

**Registered Number:SC243330**

**M SQUARED LASERS LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 29 FEBRUARY 2020**



## **M SQUARED LASERS LIMITED**

### **COMPANY INFORMATION**

<b>Directors</b>	Graeme Malcolm Angus Morrison John Nicholls Douglas Bain Stuart Malcolm Gareth Maker Patrick Graham (resigned 13 November 2020) Andrew Robertson (resigned 13 November 2020)
<b>Company secretary</b>	Stuart Malcolm
<b>Registered number</b>	SC243330
<b>Registered office</b>	Venture Building 1 Kelvin Campus, West of Scotland Science Park Maryhill Road Glasgow G20 0SP

## **M SQUARED LASERS LIMITED**

### **CONTENTS**

	<b>Page</b>
<b>Group strategic report</b>	<b>1 - 4</b>
<b>Directors' report</b>	<b>5 - 6</b>
<b>Directors' responsibilities statement</b>	<b>7</b>
<b>Independent auditor's report</b>	<b>8 - 10</b>
<b>Consolidated statement of comprehensive income</b>	<b>11</b>
<b>Consolidated balance sheet</b>	<b>12 - 13</b>
<b>Consolidated statement of changes in equity</b>	<b>16 - 17</b>
<b>Company statement of changes in equity</b>	<b>18</b>
<b>Consolidated Statement of cash flows</b>	<b>19 - 20</b>
<b>Notes to the financial statements</b>	<b>21 - 44</b>

## **M SQUARED LASERS LIMITED**

### **GROUP STRATEGIC REPORT FOR THE YEAR ENDED 29 FEBRUARY 2020**

#### **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 14) 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. 110 employees, with its headquarters in Glasgow, Scotland, alongside offices in England, USA and Germany.

#### **Business review**

Financial year 2019/20 (FY20) was a year of consolidation whilst the group prepared for the next stages of growth. Focus on manufacturing processes, procedures and supply chain allied with targeted recruitment resulted in a significant improvement in profitability and increased manufacturing capacity.

The Group order book grew across all parts of the business during FY20 putting the group in a good place to grow substantially in its core areas during FY21 and beyond. The Group is also well placed in key growth markets such as quantum technology and R&D progress is considered further below.

FY20 turnover was £14.3m (a reduction of 12% compared with FY19), with Profit before Tax of £1m (7%) compared with £2.2m (12%) in FY19. Profitability was preserved as a consequence of the manufacturing initiatives above, allied with continued significant investment in near term R&D commercialisation.

The Group has a proven strength in identifying and commercialising its R&D efforts; the Group allocates a significant proportion of its available resources to R&D, in both existing and new product areas. The Group has a dedicated innovation unit which provides support across the business, and which itself facilitates cashflow through grant funding, partnerships and engineering support, and adopts an agile methodology to ensure that time and resource is invested accordingly to provide the best short and long term outcomes for the business.

The Group is at the vanguard of frontier science, and has made significant progress across a range of core and growth areas during FY20 and this has continued into FY21 despite the challenges that COVID has brought. An overview of current areas of focus is provided below:

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 through a quantum technology partnership of £4.6 million with University of Strathclyde to progress quantum computing capabilities. The Group continues to develop expertise in Quantum Accelerometers, Quantum Gravimeters and the Optical Lattice clock. The critical mass achieved over the last two years will continue to ramp up after the Group announced a £32.5m financing package on 13 November 2020 (see Post Balance Sheet Events)

- 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 for applications in the leading Earth Observation Missions that are mapping atmospheric pollution and climate change gases for prevention of

## **M SQUARED LASERS LIMITED**

### **GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 29 FEBRUARY 2020**

climate emergency. These sources were successfully developed and applied with lead customers during FY20 producing precision light across the spectrum from deep ultra-violet to mid-infrared.

- **Powering industry** 2019/2020 saw further expansion of our precision light laser products into new areas of manufacturing of underpinning technology manufacture as new industrial accounts qualified our products improving precision of their manufacturing processes whilst also yielding improved yield, up-time and cost of ownership.
- **Behind cutting edge healthcare** Our 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. FY20 saw expansion of these products into the US market which is a key early adopter of novel instrumentation.
- The coming era of quantum technology will play a major, transformative role in both the economy and society alike. Investment in strategic partnerships is therefore a critical success factor and it is therefore critical that the UK leverages its expertise in science, research and advanced industry to come together and make progress in commercial applications. M Squared has a strong track record in identifying and building multi-skilled partnerships united under common goals.

#### **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 photonics solutions aimed at addressing significant 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 £4,654,796 (18/19: £1,555,111) of related expenditure as an intangible asset with amortisation in the year of £986,653 (18/19: £447,562).

## **M SQUARED LASERS LIMITED**

### **GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 29 FEBRUARY 2020**

#### **Principal risks and uncertainties**

##### **COVID**

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 Company has developed a resilient infrastructure to ensure that growth can continue despite the daily challenges COVID brings, and continued focus on this area is expected to provide mitigation to any short term challenges.

##### **Brexit**

The directors have adopted a proactive approach to the challenges and opportunities that Brexit has brought to the business and to the economy generally, and have developed a package of measures to mitigate the possible risks to operations, supply chain and to growth. Based on experiences to date, the directors are confident that the business can successfully manage any impact in the short term term, whilst acknowledging that this will continue to be a key focus into FY22.

##### **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 board regularly reviews 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 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**

**GROUP STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 29 FEBRUARY 2020**

**Future developments**

The directors believe that trading for FY21 will finish strongly despite the challenges noted above from COVID and uncertainty around 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. With the additional growth capital raised in November 2020, the directors expect to ramp up activities across the Group's core activities in 2021 and beyond. The Group is at an exciting time in its development and is well placed to exploit its R&D and intellectual capital across a range of markets and geographical segments.

The directors wish to place on record their thanks to staff for the support and commitment provided during this challenging period.

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



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

Date: 2<sup>th</sup> February 2021

## **M SQUARED LASERS LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 29 FEBRUARY 2020**

The directors present their report and the financial statements for the year ended 29 February 2020.

#### **Results and dividends**

The profit for the year, after taxation, amounted to £1,420,968 (2019 - £2,243,330).

#### **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**

##### **Reorganisation & Financing 13 November 2020**

On 13 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, via the newly incorporated M Squared Technologies Group Limited, 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. The newly formed Scottish National Investment Bank Plc also provided growth capital of £12.5 million.

This significant investment will enable the Group to further advance its research & development. This is key to upscaling its pioneering work in quantum innovation alongside its technologies to help tackle climate change.

##### **Making Quantum Technology a Reality**

On 6 November 2020 it was announced that a consortium of 9 organisations, led by M Squared Lasers Limited, would deliver a £10 million programme of work to help the UK establish itself at the forefront of commercially viable photonics-enabled quantum computing approaches.

#### **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. Consideration was also given to the post balance sheet events noted above.

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.



## **M SQUARED LASERS LIMITED**

### **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 29 FEBRUARY 2020**

#### **Directors**

The directors who served during the year were:

Graeme Malcolm  
Angus Morrison  
John Nicholls  
Douglas Bain  
Stuart Malcolm  
Gareth Maker  
Patrick Graham (resigned 13 November 2020)  
Andrew Robertson (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.

#### **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 and signed on its behalf.

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

Date: 12<sup>th</sup> February 2021

## **M SQUARED LASERS LIMITED**

### **DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2020**

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 judgments 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 29 February 2020, 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 29 February 2020 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**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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.

## **M SQUARED LASERS LIMITED**

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

#### **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 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.

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](http://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**

Chartered Accountants

Kingshill View

Prime Four Business Park

Kingswells

Aberdeen

AB15 8PU

Date: 12 February 2021

**M SQUARED LASERS LIMITED**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 29 FEBRUARY 2020**

	Note	2020 £	2019 £
Turnover		14,325,839	17,695,580
Cost of sales		(8,242,461)	(8,743,768)
<b>Gross profit</b>		<b>6,083,378</b>	<b>8,951,792</b>
Administrative expenses		(4,804,160)	(7,614,090)
Other operating income		867,591	1,425,131
<b>Operating profit</b>		<b>2,146,809</b>	<b>2,762,833</b>
Interest payable and expenses		(713,514)	(765,852)
<b>Profit before tax</b>		<b>1,433,295</b>	<b>1,996,981</b>
Tax on profit		(12,327)	246,349
<b>Profit for the financial year</b>		<b>1,420,968</b>	<b>2,243,330</b>
<b>Other comprehensive income for the year</b>			
Exchange differences on retranslation of subsidiary undertakings		(2,429)	(6,995)
<b>Other comprehensive income for the year</b>		<b>(2,429)</b>	<b>(6,995)</b>
<b>Total comprehensive income for the year</b>		<b>1,418,539</b>	<b>2,236,335</b>

The notes on pages 21 to 44 form part of these financial statements.

**M SQUARED LASERS LIMITED**  
**REGISTERED NUMBER:SC243330**

**CONSOLIDATED BALANCE SHEET**  
**AS AT 29 FEBRUARY 2020**

	Note	29 February 2020 £	28 February 2019 £
<b>Fixed assets</b>			
Intangible assets	12	9,177,088	5,425,303
Tangible assets	13	315,678	238,129
		<u>9,492,766</u>	<u>5,663,432</u>
<b>Current assets</b>			
Stocks	15	4,163,923	3,709,698
Debtors: amounts falling due within one year	16	6,216,847	7,161,935
Cash at bank and in hand	17	303,158	(6,357)
		<u>10,683,928</u>	<u>10,865,276</u>
Creditors: amounts falling due within one year	18	(15,478,347)	(11,441,287)
<b>Net current liabilities</b>		<u>(4,794,419)</u>	<u>(576,011)</u>
<b>Total assets less current liabilities</b>		<u>4,698,347</u>	<u>5,087,421</u>
Creditors: amounts falling due after more than one year	19	(3,185,938)	(5,058,925)
<b>Provisions for liabilities</b>			
Deferred taxation	21	(65,374)	-
		<u>(65,374)</u>	<u>-</u>
<b>Net assets</b>		<u>1,447,035</u>	<u>28,496</u>
<b>Capital and reserves</b>			
Called up share capital	22	47,105	47,105
Share premium account		463,862	463,862
Foreign exchange reserve		(145,774)	(143,345)
Profit and loss account		1,081,842	(339,126)
<b>Equity attributable to owners of the parent Company</b>		<u>1,447,035</u>	<u>28,496</u>
		<u>1,447,035</u>	<u>28,496</u>

**M SQUARED LASERS LIMITED**  
**REGISTERED NUMBER: SC243330**

**CONSOLIDATED BALANCE SHEET (CONTINUED)**  
**AS AT 29 FEBRUARY 2020**

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 FEng FRSE FInstP**  
Director

Date: 12<sup>th</sup> February 2021

The notes on pages 21 to 44 form part of these financial statements.



**M SQUARED LASERS LIMITED**  
**REGISTERED NUMBER:SC243330**

**COMPANY BALANCE SHEET**  
**AS AT 29 FEBRUARY 2020**

	Note	29 February 2020 £	28 February 2019 £
<b>Fixed assets</b>			
Intangible assets	12	8,608,025	4,691,103
Tangible assets	13	315,322	237,222
Investments	14	10,819	10,819
		<u>8,934,166</u>	<u>4,939,144</u>
<b>Current assets</b>			
Stocks		4,163,923	3,709,698
Debtors: amounts falling due within one year	16	6,142,974	7,054,788
Cash at bank and in hand	17	(35,088)	(216,353)
		<u>10,271,809</u>	<u>10,548,133</u>
Creditors: amounts falling due within one year		<u>(14,391,017)</u>	<u>(11,005,087)</u>
<b>Net current liabilities</b>		<u>(4,119,208)</u>	<u>(456,954)</u>
<b>Total assets less current liabilities</b>		<u>4,814,958</u>	<u>4,482,190</u>
Creditors: amounts falling due after more than one year		(2,513,938)	(4,386,925)
<b>Provisions for liabilities</b>			
Deferred taxation		(65,374)	-
		<u>(65,374)</u>	<u>-</u>
<b>Net assets</b>		<u>2,235,646</u>	<u>95,265</u>
<b>Capital and reserves</b>			
Called up share capital	22	47,105	47,105
Share premium account		463,862	463,862
Foreign exchange reserve		537	-
Profit and loss account brought forward		(415,702)	(2,369,236)
Profit for the year		2,139,844	1,953,534
Profit and loss account carried forward		<u>1,724,142</u>	<u>(415,702)</u>
		<u>2,235,646</u>	<u>95,265</u>

**M SQUARED LASERS LIMITED**  
**REGISTERED NUMBER: SC243330**

**COMPANY BALANCE SHEET (CONTINUED)**  
**AS AT 29 FEBRUARY 2020**

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: *12 February 2021*

The notes on pages 21 to 44 form part of these financial statements.

**M SQUARED LASERS LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 29 FEBRUARY 2020**

	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
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	1,420,968	1,420,968
Exchange differences on retranslation of subsidiary undertakings	-	-	(2,429)	-	(2,429)
Other comprehensive income for the year	-	-	(2,429)	-	(2,429)
<b>Total comprehensive income for the year</b>	-	-	(2,429)	1,420,968	1,418,539
<b>Total transactions with owners</b>	-	-	-	-	-
<b>At 29 February 2020</b>	<b>47,105</b>	<b>463,862</b>	<b>(145,774)</b>	<b>1,081,842</b>	<b>1,447,035</b>

The notes on pages 21 to 44 form part of these financial statements.

**M SQUARED LASERS LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 28 FEBRUARY 2019**

	Called up share capital	Share premium account	Foreign exchange reserve	Profit and loss account	Total equity
	£	£	£	£	£
At 1 March 2018	46,431	364,536	(136,350)	(2,582,456)	(2,307,839)
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	2,243,330	2,243,330
Exchange differences on retranslation of subsidiary undertakings	-	-	(6,995)	-	(6,995)
<b>Other comprehensive income for the year</b>	-	-	(6,995)	-	(6,995)
<b>Total comprehensive income for the year</b>	-	-	(6,995)	2,243,330	2,236,335
Shares issued during the year	674	99,326	-	-	100,000
<b>Total transactions with owners</b>	674	99,326	-	-	100,000
<b>At 28 February 2019</b>	<b>47,105</b>	<b>463,862</b>	<b>(143,345)</b>	<b>(339,126)</b>	<b>28,496</b>

The notes on pages 21 to 44 form part of these financial statements.

**M SQUARED LASERS LIMITED**

**COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 29 FEBRUARY 2020**

	Called up share capital £	Share premium account £	Foreign exchange reserve £	Profit and loss account £	Total equity £
<b>At 1 March 2018</b>	46,431	364,536	-	(2,369,236)	(1,958,269)
<b>Comprehensive Income for the year</b>					
Profit for the year	-	-	-	1,953,534	1,953,534
<b>Total comprehensive income for the year</b>	-	-	-	1,953,534	1,953,534
<b>Contributions by and distributions to owners</b>					
Shares issued during the year	674	99,326	-	-	100,000
<b>Total transactions with owners</b>	674	99,326	-	-	100,000
<b>At 1 March 2019</b>	47,105	463,862	-	(415,702)	95,265
<b>Comprehensive Income for the year</b>					
Profit for the year	-	-	-	2,139,844	2,139,844
Other movement	-	-	537	-	537
<b>Total comprehensive income for the year</b>	-	-	537	2,139,844	2,140,381
<b>At 29 February 2020</b>	47,105	463,862	537	1,724,142	2,235,646

The notes on pages 21 to 44 form part of these financial statements.

**M SQUARED LASERS LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 29 FEBRUARY 2020**

	29 February 2020 £	28 February 2019 £
<b>Cash flows from operating activities</b>		
Profit for the financial year	1,420,968	2,243,330
<b>Adjustments for:</b>		
Amortisation of intangible assets	1,340,844	778,900
Depreciation of tangible assets	139,776	147,297
Government grants	(867,591)	(1,425,131)
Interest payable	713,514	765,852
Taxation charge	12,327	(246,349)
(Increase) in stocks	(454,225)	(880,412)
Decrease/(increase) in debtors	1,360,188	(2,070,300)
Increase in creditors	2,565,135	1,646,006
Corporation tax received	56,959	411,914
Foreign exchange	(2,429)	(7,004)
Tax credits included in operating profit	(419,011)	(133,698)
<b>Net cash generated from operating activities</b>	<b>5,866,455</b>	<b>1,230,405</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible fixed assets	(5,092,628)	(383,656)
Purchase of tangible fixed assets	(217,325)	(156,888)
Purchase of investment properties	-	(1,555,111)
Government grants received	867,591	1,425,131
<b>Net cash from investing activities</b>	<b>(4,442,362)</b>	<b>(670,524)</b>

**M SQUARED LASERS LIMITED****CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED 29 FEBRUARY 2020**

	29 February 2020 £	28 February 2019 £
<b>Cash flows from financing activities</b>		
Issue of ordinary shares	-	100,000
Repayment of loans	(401,064)	(60,000)
Interest paid	(713,514)	(900,339)
<b>Net cash used in financing activities</b>	<b>(1,114,578)</b>	<b>(860,339)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>309,515</b>	<b>(300,458)</b>
Cash and cash equivalents at beginning of year	(6,357)	294,101
<b>Cash and cash equivalents at the end of year</b>	<b>303,158</b>	<b>(6,357)</b>
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	303,158	(6,357)
	<b>303,158</b>	<b>(6,357)</b>

The notes on pages 21 to 44 form part of these financial statements.

## **M SQUARED LASERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 FEBRUARY 2020**

#### **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 judgment 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.

For their respective years ended 29 February 2020 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), M Squared Oil and Gas Ltd (SC396380), 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 29 FEBRUARY 2020**

#### **2. Accounting policies (continued)**

##### **2.3 Going concern**

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.

On 13 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.

The directors have given due consideration to the impact of the worldwide Covid-19 pandemic on future operations and the impact this has had on trading after the balance sheet date, and are satisfied that the business has been able to, and will continue to, manage any impact in the short term.

The directors have given due consideration to the impact of Brexit on future operations and recognise that as the wider economic implications of Brexit unfolds, this could have an impact on trading, but the directors remain confident that the business can successfully manage any impact in the short term.

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

## **M SQUARED LASERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 FEBRUARY 2020**

#### **2. Accounting policies (continued)**

##### **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.

## **M SQUARED LASERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 FEBRUARY 2020**

#### **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 6 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.

## **M SQUARED LASERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 FEBRUARY 2020**

#### **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 operates a defined contribution scheme for its employees. A defined contribution scheme is a pension scheme 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.

## **M SQUARED LASERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 FEBRUARY 2020**

#### **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.

## **M SQUARED LASERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 FEBRUARY 2020**

#### **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.

Investments in listed company shares are remeasured to market value at each Balance sheet date. Gains and losses on remeasurement are recognised in profit or loss for the period.

##### **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.

## **M SQUARED LASERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 FEBRUARY 2020**

#### **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 29 FEBRUARY 2020**

#### **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.

#### **3. Judgement 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 £4,654,796 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 (2019: nil). The carrying amount of intangible assets (excluding development costs) at the balance sheet date was £1,063,556 (2019: £979,914).

#### **4. Turnover**

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.

#### **5. Other operating income**

	2020 £	2019 £
Government grants receivable	867,591	1,425,131
	<u>867,591</u>	<u>1,425,131</u>



# **M SQUARED LASERS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 FEBRUARY 2020**

### **6. Operating profit**

The operating profit is stated after charging:

	2020 £	2019 £
Research & development charged as an expense	697,060	1,274,953
Depreciation of tangible fixed assets	139,776	147,329
Amortisation of intangible fixed assets	1,175,706	778,900
Exchange differences	8,520	1,256
Other operating lease rentals	575,354	560,472
	<u>          </u>	<u>          </u>

### **7. Auditor's remuneration**

	2020 £	2019 £
Fees payable to the Group's auditor and its associates for the audit of the Group's annual financial statements	34,000	40,000
	<u>          </u>	<u>          </u>

### **8. Employees**

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

	Group 29 February 2020 £	Group 28 February 2019 £	Company 29 February 2020 £	Company 28 February 2019 £
Staff salaries and PHI	5,418,604	4,503,521	4,792,979	4,503,521
Social security costs	612,592	512,778	536,934	512,778
Cost of defined contribution scheme	222,887	199,529	195,750	199,529
	<u>6,254,083</u>	<u>5,215,828</u>	<u>5,525,663</u>	<u>5,215,828</u>

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

	Group 2020 No.	Group 2019 No.	Company 2020 No.	Company 2019 No.
Production and Installation	35	32	32	32
Research and development	36	37	33	36
Sales and marketing	11	14	8	12
Administration	23	10	23	10
	<u>105</u>	<u>93</u>	<u>96</u>	<u>90</u>

**M SQUARED LASERS LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 29 FEBRUARY 2020****9. Directors' remuneration**

	2020 £	2019 £
Directors' emoluments	1,167,612	844,529
Company contributions to defined contribution pension schemes	68,925	59,615
	<u>1,236,537</u>	<u>904,144</u>

During the year retirement benefits were accruing to 5 directors (2019 - 5) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £299,586 (2019 - £245,103).

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 (2019 - £20,300).

**10. Interest payable and similar expenses**

	2020 £	2019 £
Other loan interest payable	713,514	765,852
	<u>713,514</u>	<u>765,852</u>

**M SQUARED LASERS LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 29 FEBRUARY 2020****11. Taxation**

	2020 £	2019 £
<b>Corporation tax</b>		
Current tax on profits for the year	(133,866)	(246,349)
Adjustments in respect of previous periods	78,863	-
	<u>(55,003)</u>	<u>(246,349)</u>
<b>Foreign tax</b>		
Foreign tax on income for the year	1,956	-
	<u>1,956</u>	<u>-</u>
<b>Total current tax</b>	<u>(53,047)</u>	<u>(246,349)</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	108,483	-
Changes to tax rates	(43,119)	-
<b>Total deferred tax</b>	<u>65,374</u>	<u>-</u>
<b>Taxation on profit/(loss) on ordinary activities</b>	<u>12,327</u>	<u>(246,349)</u>

## M SQUARED LASERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 FEBRUARY 2020

#### 11. Taxation (continued)

##### Factors affecting tax charge for the year

The tax assessed for the year is higher than (2019 - higher than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £	2019 £
Profit on ordinary activities before tax	1,433,295	1,996,981
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	272,326	379,426
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	111,698	5,583
Unrecognised deferred tax	642,600	405,787
Adjustment in research and development tax credit leading to an increase (decrease) in the tax charge	(933,572)	(774,327)
Unrelieved loss on foreign subsidiaries	(37,612)	(30,111)
Other differences leading to an increase (decrease) in the tax charge	-	(232,707)
Changes in tax rates	(43,113)	-
Total tax charge for the year	12,327	(246,349)

##### Factors that may affect future tax charges

Finance Bill 2016 enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. As substantive enactment is after the balance sheet date, deferred tax balances as at 29 February 2020 continue to be measured at a rate of 17%. If the amended tax rate had been used, the deferred tax liability would have been £7,691 higher.

**M SQUARED LASERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 29 FEBRUARY 2020**

**12. Intangible assets**

**Group**

	Patents £	Development expenditure £	Trademarks £	Total £
<b>Cost</b>				
At 1 March 2019	2,010,222	5,277,722	104,243	7,392,187
Additions	414,388	4,654,796	23,444	5,092,628
At 29 February 2020	<u>2,424,610</u>	<u>9,932,518</u>	<u>127,687</u>	<u>12,484,815</u>
<b>Amortisation</b>				
At 1 March 2019	1,106,537	832,333	28,014	1,966,884
Charge for the year on owned assets	354,190	986,653	-	1,340,843
At 29 February 2020	<u>1,460,727</u>	<u>1,818,986</u>	<u>28,014</u>	<u>3,307,727</u>
<b>Net book value</b>				
At 29 February 2020	<u>963,883</u>	<u>8,113,532</u>	<u>99,673</u>	<u>9,177,088</u>
At 28 February 2019	<u>903,685</u>	<u>4,445,389</u>	<u>76,229</u>	<u>5,425,303</u>

**M SQUARED LASERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 29 FEBRUARY 2020**

**12. Intangible assets (continued)**

**Company**

	Patents £	Development expenditure £	Trademarks £	Total £
<b>Cost</b>				
At 1 March 2019	1,149,592	5,277,722	104,243	6,531,557
Additions	414,388	4,654,796	23,444	5,092,628
At 29 February 2020	<u>1,563,980</u>	<u>9,932,518</u>	<u>127,687</u>	<u>11,624,185</u>
<b>Amortisation</b>				
At 1 March 2019	980,107	832,333	28,014	1,840,454
Charge for the year	189,053	986,653	-	1,175,706
At 29 February 2020	<u>1,169,160</u>	<u>1,818,986</u>	<u>28,014</u>	<u>3,010,160</u>
<b>Net book value</b>				
At 29 February 2020	<u>394,820</u>	<u>8,113,532</u>	<u>99,673</u>	<u>8,608,025</u>
At 28 February 2019	<u>169,485</u>	<u>4,445,389</u>	<u>76,229</u>	<u>4,691,103</u>

**M SQUARED LASERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 29 FEBRUARY 2020**

**13. Tangible fixed assets**

**Group**

	Leasehold improve- ments £	Office equipment £	Computer equipment £	Total £
<b>Cost or valuation</b>				
At 1 March 2019	24,722	960,304	231,623	1,216,649
Additions	136,573	76,745	4,007	217,325
At 29 February 2020	161,295	1,037,049	235,630	1,433,974
<b>Depreciation</b>				
At 1 March 2019	24,722	763,918	189,880	978,520
Charge for the year on owned assets	23,576	96,253	19,947	139,776
At 29 February 2020	48,298	860,171	209,827	1,118,296
<b>Net book value</b>				
At 29 February 2020	112,997	176,878	25,803	315,678
At 28 February 2019	-	196,386	41,743	238,129

**M SQUARED LASERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 29 FEBRUARY 2020**

**13. Tangible fixed assets (continued)**

**Company**

	Leasehold improve- ments £	Office equipment £	Computer equipment £	Total £
<b>Cost or valuation</b>				
At 1 March 2019	24,722	958,116	228,168	1,211,006
Additions	136,573	76,736	3,866	217,175
At 29 February 2020	<u>161,295</u>	<u>1,034,852</u>	<u>232,034</u>	<u>1,428,181</u>
<b>Depreciation</b>				
At 1 March 2019	24,722	762,022	187,040	973,784
Charge for the year on owned assets	23,576	95,952	19,547	139,075
At 29 February 2020	<u>48,298</u>	<u>857,974</u>	<u>206,587</u>	<u>1,112,859</u>
<b>Net book value</b>				
At 29 February 2020	<u>112,997</u>	<u>176,878</u>	<u>25,447</u>	<u>315,322</u>
At 28 February 2019	<u>-</u>	<u>196,094</u>	<u>41,128</u>	<u>237,222</u>



# **M SQUARED LASERS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 FEBRUARY 2020**

### **14. Fixed asset investments**

#### **Company**

	Investments in subsidiary companies £
<b>Cost or valuation</b>	
At 1 March 2019	10,819
At 29 February 2020	<u>10,819</u>

#### **Subsidiary undertakings**

The following were subsidiary undertakings of the Company:

<b>Name</b>	<b>Registered office</b>	<b>Holding</b>
M Squared Lasers, Inc	160 Greentree Drive, Suite 1919 Dover	100%
Solus Technologies Limited	Venture Building, 1 Kelvin Campus, Maryhill Road, Glasgow, United Kingdom	100%
M Squared Oil and Gas Ltd	Venture Building, 1 Kelvin Campus, Maryhill Road, Glasgow, United Kingdom	100%
M Squared Lasers UG	Alstertwiete 3, 20099, Hamburg, Germany	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 29 February 2020 and the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

<b>Name</b>	<b>Aggregate of share capital and reserves £</b>	<b>Profit/(Loss) £</b>
M Squared Lasers, Inc	81,985	206,192
Solus Technologies Limited	(157,501)	-
M Squared Oil and Gas Ltd	(45,664)	-
M Squared Lasers UG	(8,220)	23,234
M Squared Life Limited	(770,557)	(911,401)

# **M SQUARED LASERS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 FEBRUARY 2020**

### **15. Stocks**

	Group 29 February 2020 £	Group 28 February 2019 £	Company 29 February 2020 £	Company 28 February 2019 £
Raw materials and consumables	2,060,527	1,820,794	2,060,527	1,820,794
Work in progress (goods to be sold)	1,482,340	1,397,337	1,482,340	1,397,337
Finished goods and goods for resale	621,056	491,567	621,056	491,567
	<u>4,163,923</u>	<u>3,709,698</u>	<u>4,163,923</u>	<u>3,709,698</u>

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

### **16. Debtors**

	Group 29 February 2020 £	Group 28 February 2019 £	Company 29 February 2020 £	Company 28 February 2019 £
Trade debtors	2,538,031	2,633,686	1,476,291	3,653,495
Amounts owed by group undertakings	-	-	1,683,867	(139,850)
Other debtors	599,242	259,955	596,840	259,955
Prepayments and accrued income	2,801,815	3,654,275	2,115,872	2,709,617
Tax recoverable	277,759	614,019	270,104	571,571
	<u>6,216,847</u>	<u>7,161,935</u>	<u>6,142,974</u>	<u>7,054,788</u>

### **17. Cash and cash equivalents**

	Group 29 February 2020 £	Group 28 February 2019 £	Company 29 February 2020 £	Company 28 February 2019 £
Cash at bank and in hand	303,158	(6,357)	(35,088)	(216,353)
	<u>303,158</u>	<u>(6,357)</u>	<u>(35,088)</u>	<u>(216,353)</u>

**M SQUARED LASERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 29 FEBRUARY 2020**

**18. Creditors: Amounts falling due within one year**

	Group 29 February 2020 £	Group 28 February 2019 £	Company 29 February 2020 £	Company 28 February 2019 £
Bank loans	1,937,500	1,960,000	1,937,500	1,960,000
Loan notes	3,241,472	1,620,736	3,241,472	1,620,736
Trade creditors	4,400,031	4,136,725	4,467,512	4,178,362
Amounts owed to group undertakings	-	-	8,462	-
Other taxation and social security	420,825	254,930	403,219	231,179
Other creditors	215,956	266,474	91,979	229,237
Accruals and deferred income	5,262,563	3,202,422	4,240,873	2,785,573
	<u>15,478,347</u>	<u>11,441,287</u>	<u>14,391,017</u>	<u>11,005,087</u>

**19. Creditors: Amounts falling due after more than one year**

	Group 29 February 2020 £	Group 28 February 2019 £	Company 29 February 2020 £	Company 28 February 2019 £
Bank loans	12,500	50,000	12,500	50,000
Loan notes	2,807,367	4,769,166	2,135,367	4,097,166
Accruals and deferred income	366,071	239,759	366,071	239,759
	<u>3,185,938</u>	<u>5,058,925</u>	<u>2,513,938</u>	<u>4,386,925</u>

**M SQUARED LASERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 29 FEBRUARY 2020**

**20. Loans**

	Group 29 February 2020 £	Group 28 February 2019 £	Company 29 February 2020 £	Company 28 February 2019 £
<b>Amounts falling due within one year</b>				
Bank loans	1,937,500	1,960,000	1,937,500	1,960,000
Other loans	3,241,472	1,620,736	3,241,472	1,620,736
	<u>5,178,972</u>	<u>3,580,736</u>	<u>5,178,972</u>	<u>3,580,736</u>
<b>Amounts falling due 1-2 years</b>				
Bank loans	12,500	50,000	12,500	50,000
Other loans	2,135,367	4,769,166	2,135,367	4,097,166
	<u>2,147,867</u>	<u>4,819,166</u>	<u>2,147,867</u>	<u>4,147,166</u>
<b>Amounts falling due 2-5 years</b>				
Other loans	672,000	-	-	-
	<u>7,998,839</u>	<u>8,399,902</u>	<u>7,326,839</u>	<u>7,727,902</u>

Bank loans are secured by a guarantee from the Secretary of State, and a bond and floating charge over the company's assets. Bank loans are repayable in monthly instalments and incur interest at between 3.5% and 5% above the bank's base rate.

Loan notes with a nominal value of £5,400,000 incur interest at rates of between 8% and 10% per annum.

**21. Deferred taxation**

**Group**

	2020 £
Charged to profit or loss	(65,374)
At end of year	<u>(65,374)</u>

**M SQUARED LASERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 29 FEBRUARY 2020**

**21. Deferred taxation (continued)**

**Company**

	2020 £
Charged to profit or loss	(65,374)
At end of year	<u>(65,374)</u>

	Group 29 February 2020 £	Company 29 February 2020 £
Fixed asset timing differences	(1,300,530)	(1,300,530)
Tax losses carried forward	1,206,451	1,206,451
Other short term timing differences	28,705	28,705
	<u>(65,374)</u>	<u>(65,374)</u>

**22. Share capital**

	29 February 2020 £	28 February 2019 £
<b>Allotted, called up and fully paid</b>		
2,863,630 (2019 - 2,863,600) Ordinary shares of £0.01 each	28,636	28,636
1,846,855 (2019 - 1,846,900) A Ordinary shares of £0.01 each	18,469	18,469
	<u>47,105</u>	<u>47,105</u>

## M SQUARED LASERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 FEBRUARY 2020

#### 23. 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:

	29 February Weighted average exercise price (pence) 2020	29 February Number 2020	28 February Weighted average exercise price (pence) 2019	28 February Number 2019
Outstanding at the beginning of the year	1	80,000	1	105,000
Granted during the year	1	69,500		-
Expired during the year		-	1	(25,000)
<b>Outstanding at the end of the year</b>		<b>149,500</b>		<b>80,000</b>

	29 February 2020 £	28 February 2019 £
Equity-settled schemes	-	-
	<b>-</b>	<b>-</b>

#### 24. 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 £100,274 (2019 - £29,338).

## **M SQUARED LASERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 FEBRUARY 2020**

#### **25. Commitments under operating leases**

At 29 February 2020 the Group and the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	Group 29 February 2020 £
Not later than 1 year	188,455
Later than 1 year and not later than 5 years	4,267
	<hr/>
	192,722
	<hr/>

#### **26. Related party transactions**

During the year the Group made sales to a company with common directors and shareholders, totalling £35,000 (2019 - £8,400).

#### **27. Post balance sheet events**

On 25 January 2021, M Squared Life Limited, a 100% subsidiary of M Squared Lasers Limited, issued Loan Notes of £600,000 with principal repayment after a term of 5 years.

#### **28. Controlling party**

The Company has no controlling party.