Narf Industries Plc

Annual Report and Consolidated Financial Statements

For the fifteen-month period
ended 31 March 2024

Registered number 11701224 (England and Wales)

CONTENTS

DIRECTORS AND ADVISORS

Directors	John Herring, Executive Chairman Steve Bassi, Chief Executive Albert Hawk, Non-Executive Director
Company Secretary	Neil Warrender
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Registered Number	11701224

NARF INDUSTRIES PLC
EXECUTIVE CHAIRMAN'S STATEMENT
FOR THE FIFTEEN MONTH PERIOD ENDED 31 MARCH 2024

I am pleased to present the audited financial results for Narf Industries PLC for the 15-month period to 31 March 2024, which aligns to our new financial year end.

This has been a transformative period in which the Group achieved record revenue growth, positive Adjusted EBITDA* performance, increased its intellectual property portfolio through cutting-edge government funded research and development, and announced it was accelerating the launch of its break-through new Social Cyber-Software as a Service ("SaaS") product, narf.ai.

As significantly, we have worked to advance our corporate infrastructure by building our executive team and Board of Directors and enhancing our financial and planning functions to establish much improved corporate governance. We will continue to mature our organization and maintain our focus on meeting the highest standards.

Looking ahead, alongside its government business, the Company is excited about the opportunities in the cybersecurity markets in which it is emerging as a welcome disruptor with leading edge technologies borne from advanced government programs. As this progression towards maximising its competitive advantage in SocialCyber develops further, the Board remains confident to deliver on its three-year plan to deliver on its revenue targets as it continues to look to increase investment and strategic alliances with industry partners. As part of this plan, the Company is undergoing a reallocation of resources and will provide a fuller update on the impact of this to the Company's financial profile in the coming months.

In closing, I would like to express my gratitude to our shareholders, clients, and employees for their support and trust. Together, we will continue to navigate the dynamic cybersecurity landscape and drive Narf Industries PLC to new heights.

Thank you for your continued support.

Signed by:
John Herring
924EC397D1B04C7...

John Herring

Executive Chairman

- Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and share based payments.

Narf Industries plc (the "Parent" or "Company") is the UK parent company of two US operating subsidiaries Narf Industries LLC and Narf Industries PR LLC (the "subsidiaries", "Operating Group" or "Narf US" - together with the Parent, the "Group"). The subsidiaries are principally involved in research and software development aimed at enhancing the cybersecurity measures of its US government agency clients. The directors of the Company are pleased to present their strategic report on the Group for the fifteen-month period ended 31 March 2024.

This section contains the strategic report, which includes the information that the Group is required to produce to meet the need for a strategic report in accordance with the Companies Act 2006. Biographies of each director are on the Group's website at narfgroup.com/team/board. The Directors' report is set out below. This strategic report is a consolidated report relating to the Group as a whole. It includes matters relating to the Company and its subsidiary undertakings.

Note any reference to $ will be for USD$ and any reference to 2024 or 2022 will be for the 15-month period ended 31 March 2024 and the calendar year ended 31 December 2022 respectively.

Cautionary statement

The strategic report has been prepared for the shareholders of the Company, as a body, and for no other persons. Its purpose is to inform shareholders of the Company and to help them assess how the Directors have performed their duty to promote the success of the Company. This strategic report contains forward-looking statements that are subject to risk factors associated with, amongst other things, the economic, regulatory, policy and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward-looking statements in this strategic report will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation.

Review of the business

The Company was originally formed as a specific purpose acquisition company to undertake acquisitions in the cybersecurity sector. In March 2021, the Company listed on the Official List of the UK Listing Authority on the London Stock Exchange ("LSE"). During the prior year the Company raised $7.6 million (gross) through placings and issued shares at an equivalent value of $19.4 million as consideration for the acquisition of the Operating Group. The acquisitions completed on 15 March 2022 were treated as a reverse takeover as explained in the 2022 financial statements.

Since the acquisition, the Company has integrated the US Operating Group, and it now constitutes the Group's sole business operation.

With a steadfast commitment to protecting national security and critical infrastructure, the Group offers comprehensive expertise in addressing the evolving cyber threats faced by its clients. The Group works with US government agencies including the Department of Defense ("DoD"), the Defense Advanced Research Projects Agency ("DARPA") and the Department of Homeland Security ("DHS"). The Group often collaborates with world renowned private research companies in the performance of contracts.

The Operating Group's strong track record of successful contract performance underscores its ability to deliver results and its growing team of cybersecurity professionals are able to deliver the ideas and solutions that are key to clients' security needs. The Directors understand the critical nature of the work performed by these agencies and the importance of maintaining the confidentiality and integrity of their missions. With the Group's industry-leading expertise, advanced technologies, and unwavering commitment to excellence, it provides the government with the confidence and peace of mind they need to navigate the complex and ever-changing cybersecurity landscape

Review of the business (continued)

The Group's strategy leverages government funded research and business to create and fund innovative and disruptive products for billion-dollar commercial cybersecurity markets. The Group provides government research and development services ("GR&D) and government solutions and services (GS&S). GR&D services principally comprise theoretical research into potential cybersecurity threats along with the development of source code to test cybersecurity defences against those threats. GS&S services principally comprise the development of infrastructure and software to analyse potential threats and to seek to reduce risks to the client.

*Government Research and Development ("**GR&D**")*
The Operating Group has a successful history of tendering for, and winning, government R&D contracts for groundbreaking technologies, predominantly from DARPA. Its research work is focused on three, multi-billion cybersecurity market segments: critical infrastructure protection; open-source software (OSS) vulnerabilities; and threat intelligence.

For these contracts, the government agency retains purpose rights, but the Group has the sole right to sell new solutions using the IP to the government (i.e., GS&S business). For commercial markets, the Group owns the IP rights.

The GR&D contracting process may range from 9 to 15 months and once awarded performance can range up to 18 months or longer. The Group projects stepped growth in its GR&D business targeting synergistic research areas that complement its current rich IP portfolio.

One of these projects included research into the detection of potential cybersecurity attacks on open-source software. The importance of this research came to the fore when Microsoft announced it had, by chance, discovered a stealth attack on XZ Utils that could have provided the attackers backdoor access to all computers using Linux. Its research has placed the Group at the forefront of efforts to detect and prevent attacks on open-source software in the future and the Directors have taken the decision to redirect resources towards maximizing the benefits from the Group's competitive advantage in what it terms "SocialCyber".

*Government Solutions and Services ("**GS&S**")*
The Group develops solutions and performs services for various US government agencies. Its software solutions address immediate cybersecurity mission needs. These needs continually evolve as the nature of cybersecurity threats change. The Group also provides on-going services supporting the operations of the delivered software solution.

The Group enjoys a unique competitive position with GS&S work through a recently renewed 5-year omnibus contract. This streamlines government procurement cycles and gives multiple agencies access to the Group's solutions and services. Agencies execute task orders, many with awards justified on a sole source basis. The timing from ideation of task to award is three to six months. Tasks performance typically range from six to twelve months to complete, at which time software is delivered and integrated into an operational system.

The Directors believes GS&S offers the highest growth potential and the Group's strategy is to scale and expand this segment. which is evidenced by the significant growth in GS & S revenues in the current period.

Commercialization
By collaborating closely with government agencies and tapping into their R&D resources, the Group gains access to cutting-edge technologies, methodologies, and insights. Through strategic partnerships, knowledge transfer, and technology transfer programs, the Group unlocks the potential of these innovations for commercial markets.

Review of the business (continued)

The Group's most advanced commercialization effort is SocialCyber (described above). The Group is currently accelerating development of this capability in response to industry demand and expects new contract awards for implementation of solutions with Department of Defense customers during the second half of calendar year 2024.

The Group is currently limited in the resources it can apply to its commercialization goals within the bounds of its three-year strategic plan. The Group continues to evaluate alternative strategies to accelerate the time to market for its SocialCyber capabilities including through paid development by commercial partners, investment by strategic partners or by accessing capital markets.

Financial position

The following presents key financial metrics of the Group:

- At the period-end, the consolidated statement of financial position presents Current Assets totalling $1.3 million (2022: $1.2 million). This included cash of $654,000 (2022: $443,000) and trade receivables of $314,000 (2022: $640,000) that were collected by end of Q2 2024 and Q2 2023 respectively.
- Total liabilities at the period-end were $2.7 million (2022 restated: $2.8 million), with 58% (2022: 54%) of the balance being loans plus interest from the Operating Group founder and CEO for working capital purposes. A further $331k (2022 restated: $407k) is owed to former employees with payment terms yet to be agreed and the remainder being trade and other payables of $858,000 (2022 restated: $862,000).
- During the prior period the CEO agreed to provide the Group with a $2 million credit facility and post year end he signed an agreement to increase the facility to $2.5 million with payment not due until July 2025 (unless the Group has the funds to pay earlier), leaving the Company $530,500 from which to draw further as at the date these accounts were issued.
- During the period the Group generated $173k (2022: utilised $3 million) in cash from operating activities.
- The Company has net operating losses to available to carry forward of $6.1 million (2022: $5.9 million) to offset against future taxes.

These key measurements show the Group's expected ability to execute its 2024/5 business plan funded through organic cash generation and available credit facilities although discussions are ongoing on potential ways to leverage the competitive advantage the Group has developed in SocialCyber.

Key performance indicators

The Directors main KPIs for the period under review have been revenue growth, particularly for GS&S contracts and operating cash flow. These KPI measures have produced the following results:

Key performance indicators (continued)

	2023/24 15 months US$	2023/24 annualised US$	2022 US$	Annualised Change %
GR & D revenues	4,509,908	3,607,926	1,360,684	+165%
GS & S revenues	3,012,545	2,410,036	1,165,203	+107%
Operating cash inflow (outflow)	173,059	138,447	(2,992,811)	-

In addition to delivering on the target of increasing revenues by more than 50%, the Directors have delivered on a number of qualitative KPIs as follows:

- Built an experienced and capable Board of Directors.
- Strengthened the Group's internal and external financial reporting.
- Scaled and expanded its government business.

A fourth target of unlocking the value of its IP with innovative and efficient '*go to market'* strategies has been deferred whilst the Group focuses on generating sufficient operating cash flow to finance new strategies.

Principal risks and uncertainties

The principal risks and the steps taken by the Group to mitigate these risks are as follows:

The Group is still in the early stages of its life and operating history
The Group faces the inherent risk of all early-stage companies with limited operating history. The Directors further acknowledge the risk in transition as they integrate and advances a private and entrepreneurial led venture to the main operating business of an LSE listed Company. The Group understands these factors may impact investor perceptions, but it is confident in its immediate-term prospects. Specifically:

- The rise in revenues reflects the high service levels that the Group's clients are coming to expect of it. The insights of its team are increasingly being seen as critical to enable the end-users to achieve their goals and those users are pushing for the Group's team to be involved in a number of projects.
- There are a number of opportunities to leverage the products already developed with a great deal of appetite from end-users who see the potential of those products.
- The Group can scale and expand its government business where it has a proven track-record and the supply of cybersecurity capabilities is limited.
- The founder of Narf US and now CEO of the Group, is driving the on-boarding of executives, as evidenced by the COO and CFO appointments, with experience in navigating the risk in transition and growth as demonstrated by the timeliness of financial reporting.

Principal risks and uncertainties (continued)

Reliance on a limited number of products and customers
The Group acknowledges this risk but embraces it as a strategic and competitive advantage for an early-stage company. The Group is delivering highly specialized capabilities to government agencies with multi-billion-dollar budgets and a mission that only grows. It is building its reputation as demonstrated by the growth in revenue. The Group's market share, even in this small niche, is miniscule.

Reliance on a limited number of products and customers (continued)
These achievements and reputation will serve as the foundation to attract new customers. The Group's growing government R&D work is already leading to creation of new opportunities and ultimately are expected to lead to the development of commercial products.

US government budget continuing resolution

Substantially all of the Group's revenues derive from US government agencies. Such agencies are subject to restraints on their ability to award contracts during periods when Congress is unable to agree the budget and, in some cases, have imposed "stop-work notices". The Group is strengthening its relationships with end-users of its services as these users act as advocates pushing for a fast resolution of any delays in funding.

Cuts in research budgets
There is pressure on government agencies to bring research in-house which can lead to fewer research based contracts being offered to tender. During the period, one of the Group's main research contracts was terminated at the end of Phase I resulting in a significant fall-off in backlog orders. The Group had already anticipated this risk and had started to transition away from research-based services towards those that have a deliverable product. It is anticipated that this transition will help speed the move towards the Group's ability to commercialise software.

Key-person risk
The Group's success and prospects are significantly influenced by the knowledge, experience, and expertise of key individuals within the organization. The loss of any key person, including members of the senior management team or technical experts, could have a material adverse effect on the Group's business, operations, and financial performance.

This risk is largely mitigated through the Company's long-term incentive scheme as well as the significant shareholding of the former members of the Operating Group. During the period the Group recruited a team leader for GS&S, which significantly reduced the dependency on the CEO.

The Group continuously strives to attract, retain, and motivate key personnel through competitive compensation packages, employee engagement initiatives and a supportive work environment. However, there is always a risk that key individuals may leave the Group for various reasons, including career opportunities elsewhere or unforeseen circumstances.

Inability to Fund Operations
As an emerging enterprise in a rapidly evolving industry, the Group faces certain financial risks, including the potential inability to fund our operations. The success of its business and the Group's ability to achieve its strategic objectives depend on it having access to adequate funding sources, including cash reserves, credit facilities, and capital markets.

While the Board acknowledges this risk, the Board is committed to taking proactive measures to mitigate it. The Group's financial position and going concern disclosures present its 2024/5 plans to leverage the strong backlog, achieve operational efficiency, and manage cash flow to ensure alignment with available resources.

Principal risks and uncertainties (continued)

Inability to Fund Operations (continued)
The Board also actively evaluate potential strategic alliances, partnerships, and collaborations that can provide access to additional resources to fund the Group's commercialisation goals.

Whilst the Board has taken and continues to take reasonable measures to address the risk of funding constraints, there can be no assurance that the Group will be successful in maintaining performance or securing the necessary funding on favourable terms (see '*Going Concern*' section in the Directors' Report below).

Reputational Risk
Reputational risk is a critical consideration for the Board as it plays a pivotal role in shaping the Group's relationships with stakeholders and influencing their perceptions of the Group. The Board recognises that any adverse event or negative perception can significantly impact the Group's reputation, market standing, and long-term success.

The Group's reputational risk is mitigated to a significant extent due to the strong track record and exemplary conduct of its key executives with decades of experience in their respective fields. Their unwavering commitment to integrity, transparency, and ethical business practices has established a solid foundation of trust among the Group's stakeholders.

As the Group continues to expand and grow, it remains committed to upholding the values and principles instilled by Management.

Economic Risk
The Group could be affected by unforeseen events outside its control including economic and political events and trends, inflation and deflation or currency exchange fluctuations. The impact is likely to include disruption to financial markets and higher inflation. Any economic downturn either globally or where the Group operates, in the US, may have an effect on the demand for the Group's products and services. However, the Board considers the US market and the US Government to be a fairly stable counter party in terms of economic risk, albeit the continuing resolution issues in 2024 have focused management on ensuring they continue to foster relationships with end-users. The Group strategy to focus on strengthening and building further on those relationships only enhances the mitigation.

Employee information
At present, there are no female Directors in the Company and the just 10% of Group employees are women. The Group is committed to gender equality and diversity. As new roles are identified, a wide-ranging search is completed with the most appropriate individual being appointed irrespective of gender, religion or certain additional needs.

Social/Community/Human rights matters
The Group ensures that employment practices take into account the necessary diversity requirements and compliance with all employment laws. The Board has experience in dealing with such issues and sufficient training and qualifications to ensure they meet all requirements.

Anti-corruption and anti-bribery policy
It is the Group's policy to conduct all our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships.

Greenhouse Gas (GHG) Emissions

As the Company has not consumed more than 40,000 kWh of energy in the period, it qualifies as a low energy user under SI 2018/1155 and is not required to report on its emissions, energy consumption or energy efficiency activities.

Task Force on Climate-Related Financial Disclosures (TCFD)

a) Describe the Board's oversight of climate- related risks and opportunities.	Whilst the Board meets formally as and when needed to meet its statutory obligations, it principally operates on an informal basis, through regular communication between the Executive Chairman and the CEO. This communication is focused on risks and opportunities that arise on an ongoing basis. Through those discussions the Board has assessed that at the current time there are no climate-related risks or opportunities that would have a material impact on the Group or the wider community. This is in the context of the Group currently having less than twenty employees and substantially all of the climate impact of the Group being driven by customer requirements and/or the need to keep shareholders informed. The Board will keep this assessment under regular review.
b) Describe management's role in assessing and managing climate-related risks.	There is no formal management structure as there are less than twenty Group employees. Each employee is encouraged to seek to make personal decisions so as to minimise climate-related risks. This manifests itself in seeking to minimise travel by, for example, working from home and organising an off-site in the centre of the country at the same time as a conference that many employees attended.
c) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term	The Group has not identified any material climate-related risks and opportunities in the short-term. Medium and longer-term assessments will depend on what commercial products are developed by the Group and accordingly the Board will reassess those climate-related risks and opportunities as part of any plan to move towards commercialisation.
d) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	Climate related risks and opportunities are not currently a consideration when the Group is developing its businesses, strategy or financial planning given the immaterial level of risk. Individual employees are encouraged to take climate matters into account when planning how they wish to work and management offer maximum flexibility to facilitate this.
e) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	The Group does not foresee any impact on its resilience arising from all foreseeable climate-related scenarios, including a full two degrees of warming.
f) Describe the organisation's processes for identifying and assessing climate- related risks	The Group currently has no process for identifying and assessing climate-related risks given they are not deemed material to the organisation. This will be kept under review as the organisation grows.

Task Force on Climate-Related Financial Disclosures (TCFD) (continued)

g) Describe the organisation's processes for managing climate-related risks	The process for managing such risks is to provide all employees with the flexibility to manage those limited risks that are under their control.
(i) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	The Group does not seek to measure climate-related risks as they are not considered material and substantially all of those risks are driven by customer or shareholder demands that are outside the Group's control (eg requests to meet in face-to-face meetings). The Board will reconsider this position on any material change to the Group or its activities.
(j) Disclose Scope 1, 2, and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks.	The Group does not incur any Scope 1 or Scope 2 greenhouse gas emissions as all employees work from home.
(k) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against target	The Group currently has no set such targets since climate-related risks and opportunities are largely outside of the control of the Group. Notwithstanding this the Board is pleased to note that employees continue to do what they can to reduce climate risk by working from home. The Board will reconsider this position on any material change to the Group or its activities.

Section 172(1) Statement

The Directors believe they have acted in the way most likely to promote the success of the Group for the benefit of its stakeholders as a whole, as required by s172 of the Companies Act 2006.

The requirements of s172 are for the Directors to:

- **Consider the likely consequences of any decision in the long term;**

  The Company undertakes decisions aligned with its strategic vision. The focus is multi-billion-dollar cyber security market segments which are essential to societies' fabric. The Group meets the most demanding needs of the US government's mission to protect critical infrastructure, ensure the integrity of software to thwart malware and related ransomware extortion, and deliver threat intelligence solutions to stop adversarial attacks. This demand will not abate and consequently the Board's most important decisions are directed towards the fulfilment of this long-term goal.

  Within this framework, the following are the consequences of recent Board decisions on the long-term business:

  Scaling GS&S Revenues - The Group relies on government work to fund its operations and enable commercialization investments. Leveraging the omnibus contract in place with the procurement agency for this activity, the Board is deciding to "grow where we know" and turbo-charge this core business. The consequence is increased revenue and net margins that will fund future growth in operations and commercialization initiatives.

  Performance Discipline and Fiscal Responsibility - The Board continues to manage its operations with a view to the Group being cash flow positive at the operating level. The Board has the ability to react quickly to delays in anticipated cashflows due to losses of government funding or contract awards by rapidly redeploying staff and identifying new opportunities as well as by cutting costs.

Section 172(1) Statement (continued)

- **Consider the likely consequences of any decision in the long term (continued);**
  Governance and Public Company Standards - The Board appointed an experienced non-executive director, implemented its governance plan, appointed new auditors and significantly enhanced its financial reporting. The Group is now able to run near real-time financial reports with the ability to run projections in different scenarios. This has facilitated more accurate and timely reporting to shareholders as well as a greater ability to adapt to lost contracts and "stop-work notices". The consequences of these improvements are better cash flow management and the longer-term benefit of capital market access on future favourable terms.

  The Board and executives routinely engage in decisions that impact the long term, set plans to execute, monitor execution, and pivot as necessary from informed and valued employee insights

- **Act fairly between the members of the Company;**
  Each of the Directors is dedicated to acting fairly towards the Company's shareholders and to treat them equally.

  The Directors are driven to maximizing shareholder returns while considering the sustainability and resilience of the Group's business. Alongside value creation, the Directors also prioritize the preservation of shareholder value. The Directors strive to manage risks, maintain financial stability, and make prudent decisions that safeguard the assets entrusted to them by the Company's shareholders.

  The Directors prioritize transparent and timely communication with the Company's shareholders. Each Director will strive to improve communication, offering regular updates on the Group's performance, financial results, and key developments so shareholders are well-informed and have a clear understanding of the Group's business activities.

  The Directors look to uphold appropriate standards of corporate governance to protect and enhance shareholder rights commensurate with the size of the Group, whilst keeping governance costs to a minimum. Each Director recognizes the importance of treating all shareholders fairly and equally, irrespective of their shareholding size. The Directors are committed to providing fair and equitable treatment to minority shareholders, ensuring that their rights and interests are respected.

  The Directors work to align management incentives with shareholder interests to promote responsible and sustainable value creation. The Group's executive compensation structure is designed to reward performance, promote long-term value creation and align the interests of management with those of the Company's shareholders.

- **Maintain a reputation for high standards of business conduct;**
  The Directors seek to ensure the Company strives for the highest standards of conduct with all its stakeholders.

  The Directors seek to ensure the Group conducts its business with the utmost integrity, adhering to ethical principles and demonstrating honesty and transparency in all interactions. The Directors work to uphold the highest standards of ethics and integrity in all business activities. The Directors are dedicated to delivering high-quality products/services that meet or exceed the expectations of the Group's customers.

  The Directors seek to ensure the Group treats all stakeholders fairly and equally, with a commitment to resolving any concerns or issues in a fair and timely manner. The Directors

Section 172(1) Statement (continued)

- **Maintain a reputation for high standards of business conduct (continued);**
  maintain open and clear lines of communication and value effective communication to build strong and lasting relationships.

  The Directors seek to ensure the Group maintains strict compliance with legal and regulatory requirements, as well as industry standards and best practices to the extent practicable given our size. The Directors prioritize the privacy and security of customer data, implementing robust measures to safeguard their information and comply with applicable data protection laws.

  The Group's employees embody professionalism in their interactions, displaying courtesy, respect, and a commitment to understanding and fulfilling their needs. They take accountability and responsibility for their actions, decisions for roles and performance.

- **Consider the interests of the Group's employees;**
  For context, the Group employs a close-knit group of less than twenty highly qualified research scientists and experienced software developers, that have chosen to come together in an environment that allows them the freedom to advance their craft without bureaucracy and make meaningful impact.

  The Directors embrace the principle of equality, treating all employees with fairness and respect. The Group's flat organizational structure ensures that every team member has an equal voice and opportunity to contribute their skills and expertise.

  The Group operates on the principles of meritocracy, where recognition and advancement are based on individual abilities, accomplishments, and contributions. The Group values and rewards performance, enabling employees to excel based on their skills, dedication, and results.

  The Directors foster a collaborative work environment where ideas are valued irrespective of hierarchy. The Group culture encourages open communication, teamwork, and the exchange of diverse perspectives, allowing everyone to contribute to the success of the organization.

  The Directors empower Group employees to make decisions, take ownership of their work, and contribute to the growth and development of the Group. This empowers individuals to utilize their skills and knowledge effectively, promoting a sense of ownership and responsibility.

  The Directors maintain a transparent and inclusive environment, where information is shared openly, and decisions are communicated clearly. Each Director encourages open and constructive feedback, fostering a culture of continuous improvement.

- **Foster the Group's relationships with suppliers, customers and others;**
  The Directors strive to foster strong relationships with customers and research organizations.

  The Directors are committed to fostering strong and enduring relationships with the Group's customers. The Directors seek to encourage Group employees to strive to exceed customer expectations, building trust, loyalty, and long-term partnerships.

  The Directors promote collaboration with other research organizations. Through partnerships and joint research initiatives, the Directors aim to drive innovation, accelerate discoveries, and advance the field of cybersecurity.

  The Directors recognize the importance of being responsive and adaptable to changing customer requirements. The Directors aim to ensure the Group is agile in its approach, quickly adapting our research, solutions, and services to address customer challenges effectively.

Section 172(1) Statement (continued)

- **Foster the Group's relationships with suppliers, customers and others (continued);**
  The Directors encourage employees to actively engage with customers and other research organizations to share their expertise, insights, and thought leadership. By participating in conferences, industry events, and collaborative forums, those employees contribute to the broader cybersecurity community, promoting knowledge exchange, best practices, and collective learning.

  The Group has significantly improved the timeliness of payment to suppliers during the period with the vast majority of creditors being paid ahead of the due date.

- **Consider the impact of the Company's operations on the community and the environment.**
  At the core of the Group's work lies a commitment to safeguarding society from cyber threats and promoting a secure digital environment. The team's expertise and research have had a profound positive impact on individuals, businesses, and critical infrastructure. Through the relentless efforts of Group employees, the Group has contributed to strengthening the cybersecurity landscape, protecting sensitive data, and ensuring privacy in an increasingly interconnected world.

  The Directors take great pride in empowering society through the Group's cybersecurity solutions. By enabling digital transformation, innovation and economic growth, the Group's work paves the way for organizations to embrace technology securely. The Directors firmly believe that a secure digital ecosystem fosters productivity, connectivity and access to information, leading to a thriving society that benefits all stakeholders.

  The Directors' dedication to ethical and responsible cybersecurity practices is unwavering. The Directors seek to ensure that the Group adheres to stringent ethical guidelines and prioritize the protection of human rights. Respecting user privacy and fostering digital trust are foundational principles that drive the Group's research and recommendations. The Directors understand the responsibility the Group bears in creating a secure and inclusive digital environment, and the Directors actively champion these principles in daily operations.

  While the Group's primary focus is on societal impact, the Directors also recognise the importance of minimising the Group's environmental footprint. The Directors have taken steps to ensure the Group's operations and research activities have a minimal impact on the environment. Through the Group's work from home policies, energy-efficient infrastructure, responsible resource consumption, and proper electronic waste management, the Directors strive to reduce the Group's carbon footprint and promote environmental sustainability.

  Looking ahead, the Directors remain committed to continuous improvement in both societal and environmental impact. The Directors will continue to seek to enhance the Group's positive contributions to society while exploring ways to integrate sustainability practices into its operations. By partnering with environmental organizations, supporting community projects, and advocating for sustainable cybersecurity practices, the Group will further the Directors' commitment to being responsible corporate citizens.

Gender analysis

A split of the Company's employees and directors by gender during the year is shown below. This analysis has been prepared based on analysis of Directors, those being the only employees of the Company.

	Male	Female
Directors	3	-

None of the Directors are women and therefore the Company has not met the diversity target of having 40% of women directors nor of having a woman hold at least one senior position. This has not been achieved because none of the directors are currently earning any remuneration so as to promote the long-term interests of the Group and the Board hasn't been able to identify any women who are prepared to accept an appointment on those terms.

Sustainability

The Group aims to conduct its business with honesty, integrity and openness, respecting human rights and the interests of our shareholders and employees. The Directors aim to provide timely, regular and reliable information on the business to all the Company's shareholders and conduct the Group's operations to the highest standards.

The Directors strive to create a safe and healthy working environment for the wellbeing of Group employees and create a trusting and respectful environment, where all members of staff are encouraged to feel responsible for the reputation and performance of the Group.

The Directors aim to establish a diverse and dynamic workforce with team players who have the experience and knowledge of the business operations and markets in which the Group operates. Through maintaining good communications, members of staff are encouraged to realise the objectives of the Group and their own potential.

DocuSigned by:

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Steve Bassi

CEO

30 July 2024

The Directors present their report and the audited consolidated financial statements for the fifteen-month period ended 31 March 2024. The Company was incorporated as Cyba plc and on 3 August 2022 changed its name to Narf Industries plc to align its identity with that of the operating subsidiaries. The Company extended its year end from 31 December to 31 March during the period, facilitating the appointment of new auditors and allowing the new auditors time to complete their audit planning.

Principal Activity

The principal activity of the Group is the provision of research and software development services aimed at enhancing the cybersecurity measures of its US government agency clients.

Results

The Group recorded an operating profit before depreciation and software licence amortisation, share based payments, interest and taxes for the period of $0.2 million (2022 restated: loss $2.5m). Group losses for the year before taxation were US$1.4 million (2022 restated: $18.7 million), with the prior year loss including a one-off charge of $15.4 million representing the deemed cost of the listing achieved by Narf US as a result of the reverse takeover as further explained in the prior year financial statements. Revenue for the period grew by nearly 300% (240% annualized) to $7.6 million (2022: restated $2.5 million).

Operating expenses, by comparison, increased by only 33% (26% annualized). The Board made significant progress in reducing central overheads during the period with increases in staff costs related to the revenue-generating team being largely offset by reductions in other overheads. Three redundancies have been made since the year end to reflect the Group's refocus on SocialCyber.

Dividends

No dividend has been paid during the period nor do the Directors recommend the payment of a final dividend (prior year: $nil).

Directors

The Directors who served at any time during the period were:

Steve Bassi	Chief Executive Officer
John Herring	Executive Chairman
Albert Hawk	Non- Executive Director (appointed 24 January 2024)
Rory Heier	Non-Executive Director (resigned 24 January 2024)
Robert Mitchell	Non-Executive Chairman (resigned 23 April 2023)

Details of the Directors' holding of Ordinary Shares and options are set out in the Implementation Report on page 20.

Share Capital

The Company is incorporated as a public limited company and is registered in England and Wales with the registered number 11701224. Details of the Company's issued share capital, together with details of the movements during the period, are shown in Note 15. The Company has one class of Ordinary Shares and all shares have equal voting rights and rank pari passu for the distribution of dividends and repayment of capital.

Substantial Shareholdings

At 18 July 2024, the Company had been informed of the following substantial interests over 3% of the issued share capital of the Company.

Shareholder	No of Ordinary Shares	Percentage of issued Share Capital
Steve Bassi	502,079,484	29.58%
Banque Heritage	160,000,000	9.43%
Nick Davis	92,948,078	5.48%
Ben Schmidt	88,447,438	5.21%
Hadron Master Fund Series II	82,564,542	4.86%
Merchant Capital LP	80,675,000	4.75%

Directors' Remuneration Report (Audited)

Remuneration Policies (unaudited)
The Board believes that share ownership by Executive Directors strengthens the link between their personal interests and those of shareholders. To date the current Board members have not traded in the Company's shares since the admission to LSE.

The Directors' remuneration primarily comprises a base fee or salary and/or long-term incentives in the form of options which vest over time or on targets being achieved. Directors also receive reimbursement for expenses incurred whilst performing services for the Company.

Service contracts (unaudited)
The Directors have entered into Service Agreements with the Company and continue to be engaged under these agreements until terminated by the Company.

In the event of termination or loss of office the Director is entitled only to payment of their basic salary in respect of his notice period. In the event of termination or loss of office in the case of a material breach of contract the Director is not entitled to any further payment.

Directors are allowed to accept external appointments with the consent of the Board, provided that these do not lead to conflicts of interest. Directors are allowed to retain fees paid.

UK 10-year performance graph

The Directors have considered the requirement for a UK 10-year performance graph comparing the Company's Total Shareholder Return with that of a comparable indicator. The Directors do not currently consider that including the graph will be meaningful because the Company has only been listed for less than 4 years, is not paying dividends, is currently incurring losses as it gains scale, it has only just completed its first full accounting period as an operating group and none of the remuneration of Directors is currently linked to share price performance. The Directors will review the inclusion of this table for future reports.

Implementation Report

Particulars of Directors' Remuneration (audited)

Particulars of directors' remuneration under the Companies Act 2006 are required to be audited, are given in Note 5 and further referenced in the Directors' report.

Remuneration approved for the Directors' during the fifteen-month period ended 31 March 2024 was:

	Base salary/fee US$	Bonus US$	Long-term incentive US$	Total US$
Steve Bassi*	(160,921)	-	169,936	**9,015**
John Herring	275,192	-	12,595	**287,787**
Albert Hawk (appointed 24.1.24)**	-	-	-	**-**
Robert Mitchell (resigned 23.4.23)	24,973	-	-	**24,973**
Rory Heier (resigned 24.1.24)	124,664	-	30,175	**154,839**
	263,908	-	**212,706**	**476,614**

*Mr Bassi waived his right to historic fees from the Parent during the year and accordingly his base fee represents the reversal of historic accruals

**Mr Hawk's service agreement is currently in the process of being finalized.

Remuneration approved for the Directors' during the year ended 31 December 2022 was:

	Base salary US$	Bonus US$	Long-term incentive (restated) US$	Total US$
Steve Bassi	60,000	-	-	**60,000**
John Herring	60,000	-	-	**60,000**
Robert Mitchell	149,994	187,493	202,464	**539,951**
Rory Heier*	123,794	187,493	202,464	**513,751**
	393,788	**374,986**	**404,928**	**1,173,702**

There were no performance measures associated with any aspect of Directors' remuneration save as detailed in bonus and incentive plans below.

Payments to past Directors (audited)

There are no payments in the year to past Directors.

Bonus and incentive plans (audited)

During the period Mr. Bassi was awarded a total of 75 million ten-year options with a strike price of 1p. Of these options 20,625,000 options had vested at the period end, 34,375,000 options vest in equal quarterly amounts so long as he remains a director and 20 million options are based on revenue targets for 2024 and 2025.

Implementation Report (continued)

Bonus and incentive plans (audited) - continued

During the period Mr. Herring was awarded a total of 54,714,900 five-year options with a strike price of 1p. None of these options had vested at the period end with half those options vesting annually over the two years starting April 2024 and the remaining half depending on fundraising activity and Board appointments.

During the period Mr. Heier was awarded a total of 16 million sixteen-month options with a strike price of 1p. 12 million of these options had vested at the period end with 4 million having lapsed as the vesting conditions were not met.

Percentage change in the remuneration of the Chief Executive (audited)

The Chief Executive has waived his right to remuneration and accordingly there is no percentage change.

Other matters

The Group does not have any pension plans for any of the Directors and does not pay contributions in relation to their remuneration. The Group has not paid out any excess retirement benefits to any Directors.

Approval by members (unaudited)

The remuneration policies which are detailed in the remuneration committee report will be put forward for approval at the next Annual General Meeting.

Directors' interests in shares

The Company has no minimum Director shareholding requirements.

The beneficial interest of the Directors in the Ordinary Share Capital of the Company at 18 July 2024 was:

	Number	% age of issued share capital
Albert Hawk	-	-
Steve Bassi	502,079,484	29.58%
John Herring	26,000,000	1.53%
	528,079,484	**31.11%**

Remuneration Committee (unaudited)

The Remuneration Committee report is detailed on page 30.

Auditor Information and Opinion

The Directors who held office at the date of approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware.

In the previous period, the administrative burden introduced by IFRS presented a significant hurdle, especially given the sensitive and confidential nature of many of the Group's sales contracts, which was the main reason why the prior year audit was subject to a disclaimer of opinion and this year's audit includes a qualification in relation to the opening balances and the possible impact of the disclaimer on the reported performance for the year.

Auditor Information and Opinion (continued)

In addition to the record keeping matter, certain other challenges hindered the completion of the prior-year audit, the most significant being the Group's ability to provide the auditors with various contracts and underlying records related to a sensitive contractual relationship. All of these issues were resolved through negotiation with the customer during the current period.

Financial Instruments

The Group has a limited exposure to credit risk, liquidity risk and foreign exchange risk. Note 19 presents information about the Group's exposure to these risks, along with the Board's objectives, processes and policies for managing the risks.

Events after the reporting period (see Note 22)

On 28 June 2024 Steve Bassi signed an extension to the invoice financing facility agreement increasing the facility to $2.5 million and extending the repayment terms to 31 July 2025.

Effective 1 April 2024 the Company transferred its 100% interests in Narf Industries LLC and Narf Industries PR LLC to Narf Holdings Inc so that Narf US became indirect subsidiaries rather than direct subsidiaries of the Company.

Directors' Indemnity Provisions

The Company has taken out Directors and Officers Liability Indemnity insurance.

Going concern

The Directors believe the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future and at least until 31 July 2025, being 12 months after the date these financial statements were issued.

Over the 15 months to 31 March 2024, the Group demonstrated its ability to generate increasing revenue and manage expenses whilst accessing its existing line of credit ("LOC") to advance operations and achieving positive Adjusted EBITDA. This was a marked improvement from the previous reporting period and a demonstration of the new Board and Executive team's ability to plan and execute its business strategy.

The Group recently increased its existing LOC provided by the Group's CEO from $2 million to $2.5 million to provide additional resources to support its growth objectives. It also closely manages its operational expenses and has significant flexibility to adjust its resources and expenses in line with its contracted revenues. Management can rapidly make decisions to redeploy resources on the exciting new projects discussed elsewhere in these report and accounts.

The Board also notes its announced intentions during this period to pursue joint venture funding of the Group, specifically to capitalise on its disclosed social cyber business opportunity. The Board believes these initiatives, along with new expected social cyber contract awards. ensure its continued operation.

The Board further notes the Company's potential to pursue an LSE market fundraise in the event this is deemed appropriate and market conditions allow.

Since the Group's plans, to a certain extent, are reliant on market conditions and/or third parties there remains a material uncertainty as to the Group's ability to remain a going concern as highlighted in the audit report. The Group has current liabilities (primarily due to the LOC from the CEO) which are greater than current assets at the reporting date and there is a deficit on shareholders' equity.

Going concern (continued)

The Directors believe the Group's plan is based on sound analysis, with a high degree of confidence in both outcomes from either the joint venture funding or LSE market fundraise. The primary risk determined by the Directors is timing of new contract awards for which management presented viable short-term remedies, through expense reductions and further LOC increases, to ensure the Group remains a going concern up to 31 July 2025.

Auditors

The Board appointed Haysmacintyre LLP as new auditors of the Company on 24 January 2024 and the appointment was approved by the shareholders at the AGM on 22 February 2024. Haysmacintyre LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the next Annual General Meeting.

Donations

The Company made no political donations during the current and prior periods (2022: Nil).

Statement of Directors' Responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing this annual report and the financial statements in accordance with applicable United Kingdom law and regulations and those UK-adopted international accounting standards.

Company law requires the Directors to prepare financial statements for each financial period which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. Under that law, the directors have elected to prepare the consolidated financial statements in accordance with UK adopted International Financial Reporting Standards (''IFRSs''). Under company law, the directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether applicable UK-adopted International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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 Company financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding

Statement of Directors' Responsibilities (continued)

the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations, and for ensuring that the Annual report includes information required by the Listing Rules of the Financial Conduct Authority.

The financial statements are published on the Group's website. The work carried out by the Auditor does not involve consideration of the maintenance and integrity of this website and accordingly, the Auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom covering the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

The Directors confirm that to the best of their knowledge:

- these financial statements, prepared in accordance with IFRS (UK adopted IAS), give a true and fair view of the assets, liabilities, financial position and loss of the Group and Company;
- this Annual report includes the fair review of the development and performance of the business and the position of the Group and Company together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide information necessary for shareholders to assess the Group and Company's performance, business and strategy.

ON BEHALF OF THE BOARD

DocuSigned by:

Bud Hawk

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Albert Hawk

Non-Executive Director

30 July 2024

Corporate Governance Statement

The Company recognises the importance of, and is committed to, high standards of Corporate Governance. Whilst the Company is not formally required to comply with a Corporate Governance Code, the Company has looked at the requirements of the UK Code of Corporate Governance published in January 2024 (the "Code") and sought to apply aspects of the Code for best practice where deemed appropriate but does not comply with the Code in full. The following sections explain how the Company has applied the aspects of the Code that it considers relevant to the Group.

Compliance with the UK Code of Corporate Governance

The Company has a clear mandate to optimise the allocation of limited resources to source acquisitions and support its future plans. As such the Company strives to maintain a balance between conservation of limited resources and maintaining robust corporate governance practices.

Whilst the Company has not sought to comply with the Code in full, as noted below there are 3 provisions it specifically does not comply with:

- Section 4.24 of the Code requires that a majority of the members of the Audit Committee must be independent. The Audit Committee comprises of only one Non-Executive Director and one Executive Director during this transition period. The requirements of the FCA Rules have therefore been met by granting the independent Director two votes thereby ensuring there is always an independent majority.
- The Code requires that a smaller company should have at least two Independent Non-Executive Directors. The Board currently consists of two Executive Directors and one Non-Executive Director. The Non-Executive Director has no interest in ordinary shares in the Company and therefore is considered fully independent under the Code. The Company considers that one Non-Executive Director is adequate given the size and stage of development of the Company. As above, the Company intends to strengthen the Board in due course.
- As a consequence of the Group's limited resources, where provisions of the Code require the appointment of independent directors, for example as chairman or as senior independent director, the Company is not in full compliance with the Code – this applies in relation to various provisions of the Code. including those areas relating to 'Remuneration', 'Audit, Risk and Internal Control' and 'Composition, Succession and Evaluation'. As above this is expected to change in due course. For further details see the UK Corporate Governance Code at www.frc.org.uk

Set out below is the Company's corporate governance practices:

Board of Directors

The Board is committed to maintaining appropriate standards of corporate governance. The statement below, together with the report on Directors' remuneration and the implementation report on pages 18 to 20, explains how the Company has observed principles set out in The UK Corporate Governance Code (the "Code") as relevant to the Company and contains the information required by section 7 of the UK Listing Authority's Disclosure and Transparency Rules as the Company has sought to adopt these prior to listing.

The Board currently consists of two executive Directors and one non-executive Director. The Board is in process of establishing regular meetings following the recent appointment of Mr. Hawk. During the period under review, the CEO and Executive Chairman maintained a regular dialogue as they formulated strategic plans to move the Group forward on a strong corporate governance path. Formal Board meetings were

Board of Directors **(continued)**

only held in relation to statutory requirements including approval of the accounts, long-term incentive plans and resolutions to be put to the AGM. The Directors will aim to meet on a formal basis more regularly in the upcoming year and actively seek to expand Board membership to provide additional levels of corporate governance procedures at the relevant opportunity.

Audit Committee and Financial reporting

The Audit Committee comprises Albert Hawk (Chair) and John Herring (newly appointed Executive Chairman), each of whom have recent and relevant financial experience. The Audit Committee met formally in January 2024 to discuss the key risks and uncertainties related to these financial statements and to agree management's approach to addressing those matters. A second meeting was held in July 2024 to discuss the audit findings report presented by Haysmacintyre LLP. The Audit Committee aims to meet at least two times a year at the appropriate times in the reporting and audit cycle going forward. The Committee has responsibility for, amongst other things, the monitoring of the financial integrity of the financial statements of the Company and the involvement of the Company's auditors in that process. The Audit Committee has sought to address the weaknesses in financial systems as outlined in the 31 December 2022 audit findings report and has worked with the Board, the Directors and management to address and resolve the issues contained in that report. The Audit Committee took the view that it was not possible to retrospectively obtain access to customer contracts and therefore any attempt to re-audit the 2022 numbers was unlikely to result in a clean opinion. Accordingly, the current period audit report is qualified in respect of the opening balances and the impact that could have on the consolidated statement of comprehensive income and consolidated statement of cash flows. Note the ultimate responsibility for reviewing and approving the annual report and financial statements and the half-yearly reports, remains with the Board.

The terms of reference of the Audit Committee covers such issues as membership and the frequency of meetings, as mentioned above, together with requirements of any quorum for and the right to attend meetings. The duties of the Audit Committee covered in the terms of reference are: financial reporting, internal controls, internal audit, external audit and reserving. The terms of reference also set out the authority of the committee to carry out its duties.

The Board seeks to present a balanced and understandable assessment of the Company's position and prospects in all interim, final and price-sensitive reports and information required to be presented by statute.

External auditor

Members of the Board have met regularly with the new auditors both before their appointment and subsequently. They also discussed the audit findings report with the former auditors and put in place an action plan to ensure all findings had been addressed ahead of appointing new auditors. The Board considers auditor independence and objectivity and the effectiveness of the audit process. It also considers the nature and extent of the non-audit services supplied by the auditor reviewing the ratio of audit to non-audit fees and ensures that an appropriate relationship is maintained between the Company and its external auditor. During the period the Company did not pay the current or former auditors any amounts for non-audit related services. Details of the total fees due to the auditors for the audit are set out in Note 4 to the financial statements.

The Company has a policy of controlling the provision of non-audit services by the external auditor in order that their objectivity and independence are safeguarded. As part of the decision to recommend the appointment of the external auditor, the Board takes into account the tenure of the auditor in addition to the results of its review of the effectiveness of the external auditor and considers whether there should be a full tender process. There are no contractual obligations restricting the Board's choice of external

External auditor (continued)

auditor. Haysmacintyre LLP have only been in their role since January 2024 and this is the first period that they audited the Company's financial statements.

Remuneration committee

The Remuneration Committee consists of Albert Hawk (previously Mr Heier) (Chair) and John Herring. The Remuneration Committee met once during the period to approve the long-term incentive scheme and option awards. It has responsibility for the determination of specific remuneration packages for each of the executive directors and any senior executives or managers of the Group, including pension rights and any compensation payments, and recommending and monitoring the level and structure of remuneration for senior management, and the implementation of share option, or other performance-related, schemes.

Nominations committee

The Nomination Committee consists of John Herring (Chair) and Steve Bassi. The Committee is responsible for considering and making recommendations to the board in respect of appointments to the Board, the Board committees and the chairmanship of the Board committees. It is also responsible for keeping the structure, size and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary. The Nomination Committee also considers succession planning, taking into account the skills and expertise that will be needed on the Board in the future.

Internal financial control

Financial controls are being bolstered so as to provide safeguards against unauthorised use or disposition of the assets, to maintain proper accounting records and to provide reliable financial information for internal use. Key financial controls to be considered include:

- the maintenance of proper records;
- a schedule of matters reserved for the approval of the Board;
- evaluation, approval procedures and risk assessment for acquisitions; and
- close involvement of the Directors in the day-to-day operational matters of the Group.

The Directors consider the size of the Group and the close involvement of Directors in the day-to-day operations makes the maintenance of an internal audit function unnecessary. The Directors will continue to monitor this situation.

Shareholder Communications

The Company uses its corporate website (www.narfgroup.com/investor-relations/corporate-document) to ensure that the latest announcements, press releases and published financial information are available to all shareholders and other interested parties.

The AGM is used to communicate with both institutional shareholders and private investors and all shareholders are encouraged to participate. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the Annual Report and Accounts.

The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution after it has been dealt with by a show of hands.

The Remuneration Committee presents its report for the fifteen-month period ended 31 March 2024.

Membership of the Remuneration Committee

The Remuneration Committee during the year comprised of the Non-Executive Director, Albert Hawk (formerly Rory Heier) and the Executive Chairman John Herring. The Company's Non-Executive Director provides a degree of independence, whilst the Executive Chairman's hands-on involvement in all Group matters means he is best placed to assess what the Group can afford in remuneration whilst ensuring long-term incentives encourages executive Board member and senior management to keep looking to add shareholder value.

During the fifteen-month period ended 31 March 2024, the Remuneration Committee held one formal meeting attended by the two committee members. The Remuneration Committee established a long-term incentive plan aimed at rewarding directors and staff for loyalty to the Group as well as incentivising them to help the Group meet some of its strategic goals. The Remuneration Committee is currently in the process of agreeing service agreements for the CEO.

Subject to what appears below, no other third parties have provided advice that materially assisted the Remuneration Committee during the period.

The items included in this report are unaudited.

Remuneration Committee's main responsibilities

- The Remuneration Committee considers the remuneration policy, employment terms and remuneration of the Executive Directors;
- The Remuneration Committee's role is advisory in nature and it makes recommendations to the Board on the overall remuneration packages for Executive Directors in order to attract, retain and motivate high quality executives capable of achieving the Company's objectives;
- The Board's policy is to remunerate the Company's executives fairly and in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel; and
- The Remuneration Committee, when considering the remuneration packages of the Company's executives, will review the policies of comparable companies in the industry.

Report Approval

A resolution to approve this report will be proposed at the AGM of the Company. The vote will have advisory status, will be in respect of the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration.

Remuneration policy

The Remuneration Policy will be put forward for approval by shareholders' at the AGM to be organised to approve these accounts.

Remuneration Policy Table:

Fixed Elements	**Purpose and link to strategy**	**Operations**	**Maximum potential payments**	**Performance Metrics**
Base Salary	Reflects the individual's skills, responsibilities and experience. Supports the recruitment and retention of Executive Directors and employees of the calibre required to deliver the business strategy within the financial services market.	Reviewed annually and paid monthly in cash. Consideration is typically given to a range of factors when determining salary levels, including: • Personal and Company-wide performance. • The free cashflow expected to be generated by the Group and any surplus cash available.	As the CEO is currently not drawing a salary no percentage limit on potential rises. Base salaries will rise based on affordability until the Executive Directors reach the point where their salaries reflect their value to the Group.	None, although an individual's contribution to the Group and overall business performance is considered when setting and reviewing salaries.
Variable Elements	**Purpose and link to strategy**	**Operations**	**Maximum potential payments**	**Performance Metrics**
Annual Bonus Scheme (Bonus)	No material bonuses have been paid to date but the Remuneration Committee have proposed a bonus pool be set based on 20% of revenue above an annual target.	The Group is not currently in a position to pay bonuses in the normal course of business. In the event that there is continued growth in revenues a bonus pool will be established so as to reward the executive team for outperforming minimum revenue targets. The Remuneration Committee will consider paying bonuses both as a reward for the work in generating the additional revenue and to recognise the CEO pay foregone in the past.	There is currently no maximum bonus as the level will depend on the revenues of the Group over and above target and the contribution made to achieving this.	Performance will be measured by reference to the surplus turnover over and above the target set.

Variable Elements	Purpose and link to strategy	Operations	Maximum potential payments	Performance Metrics
Long Term Bonus Scheme (LT Bonus), Share Options	Seeks to reward Directors and key employees for generating shareholder value over the medium-term (5-10 years).	Directors and employees are granted share options at the current share price. Those options can be exercised at any time up to ten years after they have been granted, although if the option holder leaves the Group they have to exercise within six months of leaving. Options have vesting conditions which reward loyalty and/or meeting strategic objectives.	Option awards across all Directors and key employees are not to exceed 50% of the issued share capital	Continuing to serve the Group or meeting strategic goals.

The Directors' previous remuneration policy was approved as part of the Directors' Remuneration Report by 99.89% of voting shareholders at the 2023 AGM.

Non-Executive Directors

The table below summarises the main elements of remuneration for Non-Executive Directors:

Component	Approach of the Company
Non-executive fees	The Board determines the fees of the Non-Executive Directors and sets the fees at a level that is considered to be appropriate, taking into account the size and complexity of the business and the expected time commitment and contribution of the role. Fees may be paid in cash or in shares or a combination of both following discussion between the Executive Chairman and the Non-Executive Director. Fees are structured as a basic fee.
Share options	Share options may be awarded to Non-Executive Directors where they make a significant contribution towards the Group's operations over and above that recognised by the Non-executive fees.
Benefits	Additional benefits may also be provided in certain circumstances, if required for business purposes.

Application of remuneration policy

The chart below provides an indication of the level of remuneration that would be received by each Employee under the following three assumed performance scenarios:

Below threshold performance	Fixed elements of remuneration only – base salary and benefits
On-target performance	Assumes 100% pay-out under the LT Bonus
Maximum performance	Assumes 100% pay-out under the Bonus (assuming cash available) Assumes 100% pay-out under the LT Bonus

Qualified Opinion

We have audited the financial statements of Narf Industries Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the period ended 31 March 2024 which comprise:

Group	Parent Company
• the Consolidated Statement of Comprehensive Income;	• the Parent Company Statement of Financial Position;
• the Consolidated Statement of Financial Position;	• the Parent Company Statement of Cash flows;
• the Consolidated Statement of Cash flows;	• the Parent Company Statement of Changes in Equity;
• the Consolidated Statement of Changes in Equity;	• and related notes to the financial statements
• and related notes to the financial statements	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Financial Reporting Standards (IFRSs).

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion section of our report 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 31 March 2024 and of the Group's loss for the 15 month period then ended;
- have been properly prepared in accordance with UK adopted IFRSs; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for qualified opinion

We were first appointed as the Group's auditor in January 2024 for the audit of the financial statements for the period to 31 March 2024. The previous auditor did not express an audit opinion on the 31 December 2022 financial statements due to an inability to gain sufficient and appropriate audit evidence. While we have performed audit procedures on the opening balances as at 1 January 2023 we were unable to obtain sufficient and appropriate audit evidence over the completeness, existence and accuracy of the deferred or accrued income balances as at 1 January 2023 with the corresponding impact on total shareholder's equity at such date. Consequently, we were unable to determine whether any adjustments to revenue recognised in the period to 31 March 2024 were necessary. In addition, if any adjustment to the opening balances and income statement for the period to 31 March 2024 were necessary, the Other Information, including the Strategic and Directors reports would also need to be amended.

Also, during our audit of the financial statements for the period ended 31 March 2024 we were unable to obtain supporting documentation for approximately $170,000 of consultancy costs, travel and related expenses recognised in the period 1 January 2023 to 30 September 2023 that were incurred by the parent company's former Directors. We were unable to satisfy ourselves by alternative means whether these expenses had been appropriately recognised. Consequently, we are unable to conclude if the expenses are overstated and whether any adjustment to these amounts is necessary. If any adjustment were necessary for this matter, the Other Information, including the Strategic and Directors reports would also need to be amended.

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 UK, including the FRC's Ethical Standard as applied to listed entities, 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 qualified opinion.

An overview of the scope of our audit

As part of our audit planning procedures, we sought to plan the scope of our audit by reviewing the Group composition and respective results and position of the components. As the group comprises a parent holding company, a cost centre subsidiary, a trading subsidiary and a dormant subsidiary, the principal focus of our Group audit was on the parent and the trading subsidiary in order to provide sufficient appropriate audit evidence in respect of the scope of our work as auditors of the Group financial statements.

The scope of the audit and our audit strategy was developed by using our audit planning process to obtain an understanding of the Group and its subsidiaries, its activities, its internal control environment, and developments in its business in the period.

Our audit testing was informed by our understanding of the Group and accordingly was designed to focus on areas where we assessed there to be the most significant risks of material misstatement. The audit of the parent and its subsidiaries was performed by Haysmacintyre LLP.

Material uncertainty related to going concern

We draw attention to Note 2.4 in the financial statements, which indicates that the Group and Parent Company's ability to continue as a going concern is dependent on a future capital market fund raise or joint venture funding. As stated further in the note, these conditions, and uncertain future events, along with other matters as set forth therein, indicate that a material uncertainty exists that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing, assessing and discussing management's assessment of the Group's ability to remain a going concern;
- Reviewing and understanding the cash flow forecasts for the period to end of July 2025 which are a key element of management's going concern assessment;
- Assessing and challenging the inputs and judgements made in the preparation of the cash flow forecasts for the period to end of July 2025;
- Obtaining and reviewing the renewed loan facility agreement between the parent company the CEO extending the term of the old agreement to 31 July 2025 and increasing the facility amount to $2.5m;
- Obtaining and reviewing the comfort letter from parent company's broker to assess the likelihood of the access to additional equity financing to allow meeting its near-term funding requirements; and
- Performing stress tests including sensitivity analysis to model the effect of changing assumptions made or amending key data used in management's cash flow forecasts and considering the impact on the group's ability to adopt the going concern basis.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on:

- the overall audit strategy,
- the allocation of resources in the audit; and
- directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In determining the key audit matters we considered the:

- Areas of higher risks of material misstatement or significant risks identified in accordance with ISA (UK) 315
- Significant audit judgements on financial statement line items that involved significant management judgement such as accounting estimates, and
- The impact of significant events and transactions during the period covered by the audit.

In addition to the matter described in the basis for qualified opinion section, we have determined the matters described in the table below to be the key audit matters to be communicated in our report.

Risk magnitude key (*Note - this is our first audit of Narf Industries Plc)*

New risk

Identified in the prior year

Key audit matter	How we addressed the key audit matter in the audit
Revenue recognition (Note 3) Fraud in revenue recognition is a rebuttable presumed significant risk under ISA (UK) 240. Revenue is considered a key performance indicator by management as they follow a strategy to grow the Group's activities. The recognition of revenue is therefore a key focus for most stakeholders. Revenue recognition under IFRS 15 can be complex and subject to heightened risk of fraud or error, particularly, as for the Group, where there are distinct business models with different revenue recognition policies and procedures. The Directors have chosen to restate the prior year statement of comprehensive income to provide	Specific procedures were designed and performed to consider whether revenue has been recorded in the correct period and is free from misstatement. These procedures included: • The review of management's assessment of revenue recognition in line with IFRS 15 • An assessment of how the revenue is earned from the two different business segments i.e. Government Research and Development services (GR&D) and Government Solutions and Services (GS&S) the Group operates as and assessed the appropriateness of the revenue recognition policies adopted; • The review and assessment of revenue recognition from the contracts under each business segment that was focussed on identification of milestones and satisfaction of performance obligations; • Focussed testing with a substantive approach where the revenue recognition policy has been critically assessed to confirm the appropriateness of revenue recognition;

greater clarity on the comparative numbers and align the presentation with how the Group has operated in the current period.	• Detailed substantive testing of revenue agreed to underlying supporting documentation such as contracts, workflow documentation, sales invoices and customer payments; • As part of our journal entry testing, we used data analytics tools and techniques to check the integrity of accounting entries within the revenue classifications; • Cut-off testing around the period end to confirm revenue has been correctly recognised in line with IFRS 15 in the period to which it relates; • Review of post year end credit notes to confirm completeness and that no overstatement of revenue has occurred during the period which has subsequently been reversed; and • Review of the presentation and disclosure of revenue in the notes to the financial statements.
Key observations:	No material adjustments to revenue were noted as a result of the audit work performed. The Group's policies for the recognition of revenue together with the basis for the presentation and disclosure of revenue are considered reasonable and appropriate.

Key audit matter	How we addressed the key audit matter in the audit
Presumed risk of management override We are required to consider and respond to the risks arising from management override of controls. The risk of misappropriation of assets and the risks of misrepresentation of financial information. Management is in a unique position to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of	We have undertaken the following procedures (but not limited to) to address the risk arising from management override of controls: • The review, assessment and documentation of the systems and controls implemented around posting of journals; • The review and substantive testing of a sample of journal entries made as part of the period-end financial reporting process and those made in the period. Where necessary we made further inquiries regarding any seemingly inappropriate or unusual journal or other adjustments; • The identification of high-risk journals and unusual journals, if any, as part of our review of the process and made further enquiries and tested those journals, where relevant; • The assessment of the appropriateness of the accounting of any significant transactions that are outside the group's normal course of business or are otherwise unusual. We have reviewed the key controls of the business and perform walkthrough tests as part of our Business Processes work and determined any

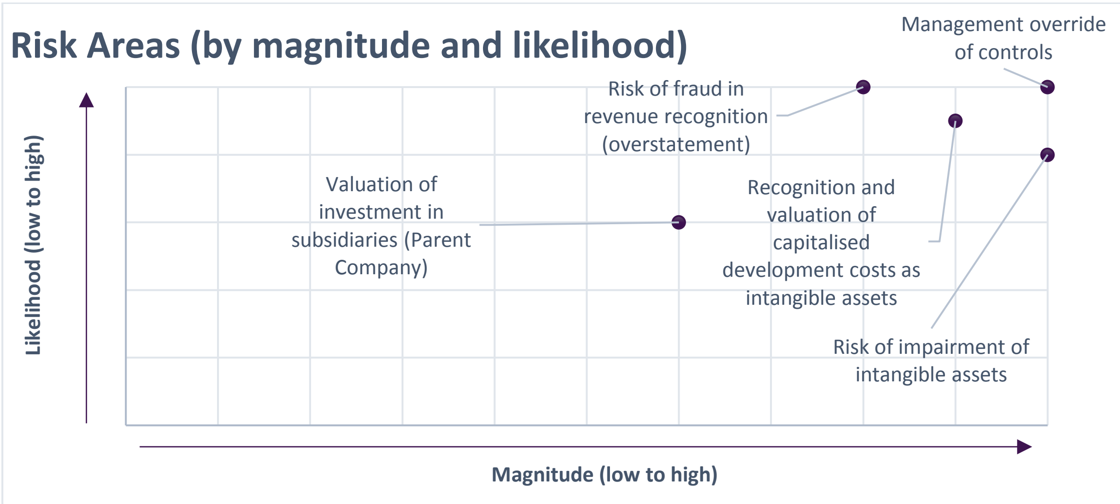
material misstatement due to fraud and thus a significant risk on all audits.	weaknesses which could lead to management override; and • Considered and reviewed journals posted around areas requiring judgement or estimates and tested the appropriateness of journals posted and the judgements and estimates made by management.
Key observations:	Based on the procedures performed for the sample of journals selected, we have not noted any instances which may be indicative of management override.

Key audit matter	How we addressed the key audit matter in the audit
Recognition and valuation of capitalised development costs as intangible assets (IA) (Note 8) There is a risk that previously intangible assets capitalised are impaired. Potential risks have been identified in respect of software development costs. There is a risk that these costs do not meet the recognition criteria as an intangible asset per IAS 38.	We have undertaken the following procedures (but not limited to) to verify the recognition and valuation of capitalised development costs as intangible assets: • Held relevant discussions with management to understand the nature of such costs and management considerations; • Reviewed management's in period assessment of the treatment of this asset which concluded that the asset did not meet the recognition criteria to be recognised as an intangible asset under IAS 38. In line with the requirements of the standard, management corrected this through writing off the development costs in the year 2021 by restating the members equity at 1 January 2022; and • We have reviewed the appropriateness and adequacy of the disclosures in the financial statements.
Key observations	Based on the procedures performed, management discussions and explanations offered, we concur with management's treatment of the development costs and financial statement adjustments and disclosures are considered appropriate.
Impairment of Intangible Assets ("IA") (Note 8) The Group evaluates the need to record an impairment of the carrying amount of intangible assets whenever events or changes in circumstances indicates that the carrying amount is not recoverable.	We have undertaken the following procedures (but not limited to) to verify the valuation of Intangible Assets: • Obtained and reviewed management's impairment review paper and challenged the assumptions and inputs in the light of available information and our understanding of the business and audit knowledge.

Losses in the year may be an indication that the intangible assets recognised previously may be impaired. Hence, there is a risk that the intangible assets are recorded in excess of the recoverable amount.	• Discussed with management of any other events or conditions which may be indicators of impairment and noted none; • Reviewed the minutes of the Board meeting for any discussions relating to management plans to discontinue use of the IA and noted no such discussions or matters which may indicate potential impairment; • For an IA with 'finite' useful life, we concur with management's assessment and procedures and conclude as appropriate; and • Reviewed the financial statements disclosures to confirm their appropriateness.
Key observations	Based on procedures performed, we have not identified any indicators of impairment which may lead us to believe that the carrying value of the license exceeds its recoverable amount.

Key audit matter	How we addressed the key audit matter in the audit
Valuation of investment in subsidiaries (Parent Company) (Note 10) Given the value of the balances and the group is still in its growth phase, there is a risk that the investment in subsidiaries may not be fully recoverable. Furthermore, management are required to make significant estimates and judgements when assessing the recoverable value of the investment in subsidiaries and whether it is impaired.	We have undertaken the following procedures (but not limited to) with respect to the review of valuation of investment in subsidiaries: • Obtained and reviewed management's impairment review paper and assessment with the underlying calculations and support; • Reviewed and challenged management's assessment, assumptions, inputs and where necessary, also corroborated to evidence obtained independently; • In consideration of factors like potential non-renewal of key contracts, limited liquidity and the delay in commercialisation efforts as a result, management recorded impairment loss of $7.6m during the period; and • Reviewed the financial statements disclosures to confirm their appropriateness.
Key observations	Based on procedures performed, we concur with management assessment and the adequacy of impairment loss recorded in the period.

The table below shows our judgement of the magnitude and likelihood of key audit matter risk:



Our application of materiality

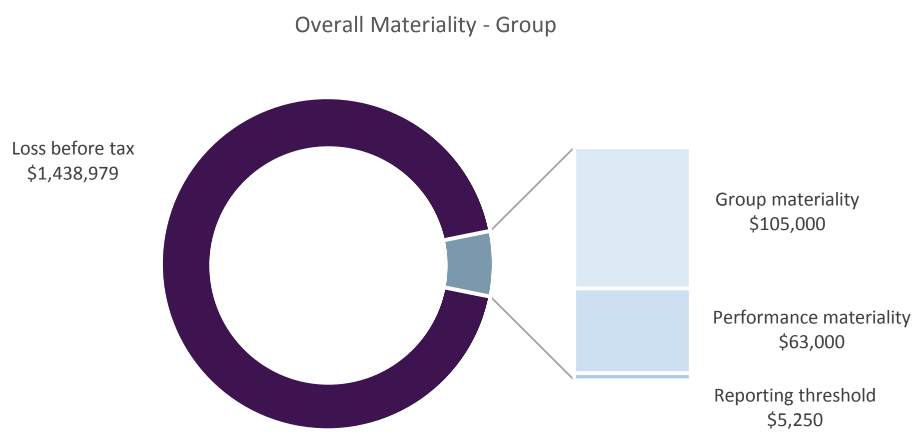
The scope and focus of our audit were influenced by our assessment and application of materiality. We define materiality as the magnitude of misstatement that could reasonably be expected to influence the readers and the economic decisions of the users of the financial statements. We use materiality to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

	Group Financial Statements	Parent Company Financial Statements
Materiality	$105,000 (2022 – $76,000)	$62,500 (2022 – $66,000)
Benchmark	Materiality has been based on 5% of draft net loss before tax (normalised)	This was principally determined as being the remainder of the available Group materiality after allocating component materiality to the trading subsidiary.
Basis for, and judgements used in the determination of materiality	As the principal subsidiary has been trading through the period, assessment of materiality was principally based on the Group's performance but made allowance for any extraordinary items to arrive at normalised results.	The Parent Company is a holding company, and it was therefore considered appropriate to use an asset-based materiality basis at the standalone level. However, the materiality assigned was the lower of standalone materiality and Group materiality available for allocation.

Performance materiality - Performance materiality was set at 60% of materiality, being $63,000 (31 December 2022 – 70% of materiality being $53,200). Our performance materiality was reduced from 70% used by the previous auditors because this was our first audit of the group.

Reporting threshold - The reporting threshold to the audit committee was set as 5% of materiality, being $5,250 (31 December 2022 – $3,800). If, in our opinion in differences below this level warranted reporting on qualitative grounds, these would also be reported.

Differences in materiality levels from the previous audit – The prior year audit was performed in a period in which a significant business combination occurred. In the period ended 31 March 2024, there has been no major business combinations. Accordingly, our assessment of materiality was principally based on Group's performance and results for the period.



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.

As described in the basis for qualified opinion section of our report, we were unable to satisfy ourselves concerning the completeness, existence and accuracy of certain opening balances as at 1 January 2023 and so are unable to quantify any impact on the income statement. We have concluded that where the other information refers to the result of the group for the period, it may be materially misstated for the same reason.

Opinions on other matters prescribed by the Companies Act 2006

Except for the possible effects of the matter described in the basis for qualified opinion section of our report, 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 period 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.

Matters on which we are required to report by exception

Except for the matter described in the basis for qualified opinion section of our report, 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 strategic report or the directors' report.

Arising solely from the limitation on the scope of our work relating to the opening balances, referred to above:

• we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

• we were unable to determine whether adequate accounting records have been kept

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:

- 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.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management:

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to compliance with Companies Law and Listing Rules. We considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as tax laws.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to inappropriate revenue recognition and the risk of management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- The evaluation of management's controls designed to prevent and detect irregularities;
- The identification and review of manual journals, in particular journal entries which shared key risk characteristics; and
- The review and challenge of assumptions, estimates and judgements made by management in their recognition of accounting estimates.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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

Other matters we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Board in January 2024 to audit the financial statements for the period ending 31 March 2024. The period of total uninterrupted engagement is therefore less than 1 year.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Group in conducting our audit. No other services in addition to the audit were provided by the firm to the group.

Our audit opinion is consistent with the additional report to the Audit Committee.

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.

Haysmacintyre LLP
Haysmacintyre LLP (Jul 30, 2024 21:40 GMT+1)

Tom Stock FCA (Senior Statutory Auditor)
For and on behalf of Haysmacintyre LLP, Statutory Auditors
10 Queen Street Place
London EC4R 1AG
30 July 2024

NARF INDUSTRIES PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FIFTEEN MONTH PERIOD ENDED 31 MARCH 2024

	Notes	15 months ended 31 March 2024 US$	Year Ended 31 December 2022 (*Restated*) US$
Continuing operations			
GR &D Revenue	3	**4,509,908**	1,360,684
GS & S Revenue	3	**3,012,545**	1,165,203
Commercial Revenue		**49,000**	-
Total revenue		**7,571,453**	2,525,887
Direct salaries		**(3,037,080)**	(1,504,792)
Sub-contracting		**(1,092,696)**	(267,985)
Gross profit		**3,441,677**	753,110
Operating expenses	4	**(3,276,580)**	(3,250,418)
Profit/(loss) before depreciation and software licence amortisation, share based payments, interest and taxes		**165,097**	(2,497,308)
Depreciation and software license amortisation		**(509,756)**	(329,999)
Share-based payment expense	16	**(1,023,074)**	(493,549)
Operating loss		**(1,367,733)**	(3,320,856)
RTO share based payment expense		**-**	(15,355,123)
Interest receivable and other finance income		**13**	3,376
Finance costs		**(71,259)**	(3,197)
Loss before taxation		**(1,438,979)**	(18,675,800)
Corporate tax	6	**(15,248)**	(7,839)
Loss for the period		**(1,454,227)**	(18,683,639)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on foreign operations		**54,756**	-
Total comprehensive loss for the period attributable to the owners of the company		**(1,399,471)**	(18,683,639)
Earnings per share			
Earnings per share (basic and diluted) attributable to the equity holders (cents)	7	(0.1)	(1.3)

The above results relate entirely to continuing activities.

The accompanying notes on pages 47 to 73 form part of these financial statements.

NARF INDUSTRIES PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2024

	Note	**As at 31 March 2024 US$**	As at 31 December 2022 (Restated) US$	As at 31 December 2021 (Restated) US$
NON-CURRENT ASSETS				
Intangible assets	8	**1,198,096**	1,620,663	-
Right of use assets	17	**42,981**	-	-
Tangible assets	9	**-**	15,990	49,519
		1,241,077	1,636,653	49,519
CURRENT ASSETS				
Trade and other receivables	11	**605,544**	735,243	48,074
Cash and cash equivalents	12	**654,365**	442,751	446,879
		1,259,909	1,177,994	494,953
TOTAL ASSETS		**2,500,986**	2,814,647	544,472
CURRENT LIABILITIES				
Trade and other payables	13	**2,739,573**	2,781,272	1,559,631
NON-CURRENT LIABILITIES				
Lease liabilities	14	**-**	1,727	22,312
TOTAL LIABILITIES		**2,739,573**	2,782,999	1,581,943
NET (LIABILITIES)/ASSETS		**(238,587)**	31,648	(1,037,471)
EQUITY				
Share capital	15	**204,012**	204,012	-
Share premium	15	**35,294,816**	35,074,061	-
Reverse acquisition reserve		**(16,747,959)**	(16,747,959)	-
Foreign exchange reserve		**11,345**	(43,411)	-
Share based payment reserve	16	**1,483,635**	575,154	-
Members' equity		**-**	-	(1,037,471)
Retained deficit		**(20,484,436)**	(19,030,209)	-
TOTAL SHAREHOLDERS (DEFICIT)/EQUITY		**(238,587)**	31,648	(1,037,471)

Note the 2021 numbers are those for Narf US only as they pre-date the reverse takeover.

The accompanying notes on pages 47 to 73 form part of these financial statements.

These financial statements were approved by the Board of Directors on 30 July 2024 and were signed on its behalf by:

Signed by:
John Herring
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John Herring

Executive Chairman

Company number: 11701224

NARF INDUSTRIES PLC
PARENT COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2024

	Note	As at 31 March 2024 US$	As at 31 December 2022 (restated) US$
NON-CURRENT ASSETS			
Intangible assets	**8**	**1,198,096**	1,620,663
Investment in subsidiary undertakings	**10**	**18,002,000**	25,600,000
		19,200,096	27,220,663
CURRENT ASSETS			
Trade and other receivables	**11**	**60,705**	67,364
Cash and cash equivalents	**12**	**5,126**	210,282
		65,831	277,646
TOTAL ASSETS		**19,265,927**	27,498,309
CURRENT LIABILITIES			
Trade and other payables	**13**	**210,317**	335,526
TOTAL LIABILITIES		**210,317**	335,526
NET ASSETS		**19,055,610**	27,162,783
EQUITY			
Share capital	**15**	**204,012**	204,012
Share premium	**15**	**35,294,816**	35,074,061
Share based payment reserve	**16**	**1,483,635**	575,154
Foreign exchange reserve		**11,345**	(43,411)
Retained deficit		**(17,938,198)**	(8,647,033)
TOTAL EQUITY		**19,055,610**	27,162,783

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting the Parent Company profit and loss account. The Parent Company loss for the fifteen-month period was $9,291,165 (year to 31 December 2022: Loss $3,082,511).

The accompanying notes on pages 47 to 73 form part of these financial statements.

These financial statements were approved by the Board of Directors on 30 July 2024 and were signed on its behalf by:

Signed by:

John Herring

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John Herring

Executive Chairman

Company number: 11701224

NARF INDUSTRIES PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FIFTEEN MONTH PERIOD ENDED 31 MARCH 2024

	Note	15 months ended 31 March 2024 US$	Year Ended 31 December 2022 (restated) US$
OPERATING ACTIVITIES			
Loss for the period before interest and taxation		**(1,367,733)**	(18,675,979)
Adjusted for:			
Depreciation	9	**15,990**	33,529
Amortisation of intangibles	8	**493,766**	296,470
Amortisation of right of use asset	17	**48,173**	-
Unrealised foreign exchange adjustment		**(16,408)**	176
RTO and other share-based payment expenses		**1,023,074**	15,848,672
Operating cash flow before movements in working capital:		**196,862**	(2,497,132)
Increase/(decrease) in trade and other receivables		**129,699**	(680,485)
(Decrease)/increase in trade and other payables		**(153,502)**	184,806
Net cash generated from/(used in) operating activities		**173,059**	(2,992,811)
INVESTING ACTIVITIES			
Net amounts paid to former members to acquire control		-	(3,615,433)
Licence fee expenditure		-	(500,000)
Net cash outflow from investing activities		-	(4,115,433)
FINANCING ACTIVITIES			
Proceeds on the issue of shares		-	7,650,881
Costs recovered/(paid) related to share issues		**106,162**	(1,145,814)
Loan amount (repaid to)/received from Director		**(22,500)**	702,000
Decrease in vehicle financing loan		**(22,312)**	(20,292)
Drawings by former members		-	(75,000)
Net interest (paid)/received		**(7,547)**	180
Net cash inflow from financing activities		**53,803**	7,111,955
Taxation paid	6	**(15,248)**	(7,839)
Net increase/(decrease) in cash and cash equivalents		**211,614**	(4,128)
Cash and cash equivalents at beginning of the period		**442,751**	446,879
Cash and cash equivalents at end of the period		**654,365**	442,751
Supplemental information non-cash transactions			
Shares issued to former members upon acquisition in lieu of cash consideration		-	18,048,690

The accompanying notes on pages 47 to 73 form part of these financial statements.

NARF INDUSTRIES PLC
PARENT COMPANY STATEMENT OF CASH FLOWS
FOR THE FIFTEEN MONTH PERIOD ENDED 31 MARCH 2024

	Note	15 months ended 31 March 2024 US$	Year Ended 31 December 2022 (Restated) US$
OPERATING ACTIVITIES			
Loss for the period before interest and taxation		**(9,287,928)**	(3,082,511)
Adjusted for:			
Amortisation of intangibles	**8**	**493,766**	296,470
Impairment of investment in subsidiary	**10**	**7,600,000**	-
Share based payments		**1,023,074**	474,440
Unrealised foreign exchange adjustment		**(16,408)**	**-**
Operating cash flow before movements in working capital:		**(187,496)**	(2,311,601)
Increase/(decrease) in trade and other receivables		**6,660**	(63,147)
(Decrease)/increase in trade and other payables		**(125,209)**	59,027
Net cash used in operating activities		**(306,045)**	(2,315,721)
INVESTING ACTIVITIES			
Decrease/(Increase) in prepaid consideration		**-**	2,000,000
Cash invested to acquire license		**-**	(500,000)
Cash amounts paid to acquire subsidiary undertaking	**10**	**(2,000)**	(5,754,046)
Net cash outflow from investing activities		**(2,000)**	(4,254,046)
FINANCING ACTIVITIES			
Proceeds on the issue of shares		**-**	7,650,881
Costs recovered/(paid) related to share issues		**106,162**	(1,145,814)
Interest received		**11**	-
Net cash inflow from financing activities		**106,173**	6,505,067
Taxation paid		**(3,284)**	-
Net decrease in cash and cash equivalents		**(205,156)**	(64,700)
Cash and cash equivalents at beginning of the period		**210,282**	274,982
Cash and cash equivalents at end of the period		**5,126**	210,282

The accompanying notes on pages 47 to 73 form part of these financial statements.

NARF INDUSTRIES PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FIFTEEN MONTH PERIOD ENDED 31 MARCH 2024

	Share Capital US$	Share Premium US$	FX Reserve US$	Share-based Payment Reserve US$	Reverse Acquisition Reserve US$	Retained Deficit US$	Members' equity US$
AS AT 1 JANUARY 2022 (As originally stated)	**-**	**-**	**-**	**-**	**-**	**-**	**821,527**
Prior year adjustments (Note 24)							(1,858,998)
AS AT 1 JANUARY 2022 (Restated)							**(1,037,471)**
Loss for the year (restated)	-	-	-	-	-	(18,683,639)	-
Total comprehensive loss for the year (restated)	**-**	**-**	-	**-**	-	(18,683,639)	-
Drawings by former members	-	-	-	-	-	-	(75,000)
Reclassification of members' equity at acquisition	-	-	-	-	-	(1,112,471)	(1,112,471)
Recognition of Plc equity at acquisition date	112,346	15,804,717	(1,840,675)	-	3,097,995	765,901	-
Issue of shares for acquisition	84,330	17,964,360	1,797,264	-	(19,845,954)	-	-
Share based payments (Note 16)	7,336	1,419,577	-	-	-	-	-
Issue of warrants and options (restated)	-	(114,593)	-	575,154	-	-	-
AS AT 31 DECEMBER 2022 (Restated)	**204,012**	**35,074,061**	**(43,411)**	**575,154**	**(16,747,959)**	**(19,030,209)**	**-**
Loss for the period	-	-	-	-	-	(1,454,227)	-
Foreign exchange gain on conversion of parent	-	-	54,756	-	-	-	-
Total comprehensive loss for the period	**-**	**-**	54,756	**-**	-	(1,454,227)	-
Shares issue costs recovered	-	106,162	-	-	-	-	-
Cancellation of warrants	-	114,593	-	(114,593)	-	-	-
Share based payments (Note 16)	-	-	-	1,023,074	-	-	-
AS AT 31 MARCH 2024	**204,012**	**35,294,816**	**11,345**	**1,483,635**	**(16,747,959)**	**(20,484,436)**	**-**

See notes below parent company statement of changes in equity for explanation as to the reserves.

NARF INDUSTRIES PLC (FORMERLY CYBA PLC)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR TO 31 DECEMBER 2022

The accompanying notes on pages 47 to 73 form part of these financial statements.

NARF INDUSTRIES PLC
PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE FIFTEEN MONTH PERIOD ENDED 31 MARCH 2024

	Share Capital	Share Premium	Share-based Payment Reserve	FX Reserve	Retained Deficit	Total
	US$	US$	US$	US$	US$	US$
AS AT 1 JANUARY 2022	**84,293**	**7,447,611**	**32,578**	**(17,767)**	**(5,575,591)**	**1,971,124**
Loss for the year (restated)	-	-	-	-	(3,082,511)	(3,082,511)
Total comprehensive loss for the year	-	-	-	-	(3,082,511)	(3,082,511)
Warrants expired during the year	-	-	(12,215)	-	-	(12,215)
Shares issued during the year	127,828	25,893,481	(20,363)	2,972,867	-	28,973,813
Costs related to share issues	-	(1,147,989)	-	-	-	(1,147,989)
Issue of warrants and options (restated) – Note 16	-	(114,593)	575,154	-	-	460,561
FX reserve arising on conversion to reporting currency	(8,109)	2,995,551	-	(2,998,511)	11,069	-
AS AT 31 DECEMBER 2022	**204,012**	**35,074,061**	**575,154**	**(43,411)**	**(8,647,033)**	**27,162,783**
Loss for the year	-	-	-	-	(9,291,165)	(9,291,165)
Foreign exchange gain on conversion of parent	-	-	-	54,756	-	54,756
Total comprehensive loss for the year	-	-	-	54,756	(9,291,165)	(9,236,409)
Shares issue costs recovered	-	106,162	-	-	-	106,162
Cancellation of warrants- Note 16	-	114,593	(114,593)	-	-	-
Share based payments – Note 16	-	-	1,023,074	-	-	1,023,074
AS AT 31 MARCH 2024	**204,012**	**35,294,816**	**1,483,635**	**11,345**	**(17,938,198)**	**19,055,610**

Share capital - the ordinary issued share capital of the Company.
Share premium - consideration less nominal value of issued shares and costs directly attributable to the issue of new shares.
Warrant reserve - the value of equity settled share-based payments provided to employees, including key management personnel, and third parties for services provided.
Foreign exchange reserve – a reserve arising on conversion of company balances in the functional currency of sterling and the reporting currency of US$.
Reverse acquisition reserve – the difference between the cost of acquiring the parent company and the fair value of the parent company's net assets on the acquisition date together with the deemed cost of listing.
Retained deficit - Cumulative net gains and losses recognised in the Statement of Comprehensive Income
Members' equity – the net assets belonging to the former members.

The accompanying notes on pages 47 to 73 form part of these financial statements.

1 GENERAL INFORMATION

The principal activity of Narf Industries Plc (the "Company") and its subsidiaries (the "Group'') is the provision of research and software development services aimed at enhancing the cybersecurity measures of its US government agency clients. The subsidiaries consist of Narf Industries LLC, a California limited liability company, Narf Industries PR, LLC, a Puerto Rican limited liability company ("Narf US" or the "Operating Group") and Narf Holdings US, Inc. a Delaware corporation which was dormant throughout the period. The Company is the parent and sole member/shareholder of all three subsidiaries.

The Company is domiciled in the United Kingdom and incorporated and registered in England and Wales as a public limited company. The Company's registered office is 5 Fleet Place, London EC4M 7RD. The Company's registered number is 11701224.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The Consolidated Financial Statements of the Group have been prepared in accordance with UK-adopted international accounting standards.

The Financial Statements have been prepared under the historical cost convention unless otherwise stated. The principal accounting policies are set out below and have, unless otherwise stated, been applied consistently.

They have been prepared to reflect the acquisition of Narf Industries LLC and Narf Industries PR LLC via a reverse takeover on 15 March 2022, which resulted in the Company becoming the ultimate holding company of the Group.

The Financial Statements are prepared in US Dollar ("US$", "USD" or "$") and presented to the nearest dollar.

2.2 Consolidation and Acquisitions

The Financial Statements consolidate the financial information of the Company and companies controlled by the Group (its subsidiaries) at each reporting date following the reverse takeover on 15 March 2022.

In the consolidated statement of financial position, the share capital and share premium as at 31 December 2022 and 31 March 2024 is that of Narf Industries Plc with the reverse acquisition reserve representing the difference between the deemed cost of the acquisition and the net assets of Narf Industries plc at 15 March 2022. The consolidated statement of comprehensive income for 2022 represents the results of Narf US only up to the acquisition date (15 March 2022) at which point the results reflect the combined group, including both Narf US and the Company up to the year-end. The consolidated statement of comprehensive income for the fifteen-month period ended 31 March 2024 include the results of both the parent and the Operating Group throughout the period.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity, has the rights to variable returns from its involvement with the investee entity and has the ability to use its power to affect its returns. The results of subsidiaries acquired or sold are included in the financial information from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the results of acquired subsidiaries to bring their accounting policies into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation. The financial statements of all Group companies are adjusted, where necessary, to ensure the use of consistent accounting policies.

The Group applies the acquisition method to account for business combinations that fall within the scope of IFRS 3.

Acquisition-related costs are expensed as incurred.

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Comparative information

The Parent Company extended its period end from 31 December 2023 to 31 March 2024. Accordingly, current period information covers the fifteen-month period to 31 March 2024 and therefore is not directly comparable to the previous 12-month period, part of which pre-dated the reverse acquisition and therefore does not include the costs of the Parent Company.

2.4 Going concern

The Directors believe the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future and at least until 31 July 2025, being 12 months after the date these financial statements were issued.

Over the 15 months to 31 March 2024, the Group demonstrated its ability to generate increasing revenue and manage expenses whilst accessing its existing line of credit ("LOC") to advance operations and achieving positive Adjusted EBITDA. This was a marked improvement from the previous reporting period and a demonstration of the new Board and Executive team's ability to plan and execute its business strategy.

The Group recently increased its existing LOC provided by the Group's CEO from $2 million to $2.5 million to provide additional resources to support its growth objectives. It also closely manages its operational expenses and has significant flexibility to adjust its resources and expenses in line with its contracted revenues. Management can rapidly make decisions to redeploy resources on the exciting new projects discussed elsewhere in these report and accounts.

The Board also notes its announced intentions during this period to pursue joint venture funding of the Group, specifically to capitalise on its disclosed social cyber business opportunity. The Board believes these initiatives, along with new expected social cyber contract awards. ensure its continued operation.

The Board further notes the Company's potential to pursue an LSE market fundraise in the event this is deemed appropriate and market conditions allow.

Since the Group's plans, to a certain extent, are reliant on market conditions and/or third parties there remains a material uncertainty as to the Group's ability to remain a going concern as highlighted in the audit report. The Group has current liabilities (primarily due to the LOC from the CEO) which are greater than current assets at the reporting date and there is a deficit on shareholders' equity.

The Directors believe the Group's plan is based on sound analysis, with a high degree of confidence in both outcomes from either the joint venture funding or LSE market fundraise. The primary risk determined by the Directors is timing of new contract awards for which management presented viable short-term remedies, through expense reductions and further LOC increases, to ensure the Group remains a going concern up to 31 July 2025.

2.5 Revenue Recognition

Substantially all of the Group's revenues derive from long-term contracts with service providers. The contracts have monthly or quarterly milestones with contractual payments due on completion of deliverables identified with those milestones. The contractual arrangements fall into three types:

Research where the principal asset transferred to the client are ideas about potential cybersecurity threats and source code to test those threats;

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Revenue Recognition (continued)

Infrastructure where the principal asset transferred is a test environment along with the ongoing maintenance of the ability to test various scenarios and meetings where the principal asset transferred is the intellectual input to those meetings.

Meetings-based where there the contract specifies a requirement for Group employees to prepare for and attend meetings where they will share their expertise and provide insights to the meeting.

The nature of the research and infrastructure contracts is such that the deliverables themselves are of little value to the customer. The main value of the contract to the customer is the inherent promise that the Group will continue to provide the ideas and support to allow the customer to enhance its understanding of cybersecurity threats and how to counter them. Given that the deliverables themselves have no inherent value, the Group takes the view that revenue from research and infrastructure contracts should be recognized over time based on progress towards a milestone. For meetings-based contracts revenue is recognized when the meeting(s) occur as this is the point at which an asset is transferred to the client.

2.6 Segmental Reporting

The Group operates as two separate business segments, GR & D and GS &S (see page 8 for details), each headed by a team leader whose remuneration is linked to the success of their business segment. The revenues attributable to each business segment are detailed in the Statement of Comprehensive Income whilst an analysis of those costs attributable to each business segment is provided in Note 3.

2.7 Foreign currency translation

The financial information is presented in US Dollars which is the Group's presentational and functional currency as substantially all of the Group's operational activities are undertaken in US Dollars. The Company's functional currency is Sterling. Sterling amounts recorded in the accounting records of the Company are converted using the year-end foreign exchange rate for the year end balances and the average foreign exchange rate for movements during the year.

Transactions in currencies other than the functional currency are recognised at the rates of exchange on the dates of the transactions. At each balance sheet date, monetary assets and liabilities are retranslated at the rates prevailing at the balance sheet date with differences recognised in the Statement of Comprehensive Income in the period in which they arise.

2.8 Cash and cash equivalents

Cash and cash equivalents comprise cash at hand and current and instant access deposit balances at banks.

2.9 Intangible assets

Intangible assets comprise non-physical assets comprising the cost of acquiring the licensing rights in relation to the commercialisation of TIGR that can be determined with reasonable certainty. Royalty payments due to the licensor upon future sales cannot be determined with any certainty and accordingly have not been included in cost.

The license is amortised over the useful life of the license, which is based on the term of that license agreement.

2. ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets (continued)

All intangible assets have been assessed by management for impairment. Management consider the assets for impairment by considering if any impairment indicators, such as those listed in IAS 38, are met and that if any are met, they assess the recoverable value of the asset, being the higher of the fair value less costs to sell and value in use, and then compare this to the carrying value of the asset. Although the Group has made the decision not to seek to commercialise the TIGR license at this point, the license has been used in meeting other service obligations and is a key-component of a number of other projects that the Group has submitted proposals for. Accordingly, no impairment provision has been considered necessary.

In the prior year financial statements the Group recognised software development costs which represented amounts capitalized related to SaaS products available for subscription. During the current period the new Board carried out an assessment of the treatment of this asset and came to the conclusion that the asset had not met the criteria to be recognized as an intangible under IAS 38. Accordingly, the software development costs have been derecognized resulting in a reduction in Members Equity at 31 December 2021 of $1,303,351 and the reversal of $226,938 amortisation in the comparative numbers (see note 24).

2.10 Tangible fixed assets

Tangible assets comprise physical assets such as cars, office furniture and leasehold improvements which will benefit the Group over their useful life. Tangible fixed assets are being depreciated on a straight-line basis over their estimate useful lives as follows:

Cars	4 years
Office furniture	4 years
Leasehold improvements	Life of the lease

2.11 Leased assets

Identification of leased assets
For any new contracts entered into, the Group considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for over a year in exchange for consideration’. To apply this definition the Group assesses whether the contract meets two key evaluations which are whether:

i) the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
ii) the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract the Group has the right to direct the use of the identified asset throughout the period of use.

The Group assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

Measurement and recognition of leases
At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, , and any lease payments made in advance of the lease commencement date (net of any incentives received). The Group depreciates the right-of-use

2. ACCOUNTING POLICIES (CONTINUED)

2.11 Leased assets (continued)

Measurement and recognition of leases (continued)
assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest accrued.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for goods or services rendered in the ordinary course of business. Trade receivables are initially recognised at the amount of consideration that is unconditional, i.e. fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. Prepayments and other receivables are stated at their nominal values.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

2.13 Trade and other payables

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, less repayments.

2.14 Financial instruments

Initial recognition

A financial asset or financial liability is recognised in the Statement of Financial Position when it arises or when the Group becomes part of the contractual terms of the financial instrument.

Classification

Financial assets at amortised cost

The Group measures financial assets at amortised cost if both of the following conditions are met

- the asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms of the financial asset generating cash flows at specified dates only pertain to capital and interest payments on the balance of the initial capital.

Financial assets which are measured at amortised cost, are measured using the Effective Interest Rate Method (EIR) and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial liabilities at amortised cost
Financial liabilities measured at amortised cost using the effective interest rate method include current borrowings and trade and other payables that are short term in nature. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate ("EIR"). The EIR amortisation is included as

2. ACCOUNTING POLICIES (CONTINUED)

2.14 Financial instruments (continued)

Financial liabilities at amortised cost (continued)

finance costs in profit or loss. Trade payables other payables are non-interest bearing and are stated at amortised cost using the effective interest method.

Derecognition

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired, or
- the Company has transferred its rights to receive cash flows from the asset or has undertaken the commitment to fully pay the cash flows received without significant delay to a third party under an arrangement and has either (a) transferred substantially all the risks and the assets of the asset or (b) has neither transferred nor held substantially all the risks and estimates of the asset but has transferred the control of the asset.

Impairment

The Company recognises a provision for impairment for expected credit losses regarding all financial assets. Expected credit losses are based on the balance between all the payable contractual cash flows and all discounted cash flows that the Company expects to receive. Regarding trade receivables, the Company applies the IFRS 9 simplified approach in order to calculate expected credit losses. Therefore, at every reporting date, provision for losses regarding a financial instrument is measured at an amount equal to the expected credit losses over its lifetime without monitoring changes in credit risk. To measure expected credit losses, trade receivables and contract assets have been grouped based on shared risk characteristics.

2.15 Equity

Share capital is determined using the nominal value of shares that have been issued.

The Share premium account includes any premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from the Share premium account, net of any related income tax benefits.

Equity-settled share-based payments are credited to a “Share based payments reserve” within the Consolidated statement of financial position and the Parent statement of financial position as a component of equity until related options or warrants are exercised or lapse.

The share-based payment reserve comprises share warrants issued to service providers and options issued to employees under long-term incentive schemes. Both share options and warrants are measured at fair value at the date of issue and treated as a separate component of equity.

The Foreign exchange reserve includes all exchange differences arising from translating the net assets of the parent from sterling into US Dollars, being the presentational currency.
Members equity represents the combined interests of each member of Narf US and Narf PR prior to the RTO acquisition.

The Reverse acquisition reserve relates to the costs associated with the acquisition of Narf Industries Plc. A reverse acquisition occurs if the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting purposes and the entity whose equity interests are acquired (legal acquiree) is the acquirer for accounting purposes.

The reverse acquisition in the prior year did not constitute a business combination and was accounted for in accordance with IFRS 2 “Share-based Payments” and associated IFRIC guidance. Although the reverse

2. ACCOUNTING POLICIES (CONTINUED)

2.15 Equity (Continued)

acquisition was not a business combination, the Company has become a legal parent and is required to apply IFRS 10 and prepare consolidated financial statements.

The Directors have prepared these financial statements using the reverse acquisition methodology, but with the result that rather than recognising goodwill, the difference between the equity value given up by Narf US's former owners and the share of the fair value of the net assets gained by these former owners, is charged to the Consolidated Statement of Comprehensive Income as a share-based payment on reverse acquisition.

Retained earnings includes all current and prior period results as disclosed in the income statement.

2.16 Foreign currency

For the purposes of the of the consolidated financial statements, the results and financial position of each Group company are expressed in US Dollars ("$"), which is the functional currency of all of the operating entities in the Group, excluding the Company, and the presentation currency for the consolidated financial statements.

Exchange differences are recognised in the Statement of Comprehensive Income in the period in which they arise other than those arising on conversion of the Company's Statement of Financial Position on consolidation which are recognised as a foreign exchange reserve.

2.17 Earnings per share

Basic earnings per share is calculated by dividing:

The Group loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted the average number of ordinary shares outstanding during the financial period.

As the Group is currently loss making none of the options or warrants in issue are dilutive to the basic earnings per share figure.

2.18 Share-based payments

The Parent Company has issued options to Directors and Group employees under long-term incentive arrangements.

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at date of grant. The fair value so determined is expensed on a straight-line basis over the vesting period, based on the Parent Company's estimate of the number of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured using the Black Scholes pricing model. The key assumptions used in the model have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

At the time of the RTO, Narf US had entered into agreements with a number of key employees whereby they were entitled to an interest in Narf Industries LLC. Ahead of the RTO those employees entered into redemption agreements so as to release Narf US from the obligation to provide such an interest. The amounts payable under these redemption agreements had previously only been recognised as paid but at 1 January 2021 $555,647 was still outstanding. Accordingly, the Members Equity at 1 January 2021 has been reduced by $555,647 to reflect the full amounts due under these agreements at that time and the operating costs reported in the Statement of Comprehensive Income for the year ended 31 December 2022 have been reduced by $148,384 to reflect amounts payable now recognised in earlier periods.

2. ACCOUNTING POLICIES (CONTINUED)

2.18 Share-based payments (continued)

The difference between the fair value of the net assets of the Parent Company acquired on the reverse takeover and the market value of the shares in issue on that date has been treated as a share-based payment in the comparative numbers representing the cost of Narf US obtaining a listing.

2.19 Taxation

The Parent Company is subject to taxes in the United Kingdom tax jurisdiction and, to the extent there are look through profits in the Operating Group, is also subject to taxes in the United States. Substantially all revenue related operations are conducted by Narf Industries LLC. Both operating subsidiaries are limited liability companies taxed as partnerships for US federal taxes. As partnerships, neither operating subsidiary is subject to US federal income tax and the federal tax effect of those activities accrue to the Parent Company, the sole member. Narf Industries LLC is also subject to a nominal California franchise tax, whilst Narf Industries PR LLC is subject to the Government of the Commonwealth of Puerto income tax rate of 4%. The Operating Group currently has substantial tax losses attributable to the Parent Company, for which no deferred tax has been recognised and accordingly, differences between Narf US's taxable income per IFRS and the basis used for tax reporting have not given rise to any deferred tax assets or liabilities.

Taxable losses of the Parent Company from its activities in the United Kingdom and that inure to the Parent Company from the two members of the Operating Group as their sole partner differ from losses for the Parent Company as reported in the accompanying consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Parent Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the accompanying parent company financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Parent Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Parent Company intends to settle its current tax assets and liabilities on a net basis.

2 ACCOUNTING POLICIES (CONTINUED)

2.20 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the entity's accounting policies, management makes estimates and assumptions that have an effect on the amounts recognised in the financial information. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The Directors consider that the following judgements are critical to an understanding of these accounts:

Licenses

The Parent Company was granted certain licenses during the prior year relating to the commercialisation of cybersecurity software which potentially could be key to the future business strategy. The license was granted by SRI International for a combination of cash, shares and a royalty equal to 7.5% of future revenues deriving from the license. The Directors recognised the fair value of the license on acquisition as being the cash paid plus the market value of shares issued to SRI International. No value has been assigned to the future royalty payments as they are uncertain. Accordingly future royalty payments will be expensed as incurred.
The value of the license has been assessed by management for impairment. Management consider the asset value for impairment by considering if any impairment indicators, such as those per IAS 38, are met and that if any are met, they assess the recoverable value of the license, being the higher of the Fair value less costs to sell and Value in use, and then compare this to the carrying value of the license. No impairment provision has been considered necessary. Further details are provided in Note 8.

Impairment of Narf US

The Parent Company Statement of Financial Position includes the investment in Narf US at cost less impairment. The Directors undertook an impairment review ahead of the issue of the interim financial statements for the year to 31 December 2023. At that time, the Directors took the view investment should be written down and applied an impairment provision of $7.6 million due to the Group having decided to delay commercialisation efforts until these can be funded from growth in revenues from government contracts and due to the significant reduction in the share price. A further impairment review was conducted ahead of the issue of these financial statements and no further impairment was deemed appropriate. This review involves judgements about potential future cash flows which are highly subjective and subject to matters outside the control of the Directors.

Segmental Reporting

Note 3 seeks to analyse the contribution of each business segment to the profitability of the Group. The allocation of costs includes the costs of some employees who work on both business segments which requires judgements as to the allocation of resources. Management have not sought to allocate costs related to the time of the CEO because he has agreed to waive any remuneration until his loan is repaid.

Share Based Payments

Equity-settled share-based payments are measured at fair value. Fair value is measured using the Black Scholes pricing model. The key assumptions used in the model have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The fair value also makes certain assumptions about whether non-market vesting conditions will be met and such assumptions are highly subjective.

2 ACCOUNTING POLICIES (CONTINUED)

2.20 Critical accounting judgements and key sources of estimation uncertainty

Revenue recognition

The Group's revenues arise from contracts which generally have monthly or quarterly payment milestones. Some of these contracts span more than one accounting period, whilst others have an overriding omnibus agreement to provide ongoing services, with specific tasks detailed in contract amendments. The Group generally recognises revenue based on milestones that have been met or the amount of time that has progressed towards a milestone which has been met post period-end.

Nonetheless there is some uncertainty at each milestone date as to the extent to which additional work may have been completed and the extent to which the contracted amount attributable to each milestone represents a fair proportion of the overall contract. Management rely on the output method to allocate revenue between accounting periods.

2.21 Standards, amendments and interpretations to existing standards that are not yet effective

New standards, amendments to standards and interpretations:

The Company has adopted all of the new and revised Standards and Interpretations that are relevant to their operations and effective for accounting periods beginning 1 January 2023. The Company has not adopted any standards or interpretations in advance of the required implementation dates.

The following Standards and Interpretations have become effective and have been adopted in these financial statements. No other Standards or Interpretations have been adopted early in these financial statements.

Standard/Interpretation	*Subject*
IAS 8	Amendments – Definition of Accounting Estimates
IAS 1	Amendments – Disclosure of Accounting Policies
IFRS 3	Amendments – Business Combinations

The new standards have not had a material impact on these consolidated financial statements.

Standards not yet applied

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective.

Standard	Impact on initial application	Effective date
IAS 1	Amendments – Classification of Liabilities as Current or Non-current	1 January 2024
IAS 7	Amendments – Supplier Finance Arrangements	1 January 2024
IFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024

The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

2 ACCOUNTING POLICIES (CONTINUED)

2.22 Financial Risk Management Objectives and Policies

The Group does not enter into any forward exchange rate contracts nor does it have any other market risks apart from the Sterling assets held by the Parent Company which are matched by Sterling liabilities.

The main financial risks arising from the Group's activities are interest rate risk, credit risk, liquidity risk and capital risk management. Further details on the risk disclosures can be found in Notes 19 and 20.

3. REVENUE AND SEGMENTAL REPORTING

The Group records contract revenue in accordance with IFRS 15 *Revenue from Contracts with Customers*, which requires that revenue be recorded over time as/when performance obligations within contracts are performed/delivered. Whilst some performance obligations are defined within the Group's contracts, management consider that the main asset transferred to the customers over the term of the contract is the implied promise that the customer will have access to Group employees throughout the duration of the contract. The customer is expecting that those employees will be able to come up with ideas, explaining outputs from the software developed and generally push the boundaries to understand how to develop what may start as a concept into something that has commercial value. The Group invoices customers based on a billing schedule contained within each contract. The Group considers trade and other receivables to be fully collectible as it has no history of non-payment; accordingly, no allowance for doubtful accounts has been recorded at either period end. Costs incurred to obtain contracts are expensed as incurred and losses on contracts are recognised in the period when determined. The Group sometimes warrants that its deliverables will perform within parameters contained in the statements of work referenced in the contracts.

Revenue for performance obligations is generally recognised as each performance obligation is completed and, to the extent applicable, delivered - an output measurement. Where a performance obligation crosses a period end, revenue for that performance allocation is pro-rated on a time expired basis and allocated proportionately to the relevant period.

As performance obligations are completed and delivered, invoices are issued to customers and the debtor recorded in the Trade Accounts Receivables, which represents a conditional right to consideration, which generally becomes an unconditional right on payment. There were no amounts invoiced that were subsequently challenged as being in excess of completed performance obligations as at 31 March, 2024 or 31 December, 2022 (although the Group has issued a small credit for amounts overbilled). To the extent that the measurement of outputs suggests that a future milestone has been met in part, a debtor is recorded in the caption Prepayments and Accrued Income.

During the period under review the Group established the two separate business segments of GR & D and GS & S, with each segment having a business head. The prior year numbers have been restated to reflect the different business segments.

Based on the above categories, disaggregated contract revenues and their related costs as follows:

3. REVENUE AND SEGMENTAL REPORTING (CONTINUED)

	15 months ended 31 March 2024 US$				Year ended 31 December 2022 US$		
	GR & D	**GS& S**	**Comm**	**Total**	GR & D	GS & S	Total
Revenue	**4,509,908**	**3,012,545**	**49,000**	**7,571,453**	1,360,684	1,165,203	2,525,887
Sub-contractors	**(1,092,696)**	**-**	-	**(1,092,696)**	(267,985)	-	(267,985)
Direct salaries	**(1,964,774)**	**(1,072,306)**	-	**(3,037,080)**	(1,170,292)	(334,500)	(1,504,792)
Gross profit/(loss)	**1,452,438**	**1,940,239**	**49,000**	**3,441,677**	(77,593)	830,703	753,110

Customers comprising 10% or more of Contract Revenue were as follows:

	15 months ended 31 March 2024 US$	**Percent**	Year ended 31 December 2022 US$	Percent
US government procurement agency	**3,012,545**	**39.8%**	1,165,203	46.1%
DARPA	**3,068,234**	**40.5%**	1,154,939	45.8%
Others - less than 10%	**1,490,674**	**19.7%**	205,745	8.1%
	7,571,453	**100.0%**	2,525,887	100.0%

For contractual reasons, the Company may not disclose the name of the US government procurement agency or the agencies for which this entity is pass-through. DARPA stands for Defense Advanced Research Projects Agency, a US government research and development organisation.

4. OPERATING LOSS

This is stated after charging:

	15 months to 31 March 2024 US$	Year to 31 December 2022 (restated) US$
Auditor's remuneration		
- audit of the Parent Company	**137,464**	174,000
- non-audit services		
Reporting accountant services	-	12,000
Review of interim financial statements	**-**	1,800
Amortisation of intangible assets	**493,766**	285,999
Depreciation of tangible fixed assets	**15,990**	33,529
Amortisation of right of use asset	**48,173**	-
Directors' remuneration	**476,614**	1,173,701
Other staff costs	**4,989,973**	1,761,070
Legal, professional and consultancy fees	**548,113**	451,628

5. DIRECTORS AND STAFF COSTS

The average number of persons employed by the Group, including Directors, was:

	15 months to 31 March 2024	Year to 31 Dec 2022
Management and technical	**18**	17

Remuneration, other benefits supplied and social security costs to the directors and staff during the period was as follows:

	15 months to 31 March 2024 US$	Year to 31 December 2022 US$
Directors and Employees:		
Director fees and salaries	**263,908**	393,788
Other salaries	**3,396,771**	1,446,546
Social security costs	**286,216**	92,245
Pension costs and other benefits	**496,518**	222,369
Director share- based payments	**212,706**	404,928
Other share-based payments	**810,368**	-
Director bonuses	-	374,986
	5,466,587	2,934,772

6. TAXATION

	15 months ended 31 March 2024 US$	Year ended 31 December 2022 US$
The charge for the period is made up as follows:		
Penalties, Federal and State filing fees	**15,248**	**7,839**
Deferred tax	**-**	-
Taxation charge	**15,248**	7,839

A reconciliation of the tax charge / credit appearing in the income statement to the tax that would result from applying the standard rate of tax to the results for the period is:

6. TAXATION (CONTINUED)

	15 months ended 31 Mar 2024	Year ended 31 December 2022 (restated)
	US$	US$
Loss before taxation	**(1,438,979)**	(18,675,800)
Tax credit at the small company rate of corporation tax in the UK (19%)	**(273,406)**	(3,548,402)
Impact of expenses disallowed for tax purposes	**291,038**	3,066,878
Penalties, Federal and State filing fees	**15,248**	7,839
Impact of (tax losses utilised)/unrelieved tax losses carried forward	**(17,632)**	481,524
	15,248	7,839

Estimated tax losses of $6.1 million (2022 restated: $5.9 million) are available for relief against future UK profits and estimated tax losses of $1.2 million (2022: $1.1 million) are available for relief against future US profits. No related deferred tax asset has been provided for in the accounts based on the uncertainty as to when profits will be generated against which to relieve said asset. The amount of the deferred tax asset not recognised in relation to losses for the Group is $1.4 million (2022: $1.3 million) and for the Company $1.1 million (2022: $1.1 million).

7. EARNINGS AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	15 months ended 31 March 2024 US$	Year ended 31 December 2022 US$
Loss from continuing operations attributable to equity holders of the company	(1,399,471)	(18,683,639)
Weighted average number of ordinary shares in issue	1,697,381,100	1,475,948,904
Basic and fully diluted loss per share from continuing operations (cents)	(0.04)	(1.27)

No dilution has been applied in respect of the options outstanding at the period end because the Group is loss making.

8. INTANGIBLE ASSETS – GROUP AND PARENT COMPANY

	Licenses US$
Cost	
At 1 January 2023	1,906,662
Foreign exchange movement	90,161
At 31 March 2024	**1,996,823**
Amortisation	
At 1 January 2023	285,999
Charge for the period	493,766
Foreign exchange movement	18,962
At 31 March 2024	**798,727**
Net book amount	
At 31 March 2024	**1,198,096**
At 31 December 2022 (restated)	1,620,663

Amortisation of licenses is charged to the Income statement in the period to which it relates and disclosed within "Depreciation and software license amortisation". Note 24 details software development costs that were previously capitalised but now written off as a prior-year adjustment.

9. TANGIBLE ASSETS – GROUP

	Cars US$	Leasehold Improvements US$	Furniture & Equipment US$	Total US$
Cost				
At 1 January 2023	147,098	25,425	222,723	395,246
Additions	-	-	-	-
At 31 March 2024	**147,098**	**25,425**	**222,723**	**395,246**
Depreciation/Impairment				
At 1 January 2023	147,098	9,435	222,723	379,256
Charge for the period	-	15,990	-	15,990
At 31 March 2024	**147,098**	**25,425**	**222,723**	**395,246**
Net book amount				
At 31 March 2024	**-**	**-**	**-**	**-**
At 31 December 2022	-	15,990	-	15,990

Depreciation of tangible assets is charged to the Income statement in the period to which it relates and disclosed within "Depreciation and software license amortisation".

10. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS – PARENT COMPANY

	US$
Acquisition of member interests in subsidiary undertakings:	
Opening balance at 1 January 2023	25,600,000
Acquisition of Narf Holdings US, Inc	2,000
Impairment	(7,600,000)
Closing balance at 31 March 2024	**18,002,000**

Investments in subsidiary undertakings are valued at cost less the Directors' impairment assessment which reflects changes in the business plan of the subsidiaries since the reverse takeover.

Principal subsidiaries

The group's subsidiaries at 31 March 2024 are set out below. Two of the subsidiaries are LLCs, which have no issued share capital and accordingly the proportion of ownership interests held equals the voting rights held by the group. The country of incorporation or registration is also their principal place of business.

Name	Country of Incorporation	Registered office	Principal Activity	Ownership 2024	Ownership 2022
Narf Industries LLC	USA	548 Market St. #37005 San Francisco, CA 94104	Provision of security goods and services to USG and affiliated entities	100%	100%
Narf Industries PR LLC	USA	1413 Avenue Ponce de León, San Juan, Puerto Rico 00907	Provision of security goods and services to Non-USG entities	100%	100%
Narf Holdings US, Inc	USA	251 Little Falls Drive, Wilmington, DE 19808	Dormant	100%	0%

11. TRADE AND OTHER RECEIVABLES – GROUP AND PARENT COMPANY

	Group		Company	
	As at 31 Mar 2024 US$	As at 31 Dec 2022 US$	**As at 31 Mar 2024 US$**	As at 31 Dec 2022 US$
Accounts receivable	**314,429**	640,622	**252**	-
Prepayments and accrued income	**250,150**	33,851	**19,488**	7,094
Other receivables	**40,965**	60,770	**40,965**	60,270
	605,544	735,243	**60,705**	67,364

The Directors consider that the carrying value amount of trade and other receivables approximates to their fair value.

11. TRADE AND OTHER RECEIVABLES – GROUP AND PARENT COMPANY (CONTINUED)

Ageing analysis

The following presents an ageing analysis of Accounts Receivable:

	As at 31 March 2024 US$	**As at 31 December 2022 US$**
Current	**157,006**	-
0-30 days	**157,423**	640,622
	314,429	640,622

The Group considers trade and other receivables to be fully collectible; accordingly, no bad debt provision or expenses have been recorded in either financial period ending 31 March 2024 and 31 December 2022 respectively and all amounts listed in Accounts Receivable were received post period-end.

12. CASH AND CASH EQUIVALENTS – GROUP AND PARENT COMPANY

	Group		**Company**	
	31 Mar 2024 US$	31 Dec 2022 US$	**31 Mar 2024 US$**	31 Dec 2022 US$
Cash at bank and in hand	**654,365**	442,751	**5,126**	210,282
	654,365	442,751	**5,126**	210,282

Cash at bank comprises balances held by the Company in current bank accounts, instant access deposit account and electronic wallets. The carrying value of these approximates to their fair value. The majority of cash is held in a bank with a BBB+ credit rating.

13. TRADE AND OTHER PAYABLES – GROUP AND PARENT COMPANY

	Group		**Company**	
	31 Mar 2024 US$	31 Dec 2022 US$ (restated)	**31 Mar 2024 US$**	31 Dec 2022 US$ (restated)
Accounts payable	**291,499**	100,291	**90,155**	73,593
Loan from Director and CEO	**1,550,595**	1,513,727	**-**	-
Lease liabilities (Note 17)	**93,793**	-	**-**	-
Other payables due within one year	**168,862**	128,649	**-**	-
Accrued expenses	**634,824**	1,038,605	**120,162**	261,933
	2,739,573	2,781,272	**210,317**	335,526

Trade payables and accruals principally comprise amounts outstanding for trade purchases and continuing costs. The Directors consider that the carrying value amount of trade and other payables approximates to their fair value. Refer to Note 19.

13. TRADE AND OTHER PAYABLES – GROUP AND PARENT COMPANY (CONTINUED)

The Loan from Director and Chief Executive Officer represents advances to the Group (plus accrued interest of $61,095) for working capital purposes from Steve Bassi, CEO (see Note 21). The loan was, until 28 June 2024, part of a $2 million credit facility accruing simple interest daily at the US Federal short term 1 year interest rate (4.86% at 11 April, 2023). On 28 June 2024 the credit facility was increased to $2.5 million and the term extended to 31 July 2025, with the same rate of interest. A portion or all of the note may be repaid early without penalty and the Director may request the Group to pay amounts when working capital exceeds $500,000 at the end of any given month. This credit facility is being presented without any discount to account for time as the facility may be partially or fully repaid prior to the due date of 31 July, 2025. As the lender can demand repayment within one year under certain circumstances the presentation has been corrected and included in creditors falling due within one year which is a change to the prior year presentation.

14. CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR – GROUP

	31 March 2024 US$	31 December 2022 US$
Instalment note on a vehicle	-	1,727
	-	1,727

15. SHARE CAPITAL / SHARE PREMIUM – GROUP AND PARENT COMPANY

The Company has only one class of share. All ordinary shares of 0.1p each ("Shares") have equal voting rights and rank pari passu for the distribution of dividends and repayment of capital. As at 31 March 2024 and 31 December 2022 the Company's issued and outstanding capital structure comprised 1,697,381,100 shares and there were no other securities in issue and outstanding.

At 31 March 2024 the Company had 183.4 million options outstanding and no warrants outstanding (see note 16)

	Number of shares on issue	**Share capital US$**	**Share premium US$**	**Total US$**
Balance as at 1 January 2023	1,697,381,100	204,012	35,074,061	35,278, 073
Cancellation of warrants	-	-	114,593	114,593
VAT recovery on issue costs	-	-	106,162	106,162
Balance at 31 March 2024	**1,697,381,100**	**204,012**	**35,294,816**	**35,498,828**

16. SHARE BASED PAYMENT RESERVE- GROUP AND PARENT COMPANY

Details of the options that were outstanding at 31 March 2024 are as follows:

Options

Granted	Exercisable from	Expiry date	Number outstanding	Exercise price
24.05.22	24.05.22	24.05.25	50,000,000	£0.02
08.09.23	08.09.23	08.09.33	92,325,000	£0.01
08.09.23	31.12.23	08.01.25	12,000,000	£0.01
08.09.23	31.12.23	08.09.33	13,283,333	£0.01
08.09.23	03.01.24	08.09.33	1,250,000	£0.01
08.09.23	01.02.24	08.09.33	750,000	£0.01
08.09.23	31.03.24	08.09.33	13,783,333	£0.01

An additional 236.6 million £0.01 options had been granted at the period end which are subject to vesting conditions which hadn't been met at 31 March 2024 but are expected to be met in the future.

	2024 US$	2022 USS$ (restated)
At beginning of period	**575,154**	32,578
Fair value of warrants exercised during the period	**-**	(20,363)
Fair value of warrants waived during the period	**(114,593)**	(12,215)
Fair value of warrants and options issued during the period	**1,023,074**	575,154[1]
At end of period	**1,483,635**	575,154

[1] The fair value of the options issued in 2022 has been increased by $345,969 from that previously stated to reflect the fact that the options vested on grant rather than over three years as previously disclosed. The inputs to the pricing model are detailed in the table below.

Of the amount credited to share based payment reserve $1,023,074 (year to 31 December, 2022: $460,561) related to options issued for services provided and therefore resulted in a charge to the Statement of Comprehensive Income and $nil (year to 31 December, 2022 $114,593) related to brokerage services and therefore resulted in a reduction to the share premium account.

A share-based payment credit of $114,593 (year to 31 December 2022 $12,215) was recognised during the period on waiver of the warrant by the warrant holder.

The estimated fair value of the options granted in September 2023 was calculated by applying the Black-Scholes option pricing model. The assumptions used in the calculation were as set out below:

16. SHARE BASED PAYMENT RESERVE- GROUP AND PARENT COMPANY (CONTINUED)

	2023/4			2022	
Model input/output	**10 year options**	**5 year options**	**16 mth options**	**3 yr options**	**10 mth warrants**
Share price at grant date	0.75p	0.75p	0.75p	2p	2p
Exercise price	1p	1p	1p	2p	2p
Expected volatility*	76%	76%	76%	86%	86%
Expected dividends	Nil	Nil	Nil	Nil	Nil
Vesting criteria	Mainly time	Governance	Handover	None	None
Risk-free rate	4.1%	4.2%	4.9%	1.6%	1.6%
Fair value per option	0.73 cents	0.56 cents	0.25 cents	0.96 cents	0.43 cents

*The expected volatility was calculated using historical 360-day volatility of the share price of Narf Industries plc for the year to 31 March 2023 (since the shares were suspended for a significant part of the period from 1 April 2023 to the date of grant).

The movements in share options and share warrants are as follows:

	Number of options	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding as at beginning of period	50,000,000	2p	63,000,000	2p
Granted	370,036,175	1p	-	-
Waived	-	-	(63,000,000)	2p
Outstanding as at end of period	420,036,175	1p	-	-
Exercisable as at end of period	183,391,667	1p	-	-
Unvested as at end of period	236,644,508	1p	-	-

17. LEASES - GROUP

As further discussed in Note 21, the Group had a lease agreement in relation to their office in California which expired on 1 June, 2023, including minimum rental payments of $4,800 per month. As this lease had a term of one year it was considered a short term lease under the requirements of IFRS 16 – Leases and the monthly rent was accounted for the in the Statement of Comprehensive Income as it became due.

Commitments payable in respect of short-term leases comprise:

17. LEASES – GROUP (CONTINUED)

	31 March 2024 US$	At 31 December 2022 USS$
Less than 1yr	**-**	24,000

Effective 1 June 2023, the Group entered into a lease agreement in relation to their office in California which expires on 31 December 2024, including minimum rental payments of $5,000 per month. As this lease had a term of over one year it has been accounted for in accordance with the provisions of IFRS 16

– Leases with a right of use asset recognised in the Statement of Financial Position and an offsetting lease liability.

Additional information on the right of use asset is as follows:

	Carrying Amount Recognised	Depreciation	Carrying Amount C/Fwd
Office	$91,154	$(48,173)	$42,981

The net present value of lease liabilities accounted for under IFRS 16 are all due within 1 year and comprise

	As at 31 March 2024 $	As at 31 December 2022 $
Lease payments	**91,154**	-
Finance charges	**2,639**	-
	93,793	**-**

18. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 March 2024 (31 December 2022: £nil).

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's financial instruments comprise primarily cash and various items such as trade debtors and trade payables which arise directly from operations. The main purpose of these financial instruments is to provide working capital for the Group's operations. The Group does not utilise complex financial instruments or hedging mechanisms.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Financial assets by category

The categories of financial assets are as follows:

	Group		Company	
	31 Mar 2024 US$	31 Dec 2022 US$	**31 Mar 2024 US$**	31 Dec 2022 US$
Current assets at amortised cost:				
Accounts receivable	**314,429**	640,622	**252**	-
Other receivables	**40,965**	60,770	**40,965**	60,270
Cash and cash equivalents	**654,365**	442,751	**5,126**	210,282
	1,009,759	1,144,143	**46,343**	270,552

Financial liabilities by category

The categories of financial liabilities are as follows:

	Group		Company	
	31 Mar 2024 US$	31 Dec 2022 US$	**31 Mar 2024 US$**	31 Dec 2022 US$
Current Liabilities measured at amortised cost:				
Accounts payable	**291,499**	100,291	**90,155**	73,593
Other payables	**262,655**	130,376	-	-
Short term loans	**1,550,595**	1,513,727	**-**	-
	2,104,749	1,744,394	**90,155**	73,593

All amounts owed by the Parent Company and the Group are short term and payable in 0 to 3 months, apart from the short-term loan which is disclosed in Notes 13 and 21 and the lease liabilities disclosed in Note 17. Other payables includes an amount of $nil (2022: $20,585) which was repayable in equal monthly instalments over the 14 months to 28 February 2024. The short-term loan facility has been extended to 30 June 2025 but is repayable on demand under certain circumstances.

Credit risk

Credit risk is the risk that an amount owed to the Parent Company or the Group will not be settled as a result of the failure of the counterparty. Credit risk is considered to be minimal as accounts receivable are due from US government agencies with no history of non-payment, other receivables represent VAT due from the UK government and cash is held in high street banks with most of the deposits protected.

The maximum exposure to credit risk at the reporting date by class of financial asset was:

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

	Group		Company	
	31 Mar 2024 US$	31 Dec 2022 US$	**31 Mar 2024 US$**	31 Dec 2022 US$
Accounts receivable	**314,429**	640,622	**252**	-
Other receivables	**40,965**	60,770	**40,965**	60,270
Cash and cash equivalents	**654,365**	442,751	**5,126**	210,282
	1,009,759	1,144,143	**46,343**	270,552

Foreign exchange risk

The Group operates principally in the USA with income and operating costs possibly arising in US Dollars. The majority of the operating revenues and costs are incurred in US Dollars although there are a number of Sterling costs incurred by the Parent Company in relation to the costs of maintaining a listing. The Company does not hedge potential future income or costs, since the existence, quantum and timing of such transactions cannot be accurately predicted. The Company's and therefore the Group's exposure to non- US Dollar assets and liabilities is detailed below.

	Company and Group	
Sterling assets	**31 Mar 2024 US$**	31 Dec 2022 US$
Accounts receivable	**252**	-
Other debtors	**40,965**	60,270
Cash and cash equivalents	**4,736**	210,282
	45,953	270,552

Sterling liabilities	**31 Mar 2024 US$**	31 Dec 2022 US$
Accounts payable	**90,155**	73,593
Other current liabilities	-	240,236
	90,155	313,829
Net sterling exposure	**(44,202)**	(43,277)

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign exchange risk (continued)

Given the insignificant foreign exchange exposure management do not believe that sensitivity analysis would provide any meaningful information to readers of these accounts.

Interest rate risk

The only Parent Company or Group's asset or liability that is subject to any material interest rate risk is the loan from the CEO which has a variable interest rate. All deposits are placed with main clearing banks with minimal amounts attracting interest.

Liquidity risk

The Parent Company and the Group seeks to maintains adequate bank balances to meet those financial liabilities that are payable in the short term (between 0 to 3 months) but has access to the CEO's credit facility in the event of a shortfall.

20. CAPITAL MANAGEMENT

The Group manages its capital with a view to ensuring that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the balance between debt and equity. The Group utilizes options on its shares to seek to incentivize the Directors and Group employees to remain loyal and meet strategic goals which will add shareholder value.

The capital structure of the Group as at 31 March, 2024 consisted of negative equity attributable to the equity holders of the Group, totalling $238,587 (2022: positive$31,648) bolstered by working capital advances from an officer and shareholder of $1,550,595 (2022: $1,512,000) (see Notes 13 and 21).

The Group reviews the capital structure on an on-going basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through new share issues or potentially through the issue of convertible debt instruments. There are no plans to pay dividends for the foreseeable future.

21. RELATED PARTY TRANSACTIONS

The compensation payable to Key Management personnel, who comprise the Directors, comprised $263,908 in amounts payable by the Group together with the fair value of options issued in respect of services to the Group. Full details of the compensation for each Director are provided in the Directors' Remuneration Report. At year-end, an amount of $16,014 was due to a director and officer in respect of Directors remuneration.

Included in the caption Trade and Other Payables on the accompanying Consolidated Statement of Financial Position are $16,000 and $61,700 at 31 March, 2024 and 31 December, 2022 respectively, related to an office operating lease agreement with a term of one year between the Group and an entity in which an officer and shareholder is an owner. Included in the caption Trade and Other Payables on the accompanying Consolidated Statement of Financial Position are $93,793 and $nil at 31 March, 2024 and 31 December, 2022 respectively, related to an office operating lease agreement with a term of over one year between the Group and an entity in which an officer and shareholder is an owner. The amount reported in the caption Right of Use Asset in the Consolidated Statement of Financial Position of $42,981 (2022: $nil) is a right over an asset owned by that same entity.

Included in Administrative Expenses on the accompanying Consolidated Statement of Comprehensive income is US$24,000 (2022: US$57,600) in operating lease expense, $48,173 (2022: $nil) in amortisation of right of use asset and $2,639 (2022: $nil) of lease interest relating to leases entered into with that related entity This operating lease agreement was renewed effective 1 June, 2023 through to 31

21. RELATED PARTY TRANSACTIONS (CONTINUED)

December 2024 and minimum rental payments commitments of $5,000 per month are $45,000 for the year ending 31 March, 2025.

As further discussed in Note 13, a Director and CEO made loans to the Company which at period end totaled $1,550,595 including accrued interest (2022: $1,512,000). The amounts represent a drawdown on a $2 million credit facility with a variable rate of interest.

22. EVENTS SUBSEQUENT TO YEAR END

Effective 28 June 2024 the loan facility from the Director and CEO was increased to $2.5 million and the term extended to 31 July 2025.

Effective 1 April 2024 the Company transferred its 100% interests in Narf Industries LLC and Narf Industries PR LLC to Narf Holdings Inc so that Narf US became indirect subsidiaries rather than direct subsidiaries of the Company.

23. CONTROL

In the opinion of the Directors there is no single ultimate controlling party.

24. PRIOR YEAR ADJUSTMENTS

The prior year financial statements were subject to a disclaimer of opinion by the auditors. Although the new auditors have not been asked to express an audit opinion on the prior year comparatives, the audit work in the current year and further analysis by management have identified a number of material misstatements in the prior year, the most significant of which are summarized below:

The prior year financial statements included an intangible asset relating to software development costs with a net book amount of $1,076,413. Further analysis by the Directors indicated that this asset did not meet the criteria to be recognised under IAS 38 – Intangible assets. Accordingly, the asset was derecognised effective 1 January 2021 resulting in a reduction in consolidated net assets at 31 December 2022 of $1,076,413 and a decrease in losses of $226,938 for the year ended 31 December 2022.

Prior to the RTO the Operating Group had granted certain key employees rights to acquire interests in Narf Industries LLC. Ahead of the RTO each of those employees entered into redemption agreements whereby those rights were converted into a cash payment entitlement. These liabilities were previously only recognised when paid but the Directors are of the view that they should have been recognised ahead of the RTO on execution of the redemption agreement. Accordingly, a liability of $555,647 has been recognised effective 1 January 2021 resulting in a reduction in consolidated net assets at 31 December 2022 of $407,263 and a reduction in net losses of $148,384 for the year ended 31 December 2022.

Share options issued to the Directors in 2022 were previously treated as vesting over three years but further investigation revealed they invested immediately but had a three-year term. A prior year adjustment has therefore been posted to increase the loss for the Group and Parent Company by $345,969 with a commensurate increase in the share-based payment reserve.

The Group had a sub-contract agreement whereby it was due to pay a proportion of fees earned on a DARPA contract to a sub-contractor.
Whilst the revenue under this contract for Q4 2022 was recognised in the Consolidated Statement of Comprehensive Income for the year ending 31 December 2022, the corresponding sub-contract cost was not. This correction has resulted in an increased loss of $141,786 for the year to 31 December 2022 and a reduction of $141,786 in the consolidated net assets at 31 December 2022.

24. PRIOR YEAR ADJUSTMENTS (CONTINUED)

The prior year financial statements reported the loan from the directors as being due after more than one year but the Director had the right to repayment in less than one year in certain circumstances and therefore the comparatives have been restated to include the amount in creditors falling due within one year to correct this error.

The Group significantly underestimated the audit fee accrual in 2022. A prior year adjustment has been made to increase the charge in 2022 in line with the actual cost. This resulted in an increased loss of $124,261 for the year to 31 December 2022 and a reduction of $124,461 in the consolidated net assets at 31 December 2022. The impact on the Parent Company net assets was a reduction of $21,697.

In addition the Directors have chosen to restate the prior year statement of comprehensive income to provide greater clarity on the comparative numbers and align the presentation with how the Group has operated in the current period. The amounts as originally presented and restated are detailed below:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2022 *(As originally stated)* **US$**	Year Ended 31 December 2022 (*Restated*) US$
Continuing operations		
Contract revenue	2,547,125	-
Cost of sales	(1,828,887)	-
GR &D Revenue	-	1,360,684
GS & S Revenue	-	1,165,203
Gross profit	718,238	-
Total revenue	-	2,525,887
Sub-contractors	-	(267,985)
Administrative expenses	(3,303,583)	-
Operating expenses	-	(4,755,210)
Loss before depreciation and software licence amortisation, share based payments, interest and taxes	(2,585,345)	(2,497,308)
Depreciation and software license amortisation	(329,999)	(329,999)
Cost of sales	(147,580)	(493,549)
Operating loss	(3,062,924)	(3,320,856)
RTO Share based payment expense	(15,355,123)	(15,355,123)
Interest receivable and other finance income	3,376	3,376
Finance costs	(3,197)	(3,197)
Loss before taxation	(18,417,868)	(18,675,800)
Corporate tax	(7,839)	(7,839)
Loss for the year	(18,425,707)	(18,683,639)
Earnings per share (cents)	(1.3)	(1.3)

24. PRIOR YEAR ADJUSTMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December 2022 (As originally stated) US$	As at 31 December 2022 (Restated) US$
NON-CURRENT ASSETS		
Intangible assets	2,697,076	1,620,663
Tangible assets	15,990	15,990
	2,713,066	1,636,653
CURRENT ASSETS		
Trade and other receivables	756,481	735,243
Cash and cash equivalents	442,751	442,751
	1,199,232	1,177,994
TOTAL ASSETS	3,912,298	2,814,647
CURRENT LIABILITIES		
Trade and other payables	595,962	2,781,272
NON-CURRENT LIABILITIES		
Loans	1,513,727	1,727
TOTAL LIABILITIES	2,109,689	2,782,999
NET ASSETS	1,802,609	31,648
EQUITY		
Share capital	204,012	204,012
Share premium	35,074,061	35,074,061
Reverse acquisition reserve	(16,747,959)	(16,747,959)
Foreign exchange reserve	(43,411)	(43,411)
Share based payment reserve	229,185	575,154
Retained deficit	(16,913,279)	(19,030,209)
TOTAL SHAREHOLDERS EQUITY	1,802,609	31,648