**

## **Strategic Report**

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 13) when viewed as a whole.

### **Principal activities**

M Squared is a photonics and quantum technology company. It is a developer of photon and quantum technologies that enable new applications and industries – addressing some of society's greatest challenges. The Group's primary market for its products and services continues to include North America, Europe, China and Japan.

### **Review of the business**

The Group incurred a further year of strong growth, with revenue up 33% to £17.7m, with strong operating profit maintained despite significant investment in infrastructure to support continued growth in 2019/20 and beyond. The Group has built on its order book across the business and is well placed in a range of growth markets. The Group has made significant progress in financial year. Specifically, activities and research has been carried out to support our growth aspirations and are at the vanguard of frontier science:

- Making quantum technology a reality
- Making breakthroughs in space
- Powering industry
- Behind cutting edge healthcare
- Investment in strategic partnerships

The continued strong growth was founded upon further strategic investment in research and development, manufacturing capacity and sales and marketing capabilities. The Group continues to allocate a significant proportion of its resources to research and development in both existing and new products and to the generation of intellectual property for future commercialisation. The Group has a dedicated Innovation unit which identifies key technology opportunities and associated sources of funding to support such programs, and has a robust planning environment to ensure opportunities provide real value add.

# M-Squared Lasers Limited

## Strategic Report

The Directors' review of key performance indicators are as follows:

	<b>Total 2019 £</b>	<b>Total 2018 £</b>
<b>Turnover</b>	<b>17,695,560</b>	<b>13,354,664</b>
<b>Cost of sales</b>	<b>(8,743,768)</b>	<b>(6,545,750)</b>
<b>Gross profit</b>	<b>8,951,792</b>	<b>6,808,914</b>
<b>Administrative expenses</b>	<b>(7,614,090)</b>	<b>(7,851,568)</b>
<b>Other operating income</b>	<b>1,425,131</b>	<b>2,168,036</b>
<b>Operating profit</b>	<b>2,762,833</b>	<b>1,125,382</b>
<b>Finance costs (net)</b>	<b>(765,852)</b>	<b>(708,484)</b>
<b>Profit on ordinary activities before taxation</b>	<b>1,996,981</b>	<b>416,898</b>
<b>Tax on profit on ordinary activities</b>	<b>246,349</b>	<b>249,308</b>
<b>Profit for the financial year</b>	<b>2,243,330</b>	<b>666,206</b>

Turnover has increased across quantum technology, industry and bio-science, with a gross profit of 50.6% (17/18: 51.0%), Operating profit is 15.6% (17/18: 8.4%) after expensing patent licence costs of £68,790 (17/18: £689,359)

Administrative costs have increased reflecting investment primarily in manufacturing and sales, with staff numbers increasing by 9.4% to 93 (2017/18: 85).

Finance costs and taxation costs remain in line with prior year.

The financial position of the Group is set out in the balance sheet on page 13. The Group has net assets of £28,496 (17/18: (£2,307,837)). The decrease in net liabilities is a result of the profit for the year of £2,243,330 (17/18: £666,206). A £100k of new investment was welcomed during the year.

The consolidated cash flow statement of the Group is set out on page 17. Net cash inflow from operating activities for the year was £1,755,197 (17/18: £1,381,020) reflecting continued investment in growth in core areas of quantum and biophotonics.

### Research and development

The Group's Innovation unit continues to develop a number of new laser-based photonics solutions aimed at addressing significant global issues in the fields of physical, biological and chemical sciences. Particular progress was made in the year in relation to biophotonics products, particularly the Group's Aurora system, with the potential to help scientists in the fields of neurology, oncology and regenerative medicine. The directors believe that quantum technologies will continue to be a key field for the Group's research and development in the future and our Innovation unit continues to collaborate extensively with the UK government's national network for Quantum Hub and internationally with some of the world's key researchers in Quantum Technologies.

The progress made in development of certain innovation programs was such that the directors consider it appropriate to capitalise £1,555,111 (17/18: £911,943) of related expenditure as an intangible asset with amortisation in the year of £447,561 (17/18: £243,572).

# **M-Squared Lasers Limited**

## **Strategic Report (continued)**

### **Bank Financing**

On 26 November 2018 the Group completed the renewal of its bank facilities, comprising a revolving loan and overdraft facility. Contemporaneous with this renewal, M-Squared Lasers Limited transferred certain assets to its wholly owned subsidiary, M Squared Life Limited, and M Squared Life Limited issued Loan Notes of £672,000 with principal repayment after a term of 5 years.

### **Principal risks and uncertainties**

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.

### **Financial Instruments**

The Group holds or issues financial instruments in order to achieve two main objectives, being:

- to finance its operations: and
- to manage its exposure to interest and currency risks arising from its operations and from its sources of finance.

In addition, various financial instruments (e.g. trade debtors and trade creditors) arise directly from the Group's operations.

Transactions in financial instruments result in the Group assuming or transferring to another party one or more of the financial risks described below.

### **Interest rate risk**

The Group has a mix of borrowings, some with fixed rate and others subject to the prevailing floating market interest rates, allowing a certain degree of mitigation to this risk. The board regularly reviews interest rates throughout the year.

### **Credit risk**

The Group monitors credit risk closely and considers that its current policies of credit checks meet 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 a relatively 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.

### **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.

## **M-Squared Lasers Limited**

### **Strategic Report (continued)**

#### **Future developments**

The directors expect the trading conditions for the Group to remain similar to the financial year ended 28 February 2019, albeit with a strong focus on determining and mitigating any impacts from Brexit.

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. While funding for innovation is largely dependent on the spending priorities of the UK government and EU, the directors expect the current levels of funding to continue and would expect the Group would continue to be successful in securing such funding.

Approved by the board on 29<sup>th</sup> November 2019 and signed on behalf of the board by:



Dr Graeme P A Malcolm OBE FREng FRSE FInstP

Director

29<sup>th</sup> November 2019

#### **Registered office**

Venture Building

1 Kelvin Campus

West of Scotland Science Park

Maryhill Road

Glasgow

G20 0SP

# **M-Squared Lasers Limited**

## **Directors' responsibilities statement**

### **Directors' report**

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 28 February 2019. No dividend is proposed.

#### **Future developments, financial risk management, events after the balance sheet date and research and development**

Details of research and development in the year and future developments and financial risk management policies can be found in the Strategic Report on pages 1 to 4 and form part of this report by cross-reference.

#### **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 13.

#### **Post balance sheet events**

Subsequent to the year end, the Bank, the Company and the Loan Notes holder agreed the deferral of Loan Notes of £1.5m, that were due for payment in May and September 2019.

#### **Going concern**

The Group is funded by its shareholders, bank term loans, loan notes, 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.

The Group meets its day to day working capital requirements through operational cashflow and a revolving credit facility. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's products; (b) the exchange rate between sterling and US dollar and thus the consequence for the cost of the Group's raw materials; and (c) the availability of bank finance in the foreseeable future.

During the current year the Group's forecasts and projections, taking account of reasonably possible changes in trading performance, confirmed that the Group would be unable to make Loan Note repayments of £1.5 million in June and September 2019 (as disclosed in Post balance sheet events above). The Group worked closely with its Loan Note holder and the Bank (the "Parties") and have agreed a deferral plan into 2020. In line with this deferral plan the Parties are currently working together in finalising an updated business plan to reflect these changes and reset related covenants and expect to complete the exercise before the end of the financial year. No issues have been raised by the Parties to suggest that these discussions will not be agreed on acceptable terms, and the directors are therefore confident that appropriate bank facilities will continue to be available to support anticipated growth, and certainly for at least the next 12 months.

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. Consideration was also given to the post balance sheet event noted above.

On this basis, the directors therefore have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The directors continue to adopt the going concern basis of accounting in preparing the annual financial statements, and believe there are no material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern.

# **M-Squared Lasers Limited**

## **Directors' responsibilities statement**

### **Directors' report (continued)**

#### **Directors**

The directors, who served throughout the year and to the date of this report, were as follows:

Dr Gareth Maker  
Dr Graeme Malcolm  
Mr Angus Morrison  
Dr John Nicholls  
Mr Patrick Graham  
Mr Stuart Malcolm  
Mr Andrew Roberts  
Mr Douglas Bain (appointed Jan 2019)

#### **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.

#### **Auditor**

Each of the persons who is a director at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be reappointed for another term and a resolution regarding their reappointment will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:



Dr Graeme P A Malcolm OBE FREng FRSE FInstP

Director

29 November 2019

#### **Registered office**

Venture Building  
1 Kelvin Campus  
West of Scotland Science Park  
Maryhill Road  
Glasgow  
G20 0SP



## **M-Squared Lasers Limited**

### **Directors' responsibilities statement**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 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 of the profit or loss of the company for that period.

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

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

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

## **M-Squared Lasers Limited**

### **Independent auditor's report to the members of M-Squared Lasers Limited**

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

##### **Opinion**

In our opinion the financial statements of M-Squared Lasers Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 28<sup>th</sup> February 2019 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 22.

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).

##### **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 and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **M-Squared Lasers Limited**

### **Independent auditor's report to the members of M-Squared Lasers Limited**

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

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

#### **Other information**

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

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

#### **Responsibilities of directors**

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

In preparing the financial statements, the directors are responsible for assessing the 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.

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

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

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

## **M-Squared Lasers Limited**

### **Independent auditor's report to the members of M-Squared Lasers Limited**

#### **Report on other legal and regulatory requirements**

##### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

##### **Matters on which we are required to report by exception**

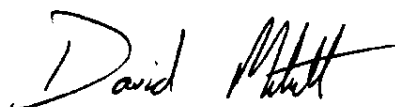
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept 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.

We have nothing to report in respect of these matters.

##### **Use of our report**

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



David Mitchell (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

Glasgow, United Kingdom

29 November 2019

## **M-Squared Lasers Limited**

### **Consolidated profit and loss account For the year ended 28 February 2019**

	<b>Note</b>	<b>Total 2019 £</b>	<b>Total 2018 £</b>
<b>Turnover</b>	<b>3</b>	<b>17,695,560</b>	<b>13,354,664</b>
<b>Cost of sales</b>		<b>(8,743,768)</b>	<b>(6,545,750)</b>
<b>Gross profit</b>		<b>8,951,792</b>	<b>6,808,914</b>
<b>Administrative expenses</b>		<b>(7,614,090)</b>	<b>(7,851,568)</b>
<b>Other operating income</b>		<b>1,425,131</b>	<b>2,168,036</b>
<b>Operating profit</b>	<b>5</b>	<b>2,762,833</b>	<b>1,125,382</b>
<b>Finance costs (net)</b>	<b>4</b>	<b>(765,852)</b>	<b>(708,484)</b>
<b>Profit on ordinary activities before taxation</b>		<b>1,996,981</b>	<b>416,898</b>
<b>Tax on profit on ordinary activities</b>	<b>8</b>	<b>246,349</b>	<b>249,308</b>
<b>Profit for the financial year</b>	<b>9</b>	<b>2,243,330</b>	<b>666,206</b>

All results arise from continuing activities.

## **M-Squared Lasers Limited**

### **Consolidated statement of comprehensive income** **For the year ended 28 February 2019**

	<b>Note</b>	<b>2019</b> <b>£</b>	<b>2018</b> <b>£</b>
<b>Profit for the financial year</b>	<b>9</b>	<b>2,243,330</b>	<b>666,206</b>
<b>Other comprehensive income</b>			
Exchange differences on retranslation of subsidiary undertakings		(6,995)	7,849
<b>Total comprehensive income for the year</b>	<b>9</b>	<b>2,236,335</b>	<b>674,055</b>

All results arise from continuing activities.

# M-Squared Lasers Limited

## Consolidated balance sheet At 28 February 2019

	Note	2019 £	2018 £
<b>Fixed assets</b>			
Intangible assets	11	5,425,303	4,265,437
Tangible assets	12	238,129	228,526
		<u>5,663,432</u>	<u>4,493,963</u>
<b>Current assets</b>			
Stocks	14	3,709,698	2,829,286
Debtors due within one year	15	7,161,933	5,123,500
Cash at bank and in hand		(6,357)	294,101
		<u>10,865,274</u>	<u>8,246,887</u>
<b>Creditors: Amounts falling due within one year</b>	16	<u>(11,441,287)</u>	<u>(8,906,914)</u>
<b>Net current assets</b>		<u>(576,011)</u>	<u>(660,027)</u>
<b>Total assets less current liabilities</b>		<u>5,087,421</u>	<u>3,833,936</u>
<b>Creditors: Amounts falling due after more than one year</b>	17	<u>(5,058,925)</u>	<u>(6,141,773)</u>
<b>Net assets</b>		<u>28,496</u>	<u>(2,307,837)</u>
<b>Capital and reserves</b>			
Called-up share capital	18	47,105	46,431
Share premium account	18	463,862	364,538
Capital redemption reserve	18	-	-
Translation reserve	18	(143,345)	(136,350)
Profit and loss account	18	(339,126)	(2,582,456)
<b>Total equity shareholders' deficit</b>		<u>28,496</u>	<u>(2,307,837)</u>

The financial statements of M-Squared Lasers Limited (registered number SC243330) were approved by the board of directors and authorised for issue on 29 November 2019. They were signed on its behalf by:



Dr Graeme P A Malcolm OBE FREng FRSE FInstP  
Director

# M-Squared Lasers Limited

## Company balance sheet At 28 February 2019

	Note	2019 £	2018 £
<b>Fixed assets</b>			
Intangible assets	11	4,691,103	4,168,151
Tangible assets	12	237,222	226,566
Investments	13	10,819	1,820
		<u>4,939,144</u>	<u>4,396,537</u>
<b>Current assets</b>			
Stocks	14	3,709,698	2,829,286
Debtors due within one year	15	7,054,787	5,356,672
Cash at bank and in hand		(216,353)	(100,243)
		<u>10,548,132</u>	<u>8,085,715</u>
<b>Creditors: Amounts falling due within one year</b>	16	<u>(11,005,087)</u>	<u>(8,298,747)</u>
<b>Net current liabilities</b>		<u>(456,955)</u>	<u>(213,032)</u>
<b>Total assets less current liabilities</b>		<u>4,482,189</u>	<u>4,183,505</u>
<b>Creditors: Amounts falling due after more than one Year</b>	17	<u>(4,386,924)</u>	<u>(6,141,773)</u>
<b>Net assets</b>		<u>95,265</u>	<u>(1,958,268)</u>
<b>Capital and reserves</b>			
Called-up share capital	18	47,105	46,431
Share premium account	18	463,862	364,538
Capital redemption reserve	18	-	-
Profit and loss account	18	(415,702)	(2,369,237)
<b>Shareholders' funds</b>		<u>95,265</u>	<u>(1,958,268)</u>

The profit for the financial year dealt with in the financial statements of the parent Company was £1,953,534 (2018: £511,794).

The financial statements of M-Squared Lasers Limited (registered number SC243330) were approved by the board of directors and authorised for issue on 29 November 2019. They were signed on its behalf by:



Dr Graeme P A Malcolm OBE FREng FRSE FInstP  
Director



## M-Squared Lasers Limited

### Consolidated statement of changes in equity At 28 February 2019

	Called-up share capital £	Share Premium Account £	Capital redemption reserve £	Translation reserve £	Profit and loss account £	Total £
<b>At 28 February 2017</b>	46,864	366,480	127	(144,199)	(3,248,662)	(2,979,390)
Profit for the financial year	-	-	-	-	666,206	666,206
Exchange differences on retranslation of subsidiary undertakings	-	-	-	7,849	-	7,849
<b>Total comprehensive income</b>	46,864	366,480	127	(136,350)	(2,582,456)	(2,307,837)
Buyback of share capital	(970)	(1,942)	(127)	-	-	(3,039)
Issue of Share Capital	537	-	-	-	-	537
<b>At 29 February 2018</b>	46,431	364,538	-	(136,350)	(2,582,456)	(2,307,837)
Profit for the financial year	-	-	-	-	2,243,330	2,243,330
Exchange differences on retranslation of subsidiary undertakings	-	-	-	(6,995)	-	(6,995)
<b>Total comprehensive income</b>	46,431	364,538	-	(143,345)	(339,126)	(71,502)
Issue of share capital	674	99,324	-	-	-	100,000
<b>At 28 February 2019</b>	47,105	463,862	-	(143,345)	(339,126)	28,496

## M-Squared Lasers Limited

### Company statement of changes in equity At 28 February 2019

	Called-up share capital £	Share premium account £	Capital redemption reserve £	Profit and loss account £	Total £
<b>At 28 February 2017</b>	46,864	366,480	127	(2,881,030)	(2,467,559)
Profit for the financial year	-	-	-	511,794	511,794
<b>Total comprehensive income</b>	46,864	366,480	127	(2,369,236)	(1,955,765)
Buyback of share	(970)	(1,942)	(127)	-	(3,041)
Issue of Share Capital	537	-	-	-	537
<b>At 29 February 2018</b>	46,431	364,538	-	(2,369,236)	(1,958,268)
Profit for the financial year	-	-	-	1,953,534	1,953,534
<b>Total comprehensive income</b>	46,431	364,538	-	(415,702)	(4,735)
Issue of Share Capital	674	99,326	-	-	100,000
<b>At 28 February 2019</b>	47,105	463,862	-	(415,702)	95,265

## M-Squared Lasers Limited

### Consolidated cash flow statement For the year ended 28 February 2019

	Note	2019 £	2018 £
<b>Net cash flows from operating activities</b>	19	1,755,197	1,381,020
<b>Cash flows from investing activities</b>			
Purchase of equipment		(156,888)	(75,227)
Purchases of patents and trademarks		(383,656)	(439,482)
Capitalised development costs		(1,555,111)	(911,943)
<b>Net cash flows from investing activities</b>		<u>(2,095,655)</u>	<u>(1,426,652)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	-
Repayments of borrowings		(60,000)	(60,944)
Issue / (Buyback) of shares		100,000	(2,503)
<b>Net cash flows from financing activities</b>		<u>40,000</u>	<u>(63,447)</u>
<b>Net (decrease) in cash and cash equivalents</b>		<u>(300,458)</u>	<u>(109,080)</u>
<b>Cash and cash equivalents at beginning of year</b>		294,101	403,182
<b>Effect of foreign exchange rate changes</b>		-	-
<b>Cash and cash equivalents at end of year</b>		<u>(6,357)</u>	<u>294,102</u>
<b>Reconciliation to cash at bank and in hand:</b>			
Cash at bank and in hand		(6,357)	294,102
Cash equivalents		-	-
<b>Cash and cash equivalents</b>		<u>(6,357)</u>	<u>294,102</u>

## **M-Squared Lasers Limited**

### **Notes to the financial statements (continued)** **For the year ended 28 February 2019**

#### **1. Significant accounting policies**

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

##### **a. General information and basis of accounting**

M-Squared Lasers Limited is a company incorporated in the United Kingdom and registered in Scotland under the Companies Act. The address of the registered office is given on page 4. The nature of the Group's operations and its principal activities are set out in the strategic report on pages 1 to 4.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of M-Squared Lasers Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

M-Squared Lasers Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to share-based payments, financial instruments, presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel.

For the year ending 28 February 2019 the following subsidiaries of the Company were entitled to exemption from audit under Section 479A of the Companies Act 2006 relating to subsidiary companies.

Subsidiary Name	Companies House Registration Number
Solus Technologies Limited	SC303447
M Squared Oil and Gas Limited	SC396380
M Squared Life Limited	SC522938

##### **b. Basis of consolidation**

The Group financial statements consolidate the financial statements of the M-Squared Lasers Limited (the Company) and its subsidiary undertakings drawn up to 28 February each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

##### **c. Going concern**

The Group is funded by its shareholders, bank term loans, loan notes, 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.

The Group meets its day to day working capital requirements through operational cashflow and a revolving credit facility. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's products; (b) the exchange rate between sterling and US dollar and thus the consequence for the cost of the Group's raw materials; and (c) the availability of bank finance in the foreseeable future.

During the current year the Group's forecasts and projections, taking account of reasonably possible changes in trading performance, confirmed that the Group would be unable to make Loan Note repayments of £1.5 million in June and September 2019 (as disclosed in Post balance sheet events above). The Group worked closely with its Loan Note holder and the Bank (the "Parties") and have agreed a deferral plan into 2020. In line with this deferral plan the Parties are currently working together in finalising an updated business

## **M-Squared Lasers Limited**

### **Notes to the financial statements (continued)**

**For the year ended 28 February 2019**

#### **1. Significant accounting policies (continued)**

plan to reflect these changes and reset related covenants and expect to complete the exercise before the end of the financial year. No issues have been raised by the Parties to suggest that these discussions will not be agreed on acceptable terms, and the directors are therefore confident that appropriate bank facilities will continue to be available to support anticipated growth, and certainly for at least the next 12 months.

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. Consideration was also given to the post balance sheet event noted above.

On this basis, the directors therefore have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The directors continue to adopt the going concern basis of accounting in preparing the annual financial statements, and believe there are no material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern.

#### **d. Intangible assets – 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 any impairment.

#### **e. Intangible assets – 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.

#### **f. Tangible fixed assets**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

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

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

#### **g. Stocks**

Stocks are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Cost is calculated using the FIFO (first-in, first-out) method. Provision is made for obsolete, slow-moving or defective items where appropriate.

#### **h. Taxation**

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

#### **1. Significant accounting policies (continued)**

## **M-Squared Lasers Limited**

### **Notes to the financial statements (continued)**

**For the year ended 28 February 2019**

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

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

#### **i. Turnover**

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards are considered to have been transferred to the buyer. Turnover from the supply of goods will generally be recognised when the goods are delivered to the customer. Where the unit is complete, the customer has been notified and has requested a delay to shipment, turnover will be recognised as deemed delivery. Turnover from the supply of services (which includes non-recurring engineering and development projects) represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable. Where a contract has only been partially completed at the balance sheet date turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

#### **j. Employee benefits**

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

#### **k. Foreign currency**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

## **M-Squared Lasers Limited**

### **Notes to the financial statements (continued)** **For the year ended 28 February 2019**

#### **1. Significant accounting policies (continued)**

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in other comprehensive income and accumulated in equity.

#### **l. Leases**

##### **The Group as lessee**

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

##### **The Group as lessor**

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

#### **m. Grants**

Grants are recognised based on the accrual model and are measured at the fair value of the asset received or receivable. Grants are classified as relating either to revenue or to assets. Grants relating to revenue are recognised in income over the period in which the related costs are recognised. Grants relating to assets are recognised over the expected useful life of the asset. Where part of a grant relating to an asset is deferred, it is recognised as deferred income.

#### **n. Fixed asset investments**

Fixed assets investments of the Company are shown at cost less provision for impairment.

#### **o. Share-based payment**

The Company issues equity-settled share options to certain employees within the Group. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

#### **p. Financial instruments**

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

##### **Financial assets and liabilities**

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs).

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## **M-Squared Lasers Limited**

### **Notes to the financial statements (continued)** **For the year ended 28 February 2019**

#### **2. Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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.

#### **Critical judgements in applying the Group's accounting policies**

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), 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.

#### **Capitalisation of development expenditure**

During the year £1,555,111 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.

#### **Key source of estimation uncertainty - 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 (2018: nil). The carrying amount of intangible assets (excluding development costs) at the balance sheet date was £979,914 (2018: £927,597).

#### **3. Turnover**

An analysis of the Group's turnover by geographical market is set out below.

	2019	2018
	£	£
Turnover:		
UK	842,248	1,553,314
Rest of World	16,853,312	11,801,350
	<u>17,695,560</u>	<u>13,354,664</u>

The turnover is attributable to the Group's principal activity and represents the sale of goods and related services.



# M-Squared Lasers Limited

## Notes to the financial statements (continued) For the year ended 28 February 2019

### 4. Finance costs

	2019	2018
	£	£
Interest payable on loans and overdrafts	577,886	544,108
Other finance costs	187,966	164,376
	<u>765,852</u>	<u>708,484</u>

### 5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2019	2018
	£	£
Depreciation of tangible fixed assets (note 12)	147,329	146,448
Amortisation of intangible fixed assets (note 11)	778,900	495,678
Licence/patent costs expensed as incurred	68,790	689,359
Grant income	(1,425,131)	(2,168,036)
Operating lease rentals	<u>560,472</u>	<u>465,084</u>

Amortisation of intangible assets is included in administrative expenses.

Grant income represents amounts received in respect of various grants intended to support research and development.

The analysis of the auditor's remuneration is as follows:

	2019	2018
	£	£
<b>Total audit fees payable to the Group's auditor and its associates for the audit of the Group's annual accounts</b>	<u>40,000</u>	<u>36,500</u>
Audit-related assurance services	3,700	15,624
Taxation compliance services	37,500	20,000
Other taxation advisory services	<u>18,314</u>	<u>4,600</u>
<b>Total non-audit fees</b>	<u>59,514</u>	<u>40,224</u>

Fees payable to Deloitte LLP and its associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

No services were provided pursuant to contingent fee arrangements.

## M-Squared Lasers Limited

### Notes to the financial statements (continued) For the year ended 28 February 2019

#### 6. Staff numbers and costs

The average monthly number of employees (including executive directors) was:

	2019 Number	2018 Number
Production and installation	32	25
Research and development	37	34
Sales and marketing	14	18
Administration	10	8
	<u>93</u>	<u>85</u>

Their aggregate remuneration comprised:

	2019 £	2018 £
Wages and salaries	4,503,521	4,319,552
Social security costs	512,778	501,040
Pension costs	199,529	234,118
	<u>5,215,828</u>	<u>5,054,710</u>

'Pension costs' includes only those items included within operating costs. Items reported elsewhere have been excluded.

#### 7. Directors' remuneration and transactions

	2019 £	2018 £
<b>Directors' remuneration</b>		
Emoluments	844,529	785,244
Company contributions to money purchase pension schemes	59,615	58,990
	<u>904,144</u>	<u>844,234</u>

	Number	Number
<b>The number of directors who:</b>		
Are members of a money purchase pension scheme	<u>5</u>	<u>4</u>

	2019 £	2018 £
<b>Remuneration of the highest paid director:</b>		
Emoluments	245,103	243,318
Company contributions to money purchase schemes	<u>20,300</u>	<u>20,300</u>

## M-Squared Lasers Limited

### Notes to the financial statements (continued) For the year ended 28 February 2019

#### 8. Tax on profit on ordinary activities

The tax (credit) comprises:

	2019 £	2018 £
<b>Current tax on profit on ordinary activities</b>		
UK corporation tax credit	(246,349)	(251,775)
Foreign tax charge	-	2,467
	<u>(246,349)</u>	<u>(249,308)</u>
<b>Adjustments in respect of prior years</b>		
UK corporation tax	-	-
	<u>-</u>	<u>-</u>
<b>Current tax credit on profit on ordinary activities</b>	<u>(246,349)</u>	<u>(249,308)</u>
<b>Total current and deferred tax relating to items of other comprehensive income</b>	<u>-</u>	<u>-</u>
<b>Total current and deferred tax credit on profit on ordinary activities</b>	<u>(246,349)</u>	<u>(249,308)</u>

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2019 £	2018 £
<b>Group profit on ordinary activities before tax</b>	<u>1,996,981</u>	<u>442,017</u>
<b>Tax on Group profit on ordinary activities at standard UK corporation tax rate of 19.08% (2018: 20%)</b>	379,426	84,348
<b>Effects of:</b>		
Expenses not deductible for tax purposes	5,583	(5,521)
Income not taxable in determining taxable profit	-	30,039
Surrender of tax losses	405,787	450,946
R&D tax credit receivable	(774,327)	(512,038)
Effects of other tax rates/credits	(232,808)	(275,767)
(Utilisation) of foreign tax losses	(30,111)	(24,818)
Difference between local rate and UK tax rate	-	8,887
RDEC Receivable	-	-
	<u>-</u>	<u>-</u>
<b>Group total tax credit for period</b>	<u>(246,349)</u>	<u>(249,308)</u>

The standard rate of tax applied to reported profit on ordinary activities is 19.08% (2018: 19.08%).

A potential deferred tax asset totalling £268,766 (2018: £434,332) arising from taxable losses carried forward has prudently not been recognised. There is no expiry date on timing differences, unused tax losses or tax credits.

## M-Squared Lasers Limited

### Notes to the financial statements (continued) For the year ended 28 February 2019

#### 9. Profit attributable to the Company

The profit for the financial year dealt with in the financial statements of the parent Company was £1,953,534 (2018: £511,794). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent Company.

#### 10. 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:

	2019		2018	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning	105,000		234,875	0.01
Issued during the period	-		25,000	0.01
Lapsed during the period	(25,000)		(101,174)	0.01
Exercised during the period	-		(53,701)	0.01
	<hr/>		<hr/>	
Outstanding at the end of the period	80,000		105,000	0.01
	<hr/>		<hr/>	
Exercisable at the end of the period	-		-	
	<hr/>		<hr/>	

The Group recognised total expenses of £nil related to equity-settled share-based payment transactions in 2019 and 2018

## M-Squared Lasers Limited

### Notes to the financial statements (continued) For the year ended 28 February 2019

#### 11. Intangible fixed assets

Group	Development costs £	Trademarks £	Patents £	Total £
<b>Cost</b>				
At 1 March 2018	3,722,611	96,352	1,634,457	5,453,420
Additions	1,555,111	7,891	375,765	1,938,767
At 28 February 2019	<u>5,277,722</u>	<u>104,243</u>	<u>2,010,222</u>	<u>7,392,187</u>
<b>Amortisation</b>				
At 1 March 2018	384,772	18,513	784,699	1,187,984
Charge for the year	447,561	9,501	321,838	778,900
At 28 February 2019	<u>832,333</u>	<u>28,014</u>	<u>1,106,537</u>	<u>1,966,884</u>
<b>Net book value</b>				
At 28 February 2019	<u>4,445,389</u>	<u>76,229</u>	<u>903,685</u>	<u>5,425,303</u>
At 29 February 2018	<u>3,337,839</u>	<u>77,839</u>	<u>849,758</u>	<u>4,265,437</u>

Company	Development costs £	Trademarks £	Patents £	Total £
<b>Cost</b>				
At 1 March 2018	3,722,611	96,352	1,445,827	5,264,790
Additions	1,555,111	7,891	375,765	1,938,767
Disposals	-	-	(672,000)	(672,000)
At 28 February 2019	<u>5,277,722</u>	<u>104,243</u>	<u>1,149,592</u>	<u>6,531,557</u>
<b>Amortisation</b>				
At 1 March 2018	384,772	18,513	693,354	1,096,639
Charge for the year	447,561	9,501	286,753	743,815
At 28 February 2019	<u>832,333</u>	<u>28,014</u>	<u>980,107</u>	<u>1,840,454</u>
<b>Net book value</b>				
At 28 February 2019	<u>4,445,389</u>	<u>76,229</u>	<u>169,485</u>	<u>4,691,103</u>
At 29 February 2018	<u>3,337,839</u>	<u>77,839</u>	<u>752,473</u>	<u>4,168,151</u>

Development costs have been capitalised in accordance with the requirements of FRS 102 and are therefore not treated, for dividend purposes, as a realised loss.

## M-Squared Lasers Limited

### Notes to the financial statements (continued) For the year ended 28 February 2019

#### 12. Tangible fixed assets

Group	Leasehold property £	Office & laboratory equipment £	Computer equipment £	Total £
<b>Cost</b>				
At 1 March 2018	24,722	815,278	219,719	1,059,718
Additions	-	145,102	11,886	156,968
Disposals	-	-	80	80
Exchange adjustment	-	(76)	118	42
At 28 February 2019	<u>24,722</u>	<u>960,304</u>	<u>231,623</u>	<u>1,216,648</u>
<b>Depreciation</b>				
At 1 March 2018	24,722	643,725	162,743	831,190
Charge for the year	-	120,240	27,057	147,297
Exchange adjustment	-	(47)	80	33
At 28 February 2019	<u>24,722</u>	<u>763,918</u>	<u>189,880</u>	<u>978,520</u>
<b>Net book value</b>				
At 28 February 2019	<u>-</u>	<u>196,386</u>	<u>41,743</u>	<u>238,129</u>
At 29 February 2018	<u>-</u>	<u>171,553</u>	<u>56,975</u>	<u>228,528</u>

Leased assets included above are £nil (2018: £nil).

Company	Leasehold property £	Office & laboratory equipment £	Computer equipment £	Total £
<b>Cost</b>				
At 1 March 2018	24,722	813,014	216,382	1,054,118
Additions	-	145,102	11,886	156,968
Disposals	-	-	80	80
At 28 February 2019	<u>24,722</u>	<u>958,116</u>	<u>228,168</u>	<u>1,211,006</u>
<b>Depreciation</b>				
At 1 March 2018	24,722	642,329	160,501	827,551
Charge for the year	-	119,693	26,539	146,232
At 28 February 2019	<u>24,722</u>	<u>762,022</u>	<u>187,040</u>	<u>973,784</u>
<b>Net book value</b>				
At 28 February 2019	<u>-</u>	<u>196,094</u>	<u>41,128</u>	<u>237,222</u>
At 29 February 2018	<u>-</u>	<u>170,685</u>	<u>55,881</u>	<u>226,566</u>

Leased assets included above are £nil.

## M-Squared Lasers Limited

### Notes to the financial statements (continued)

For the year ended 28 February 2019

#### 13. Fixed asset investments

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Subsidiary undertakings	-	-	10,819	1,820

The company purchased a further 8,999 shares (valued at £1 each) in M Squared Life Limited during the year.

#### Principal investments

The parent Company has investments in the following subsidiary undertakings.

Subsidiary undertakings		Registered office Address	Principal activity	Proportion of voting rights and ordinary share capital held
M Squared Lasers Inc	+	160 Greentree Drive, Suite 1010 Dover DE, 19904	Sale of laser based photonic solutions and associated services	100
Solus Technologies Limited	+	Venture Building 1 Kelvin Campus Maryhill Road Glasgow United Kingdom	Development of laser based photonic solutions	100
M Squared Oil and Gas Limited	+	Venture Building 1 Kelvin Campus Maryhill Road Glasgow United Kingdom	Dormant	100
M Squared Lasers UG	+	Alstertwiete 3, 20099 Hamburg Germany	Research of laser based photonic solutions	100
M Squared Life Limited	+	Venture Building 1 Kelvin Campus Maryhill Road Glasgow United Kingdom	Sale of laser based biophotonic solutions	100

+ Held directly by M-Squared Lasers Limited

## M-Squared Lasers Limited

### Notes to the financial statements (continued)

For the year ended 28 February 2019

#### 14. Stocks

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Raw materials and consumables	1,820,794	1,214,217	1,820,794	1,214,217
Work in progress	1,397,337	1,070,577	1,397,337	1,070,577
Finished goods and goods for resale	491,567	544,492	491,567	544,492
	<u>3,709,698</u>	<u>2,829,286</u>	<u>3,709,698</u>	<u>2,829,286</u>

#### 15. Debtors

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	2,633,686	1,830,239	3,653,496	2,061,824
Accrued contract income	3,463,390	2,194,906	2,521,977	1,747,071
Amounts owed by Group undertakings	-	-	(139,850)	456,675
Other debtors	259,953	242,790	259,953	242,790
Prepayments and accrued income	190,885	209,679	187,640	199,959
Corporation tax debtor	614,019	645,886	571,571	648,353
	<u>7,161,933</u>	<u>5,123,500</u>	<u>7,054,787</u>	<u>5,356,672</u>

The Amounts owed by Group undertakings are repayable on demand and no interest is charged.

#### 16. Creditors – amounts falling due within one year

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Revolving credit facility	1,900,000	1,900,000	1,900,000	1,900,000
Bank loans (see note 17)	60,000	60,000	60,000	60,000
Loan notes (see note 17)	1,620,736	-	1,620,736	-
Trade creditors	4,136,725	3,262,523	4,178,362	3,322,346
Other taxation and social security	254,930	196,712	231,179	191,174
Other creditors	237,136	334,985	204,984	254,835
Accruals and deferred income	3,202,422	3,092,556	2,785,573	2,510,254
Defined contribution pension scheme accrual	29,338	60,138	24,273	60,138
	<u>11,441,287</u>	<u>8,906,914</u>	<u>11,005,087</u>	<u>8,298,747</u>

The revolving credit facility of £1,900,000 is secured against a bond and floating charge over the company's assets and attracts interest at 7% per annum.

The Company and the Loan Note holder mutually agreed to defer repayment of £1.25 million due on 1 May 2019. This payment was rolled over and is scheduled for repayment once economic conditions are clear on Brexit and UK General Election.



# M-Squared Lasers Limited

## Notes to the financial statements (continued) For the year ended 28 February 2019

### 17. Creditors – amounts falling due after more than one year

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Bank loans	50,000	110,000	50,000	110,000
Loan notes	4,769,166	5,717,902	4,097,166	5,717,902
Accruals and deferred income	239,759	313,871	239,758	313,871
	<u>5,058,925</u>	<u>6,141,773</u>	<u>4,386,924</u>	<u>6,141,773</u>

The bank loans are secured by a guarantee from the Secretary of State, a bond and floating charge over the company's assets and a life insurance policy held over one of the directors. The bank loans incur interest at between 3.5% and 5% above the bank's base rate. Loan notes with a nominal value of £3,750,000 and £750,000 incur interest at 10% and 8% per annum respectively.

### Borrowings are repayable as follows:

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
<b>Bank loans and loan notes</b>				
Between one and two years	1,658,236	1,680,736	1,658,236	1,680,736
Between two and five years	3,160,930	4,134,666	2,488,930	4,134,666
After five years	-	12,500	-	12,500
	<u>4,819,166</u>	<u>5,827,902</u>	<u>4,147,166</u>	<u>5,827,902</u>
On demand or within one year	1,680,736	60,000	1,680,736	60,000
	<u>6,499,902</u>	<u>5,887,902</u>	<u>5,827,902</u>	<u>5,887,902</u>

### 18. Called-up share capital and reserves

	2019 £	2018 £
<b>Allotted, called-up and fully-paid</b>		
2,863,630 (2018: 2,796,184) ordinary shares of 1p each	28,636	27,962
1,846,855 (2018: 1,846,855) 'A' ordinary shares of 1p each	18,469	18,469
	<u>47,105</u>	<u>46,431</u>

## M-Squared Lasers Limited

### Notes to the financial statements (continued) For the year ended 28 February 2019

#### 18. Called-up share capital and reserves (continued)

Ordinary Shares	2019 No.	2019 £	2018 No.	2018 £
Opening balance	2,796,184	27,962	2,839,531	28,395
Shares bought back	-	-	(97,048)	(970)
Shares issued	67,446	674	53,701	537
Shares transferred	-	-	-	-
<b>Closing balance</b>	<b>2,863,630</b>	<b>28,636</b>	<b>2,796,184</b>	<b>27,962</b>

'A' Ordinary Shares	2019 No.	2019 £	2018 No.	2018 £
Opening balance	1,846,855	18,469	1,846,855	18,469
Shares transferred	-	-	-	-
<b>Closing balance</b>	<b>1,846,855</b>	<b>18,469</b>	<b>1,846,855</b>	<b>18,469</b>

During the year, the company issued 67,446 of ordinary shares with a nominal value of 1p for a consideration of £674.

The Group and Company's other reserves are as follows:

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

The capital redemption reserve was created to adjust permanent capital on share buybacks.

The translation reserve contains exchange adjustments on consolidation of foreign subsidiaries.

The profit and loss reserve represents cumulative profits or losses net of dividends paid and other adjustments.

The A Ordinary Shares have preferred rights in some instances such as liquidation or dividend event. All other shares are held as Ordinary Shares.

## M-Squared Lasers Limited

### Notes to the financial statements (continued) For the year ended 28 February 2019

#### 19. Cash flow statement

Reconciliation of operating profit to cash generated by operations:

	2019 £	2018 £
Operating profit	2,762,833	1,125,383
Adjustment for:		
Depreciation	147,297	146,618
Amortisation	778,900	495,678
R&D tax credit include in operating profit	(133,698)	(180,581)
Exchange adjustments	(7,004)	7,849
Operating cash flow before movement in working capital	3,548,328	1,594,945
Increase in stocks	(880,412)	(179,246)
Increase in debtors	(2,070,300)	(1,253,138)
Increase in creditors	1,646,006	1,700,181
Cash from operations	2,243,622	1,862,742
Interest paid	(900,339)	(627,859)
Tax received	411,914	146,137
Cash generated by operations	1,755,197	1,381,020

#### 20. Financial commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2019		2018	
	Land and buildings £	Other £	Land and buildings £	Other £
<b>Group</b>				
- within one year	309,173	31,469	232,440	34,707
- between one and five years	338,975	18,012	852,280	31,092
- after five years	-	-	-	-
	<u>648,148</u>	<u>49,481</u>	<u>1,084,720</u>	<u>65,799</u>
<b>Company</b>				
- within one year	309,173	31,469	232,440	34,707
- between one and five years	338,975	18,012	852,280	31,092
- after five years	-	-	-	-
	<u>648,148</u>	<u>49,481</u>	<u>1,084,720</u>	<u>65,799</u>

There are no capital commitments at 28 February 2019

## **M-Squared Lasers Limited**

### **Notes to the financial statements (continued)** **For the year ended 28 February 2019**

#### **21. Related party transactions**

##### **Directors' transactions**

During the year other than noted in Note 7, no payments were made to directors (2018: nil) There is £nil owed at the year end (2018: nil).

##### **Other related party transactions**

The total remuneration for key management personnel for the year is disclosed in note 7.

During the year, the Company provided support services and assets to Distilled Solutions Limited, a company which shares certain directors and shareholders with M Squared Lasers Limited, totalling £8,400 (2018: nil). There is £4,200 outstanding at the year end (2018: £nil).

#### **22. Controlling party**

The Company has no controlling party.