Narf Industries Plc

(formerly CYBA plc)

Annual Report and Consolidated Financial Statements

For the year to 31 December 2022

Registered number 11701224 (England and Wales)

Overview

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Executive Chairman's Statement

Dear Shareholder,

As the recently appointed Executive Chairman, this statement offers me the opportunity to share your Company's accomplishments while acknowledging the challenges transitioning from a private and entrepreneurial led venture to the main operating business of an LSE listed company.

Accomplishment and Goals

It has been a year of significant growth and development within the Group. Our committed team of 15 research and software developers led by our CEO, Steve Bassi, delivered record breaking year-end contracted backlog of $10.4 million. It speaks to the trust and confidence government entities place in our highly specialized team and underscores its strong reputation as an innovative and reliable partner.

The backlog is 4x our 2022 revenue of $2.5 million. The increase in government contract backlog translates into a sustainable revenue stream for our Group. These contracts provide a stable and predictable source of income, enabling us to plan and execute business strategies with confidence.

From this backlog alone, the Group forecast $5.9m revenue in 2023, delivering 130% year on year ("YOY") growth (up from 30% growth in 2022). A significant decrease in expenses is also targeted this year. As we transition from an acquisition vehicle to focus on our core operations, we are expecting operating expenses to drop by over 40% ($1.4 million) in 2023.

This combination of growing revenues and operational efficiencies help position the Company to achieve break-even EBITDA for 2023. This compares to a $2.6m operating loss in 2022. The plan looks to accomplish this performance financed by internal cash generation and current credit line facilities.

In summary, our team in 2023 looks to execute an invaluable, high growth, fiscally responsible Company that protects and builds shareholder value and confidence. From this foundation, we plan to aggressively grow our government revenue, a market we are well positioned to scale and expand. The attractive net margins, along with our innovative government funded R&D work, can fuel our intellectual property (IP) commercialisation targeted to multi-billion dollar cybersecurity market segments.

I'd like to express my appreciation to the team for their work ethic that delivered this outstanding business performance to date. I'd like to thank our customers that acknowledge our worth through repetitive contract awards.

Fiscal Year 2022 Audit

This is the first financial reporting period for which consolidated financial statements, incorporating the businesses acquired in March 2022 (see Note 8 to the Financial Statements), are subject to International Finance Reporting Standards (IFRS).

This administrative burden introduced by IFRS presented a significant hurdle for a small team of 15 research and software developers busy meeting contract deadlines, generating revenue and cash flow. Previously, the private businesses produced records and internal documents only needed for servicing its contracts and primarily for tax purposes. This lack of infrastructure and resources caused the Company to miss its 30 April 2023 deadline and led to suspension of trading in its shares.

Today we've announced the completion of the audit expect the trading suspension will be lifted within a matter of days. However, not without accepting and acknowledging significant auditor disclaimers.

I've taken this decision to accept the auditor's disclaimers now. It's become evident that resolution will require more time and extending the trading suspension of our shares would unfairly impact our shareholders, limiting their ability to engage with the market and potentially eroding investor confidence.

I want to assure you that this disclaimer of opinion does not diminish the value of the team's achievement or the underlying strength of our business. We are committed to resolving these issues and bringing the Company's consolidated financial reporting practices up to standards.

There are several matters linked to the disclaimer that need resolution, but it's our inability to date to provide auditors access to a sensitive contract (and all materials associated with that contract), and our estimated timeline for resolution, that's most influenced my decision.

Executive Chairman's Statement continued

This contract accounts for about 50% of our reported 2022 revenue with terms that state disclosing the name of the customer, their address, or the nature of the work to restricted parties, is a basis for termination. We are navigating this situation carefully and executing a plan to resolve this matter over the course of the next quarter in the interest of all parties.

As you read this annual report and the Company's accounts, please be aware any financial figures presented are subject to adjustment for overstatement or understatement as we work with auditors to confirm the appropriate accounting treatment. The Company believes it has taken a conservative approach in its presentation of the accounts, for example applying a revenue recognition that errs on the side of understatement.

Period of Transition

This year's audit circumstance speaks to the challenges we face managing record revenue growth while building the infrastructure required of a publicly reporting entity. While growth is a positive indicator, it requires us to remain agile and adapt our administrative systems to meet the evolving needs of our expanding organisation.

While establishing the necessary administrative and financial infrastructure during this transitional phase is important, it's equally vital to instill a shared understanding among our team that effective governance and responsible management extend beyond mere structures and processes. For these reasons, your CEO strengthened the Board and executive team in late April 2023, with my appointment as Executive Chairman and appointment of our CFO.

Although posing short-term challenges, we recognise the long-term benefit of investing now to improve the quality of our executive leadership, financial reporting, and business execution to instill confidence in our stakeholders and facilitating better analysis and decision-making.

In respect to our most pressing challenge, our team, now resourced with a new CFO, will continue to work diligently, and resolve all matters.

Looking Forward

I am privileged to lead the Board, and as Executive Chairman, join the CEO and his team to actively develop, lead, and execute strategies to grow the business. I would like to express my gratitude to our shareholders for their understanding during this initial, difficult past few months.

Here's what to expect in the next 6 months:

- Scale and expand our government business. We have the potential to turbo-charge our growth, in a market we already know, with a proven competitive position. Our team is already fast at work in driving success and identifying 18, 36, and 54 month strategic growth goals.
- Unlock the value of our IP with innovative and efficient go to market strategies.
- Build an experienced and capable Board. We look to align strategic objectives with specific areas of expertise, source qualified candidates, and appoint new members over the course of the year.
- Strengthen our internal and external financial reporting. A solid foundation to support our decision-making processes, protect the interests of our shareholders, and maintain the trust of our stakeholders is paramount. Included is a resolution of our auditor's disclaimers and opinion.
- Maximize shareholder value. We are committed to engaging with the investment community to ensure our accomplishments and strategies are reflected in the valuation of our Company.

Thank you, all.

John Herring
Executive Chairman

11 July 2023

Strategic Report

Narf Industries plc (the "Parent" or the "Company") is the UK parent company of two US subsidiaries Narf Industries LLC and Narf Industries PR LLC (the "subsidiaries", "Operating Group" or "Narf US" – together with the UK Company, the "Group") principally involved in developing and marketing software aimed at enhancing the cybersecurity measures of its clients. The directors of the Company are pleased to present their report on the Group for the year ended 31 December 2022.

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. 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 2022 or 2021 will be for the Financial Years (aligned with calendar years) ending 31 December 2022 ("FY2022") and 31 December 2021 ("FY2021") 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 formed as an investment vehicle 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 year the Company raised $7.6 million (gross) in 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 have been treated as a reverse takeover as explained in Note 8.

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

The Group is a leading provider of cybersecurity research, solutions, and services to government entities. With a steadfast commitment to protecting national security and critical infrastructure, we offer comprehensive expertise in addressing the evolving cyber threats faced by our clients. We work with US government agencies including the Department of Defense ("DoD"), the Defense Advanced Research Projects Agency ("DARPA"), Department of Homeland Security ("DHS"). The Group often collaborates with world renowned private research companies in the performance of contracts.

Our strong track record of successful contract performance underscores our ability to deliver results. We understand the critical nature of the work performed by these agencies and the importance of maintaining the confidentiality and integrity of their missions. With our industry-leading expertise, advanced technologies, and unwavering commitment to excellence, we provide the government with the confidence and peace of mind they need to navigate the complex and ever-changing cybersecurity landscape.

The Group's strategy leverages government funded research and business to create and fund innovative and disruptive products for billion-dollar commercial cybersecurity markets. Government Research and Development (GR&D) work produces valuable Company-owned IP and Government Solutions and Services (GS&S) work generates favourable net margins to fund commercialization. Our 2022 revenues were split evenly between the two.

Strategic Report continued

Government Research and Development ("GR&D")

The Group has a successful history of tendering for, and winning, government R&D contracts for groundbreaking technologies, predominantly from DARPA. Our 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 agency retains government 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, we own 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.

For Note 3 of the Financial Statements, GR&D revenues are included as part of Professional Services.

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. We also provide 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 3 to 6 months. Tasks performance typically range from 6 to 12 months to complete, at which time software is delivered and integrated into an operational system.

The Group believes GS&S offers the highest growth potential and its strategy is to scale and expand this segment.

For Note 3 of the Financial Statements, GS&S revenues include SaaS, Installation, and a portion of the Professional Services revenues.

Commercialization

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

The Group's most advanced commercialization effort targets critical infrastructure protection, specifically vulnerabilities in Industrial Control Systems/Operational Technology (ICS/OT) systems. This effort leverages years of the Company's work with the Rapid Attack Detection and Incident Capability ("RADICS") and a critical subprogram, the Threat Intelligent Grid Recovery ("TIGR") project.

In April 2022, the Group licensed from SRI International, a partner on the RADICS and TIGR projects, complementary IP that in combination creates a uniquely competitive software and hardware solution for the Oil, Gas, and Electrical utility customer base. We've since demonstrated the capabilities are engaged with customers with known requirements.

The Group is currently limited in the resources it can apply to its commercialization goals within the bounds of its 2023 plan. Until government business grows sufficiently to organically finance commercialization initiatives, the strategy is to rely on paid development from prospects or investments by strategic partners.

The Group expects to incrementally build its commercialization resources as its government business grows and provides organic investment capability. Currently, for 2023, no material commercialization revenues are projected.

Financial position

The following presents key financial metrics of the Group:

- At year-end, the consolidated statement of financial position presents Current Assets totaling $1.2 million. This included cash of $443,000 and trade receivables of $640,000 that were collected in Q1 2023.

- Total liabilities at year-end were $2.1 million, with 70% of the balance being cash advances from the founder and CEO for working capital purposes and the remainder being trade and other payables of $600,000.
- After year-end, the CEO agreed to convert these advances (which then had a balance of $1,322,000) to a $2 million credit facility not due until June 2024, leaving the Company $678,000 from which to further draw, from which none has been drawn as of the date of this report.
- At 31 December, 2022, the Group had a $10.4 million backlog (representing contracts in progress), of which $5.9 million is expected to be realized in 2023.
- The Company has available net operating loss carryforwards of $5.9 million to offset future taxes.

These key measurements show the Groups ability to execute its 2023 business plan funded through organic cash generation and available credit facilities.

Key performance indicators

The Company's major KPI since its founding and through March 2022 was completion of an acquisition of a suitable target and all activities necessary to that end. The Company completed an acquisition in March 2022 of the Operating Group. Since March 2022, and up until end of 2022, the Group's main KPIs included:

- Appoint a CEO, a role that had been vacant since the Group's founding;
- Ensure integration activities with the Company does not impact the Operating Group's management focus on revenue, cash flow, and new business generation;
- Communicate the vision of the combined entities to stakeholders; and
- Identify activities for the continued transition of the Company for 2023.

Regarding 2022 performance:

- Steve Bassi, the founder of Narf US, was appointed the Group CEO in June 2022
- The Operating Group grew revenue from 2021 to 2022; managed cash within set guidelines; and delivered record setting backlog. However, the 2022 audit has adversely impacted operations.
- RNS updates and shareholder briefing were conducted on a regular basis
- The CEO targeted on-boarding experienced executive and financial talent early in 2023.

For 2023 with the new Executive Chairman and CFO in place, KPIs include:

- Deliver at least 100% YOY revenue growth; reduce operating expenses by 50%; manage to nominal EBITDA gain/loss; and finance within the bounds or organic cash flow and current financing facilities.
- Build an experienced and capable Board of Directors.
- Strengthen our internal and external financial reporting.
- Scale and expand our government business.
- Unlock the value of our IP with innovative and efficient go to market 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

We face the inherent risk of all early-stage companies with limited operating history. We further acknowledge the risk in transition as we integrate and advance a private and entrepreneurial led venture to the main operating business of an LSE listed Company. We understand these factors may impact investor perceptions, but we are confident in our immediate-term prospects. Specifically:

- The increase in our government contract backlog translates into a sustainable revenue stream for our Company. These contracts provide us with a stable and predictable source of income, enabling us to plan and execute our business strategies with confidence. The multi-year nature of these contracts not only ensures a consistent cash flow but also provides a solid foundation for future growth and investment opportunities.
- We can scale and expand our government business where we have a proven track-record and demand for cybersecurity capabilities is in limited supply.
- The founder of Narf US and now CEO of the Group, is driving the on-boarding of executives, as evidenced by the Executive Chairman and CFO appointments, with experience in to navigate the risk in transition and growth.

Strategic Report continued

Reliance on a limited number of products and customers

We acknowledge this risk but embrace it as strategic and competitive advantage for an early-stage company. We are delivering highly specialized capabilities to government agencies with multi-billion-dollar budgets and a mission that only grows. We are building our reputation as demonstrated by our growing backlog and award of our largest contract to date, of $6.7 million. Our market share even in this small niche is minuscule.

These achievements and reputation will serve as the foundation to attract new customers. Our growing government R&D work is leading to creation of new products.

Technology risk

Cybersecurity is a rapidly changing industry with many competitors seeking to further develop their technologies, any of which can be displaced by new and innovative approaches. We work at the most advanced edges of cybersecurity technologies where it so specialized and the mission so critical that only US government agencies can justify the cost/benefit. We do not see this work exposed to material technology risk.

Our primary technology risk is in our ability to commercialize government R&D work, a core strategy of the Group. The risk lies in identifying commercial use cases where the Group can embed advanced capabilities into products with functionality at price points meeting market demand.

The Group does not project material commercialization revenues until such time as government revenues grow to enable organic investments to fund product development. The Company will then assemble an experienced team to execute its commercialization strategies.

Key-person risk

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

This risk is largely mitigated largely at this stage as the three most critical employees are major shareholders in the Company.

We continuously strive 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 company for various reasons, including career opportunities elsewhere or unforeseen circumstances.

Inability to Fund Operations

As an emerging company in a rapidly evolving industry, we face certain financial risks, including the potential inability to fund our operations. The success of our business and our ability to achieve our strategic objectives depend on our access to adequate funding sources, including cash reserves, credit facilities, and capital markets.

While we acknowledge this risk, we are committed to taking proactive measures to mitigate it. Our Financial position and going concern disclosures present our 2023 plans to leverage our strong backlog, achieve operational efficiency, and manage cash flow to ensure alignment with our available resources.

We also actively evaluate potential strategic alliances, partnerships, and collaborations that can provide access to additional resources to fund our commercialization goals.

While we have taken and continue to take reasonable measures to address the risk of funding constraints, there can be no assurance that we 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 our relationships with stakeholders and influencing their perceptions of the Group. We recognize that any adverse event or negative perception can significantly impact our reputation, market standing, and long-term success.

Our reputational risk is mitigated to a significant extent due to the strong track record and exemplary conduct of our 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 our stakeholders.

As we continue to expand and grow, we remain 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 consider the US market and the US Government to be a fairly stable counter party in terms of economic risk. The Group strategy to focus on strengthening and building further on that relationship only enhances the mitigation.

Employee information

At present, there are no female Directors in the Company. The Company has an Executive Chairman, an Executive Chief Executive Officer and one Non-Executive Director. The Company is committed to gender equality and diversity. If future roles are identified, a wide-ranging search would be completed with the most appropriate individual being appointed irrespective of gender, religion or certain additional needs.

Social/Community/Human rights matters

The Company 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 our 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/TCFD

As the Company has not consumed more than 40,000 kWh of energy in the year 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. Furthermore, given the size and nature of the business the Directors consider that it is not possible to provide meaningful TCFD information as would otherwise be required under the Listing Rules. Until the Group has reached break-even the Directors intend to focus on growing the business whilst minimising their carbon footprint to the extent practicable and will look to focus on disclosures thereafter.

Section 172(1) Statement – Promotion of the Company for the benefit of the members as a whole

The Directors believe they have acted in the way most likely to promote the success of the Company for the benefit of its members 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 Company 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 adversary attacks. This demand will not abate and consequently our 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:

Acquisition of the Operating Group – The Company undertook a thorough review of the cybersecurity industry before identifying Narf US as an ideal acquisition candidate. This decision meets the Company's strategic goal to pursue business in the cyber security industry and sets the Company's long-term vision for the benefit of all stakeholders.

Licensing SRI IP – The Group's strategy leverages government cyber-security funded research to create commercial products for multi-billion market opportunities. SRI owns IP and work product complementary to the Group's R&D assets and relationships in the critical infrastructure protection market segment. The Group's decision to license SRI assets offers more value to prospective customers and an enhanced competitive position. This decision advances the long-term potential of the Group's declared commercialization strategy.

Scaling GS&S Revenues – The Group relies on government work to fund its operations and enable commercialization investments. Leveraging 2022 historic contract wins in its GS&S business, the Board is deciding to "grow where we know" and turbo-charge this core business. The consequence is increased revenue and net margins that fund operations and commercialization initiatives through organic growth.

Performance Discipline and Fiscal Responsibility – The Company decided to manage its 2023 performance assuming only backlog business generates revenue, resulting margins, and cash flow; to reduce expenses by in 2023 from 2022 by 50%; and work to EBITDA neutral results; and cash flow break even within its current credit facilities. The impact is an attractive non-dilutive model during challenging microcap markets as the Company bridges to execute its long-term strategy.

Governance and Public Company Standards – The Company attracted experienced executives, is executing on a governance plan, and working to achieve public company financial standards. A CEO was appointed in June 2022, an Executive Chairman and CFO in April 2023, a baseline of identified financial reporting standards shortfall identified in in the audit, and a Company commitment to resolve shortfalls over the next quarter. The consequences of these decisions are 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 that lead to better progress.

- **Act fairly between the members of the Company:**

We are dedicated to acting fairly towards our stakeholders.

We are driven to maximizing shareholder returns while considering the sustainability and resilience of our business. Alongside value creation, we also prioritize the preservation of shareholder value. We strive to manage risks, maintain financial stability, and make prudent decisions that safeguard the assets and investments entrusted to us by our shareholders.

We prioritize transparent and timely communication with our shareholders. We will strive to improve our offering regular updates on our performance, financial results, and key developments so shareholders are well-informed and have a clear understanding of our business activities.

We look to uphold the highest standards of corporate governance to protect and enhance shareholder rights. We recognize the importance of treating all shareholders fairly and equally, irrespective of their shareholding size. We are committed to providing fair and equitable treatment to minority shareholders, ensuring that their rights and interests are respected.

We work to align management incentives with shareholder interests to promote responsible and sustainable value creation. Our executive compensation structure is designed to reward performance, promote long-term value creation, and align the interests of management with those of our shareholders.

- **Maintain a reputation for high standards of business conduct:**

  The Company strives for the highest standards of conduct with all its stakeholders.

  We conduct our business with the utmost integrity, adhering to ethical principles and demonstrating honesty and transparency in all our interactions. We work to uphold the highest standards of ethics and integrity in all business activities. We are dedicated to delivering high-quality products/services that meet or exceed our customers' expectations.

  We treat all stakeholders fairly and equally, and a commitment to resolving any concerns or issues in a fair and timely manner. We maintain open and clear lines of communication and value effective communication to build strong and lasting relationships.

  Our 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.

  We maintain strict compliance with legal and regulatory requirements, as well as industry standards and best practices. We prioritize the privacy and security of our customers' data, implementing robust measures to safeguard their information and comply with applicable data protection laws.

- **Consider the interests of the Company's employees:**

  For context, the Company is a close-knit group of 15 highly research scientist 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.

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

  Our organization operates on the principles of meritocracy, where recognition and advancement are based on individual abilities, accomplishments, and contributions. We value and reward performance, enabling employees to excel based on their skills, dedication, and results.

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

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

  We maintain a transparent and inclusive environment, where information is shared openly, and decisions are communicated clearly. We encourage open and constructive feedback, fostering a culture of continuous improvement.

- **Foster the Company's relationships with suppliers, customers and others:**

  We strive to foster strong relationships with customers and research organizations.

  We are committed to fostering strong and enduring relationships with our customers. We strive to exceed customer expectations, building trust, loyalty, and long-term partnerships.

  We actively seek collaboration with other research organizations. Through partnerships and joint research initiatives, we aim to drive innovation, accelerate discoveries, and advance the field of cybersecurity.

  We recognize the importance of being responsive and adaptable to changing customer requirements. We are agile in our approach, quickly adapting our research, solutions, and services to address customer challenges effectively.

  We actively engage with customers and other research organizations to share our expertise, insights, and thought leadership. By participating in conferences, industry events, and collaborative forums, we contribute to the broader cybersecurity community, promoting knowledge exchange, best practices, and collective learning.

Strategic Report continued

- **Consider the impact of the Company's operations on the community and the environment:**

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

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

  Our dedication to ethical and responsible cybersecurity practices is unwavering. We adhere to stringent ethical guidelines and prioritize the protection of human rights. Respecting user privacy and fostering digital trust are foundational principles that drive our research and recommendations. We understand the responsibility we bear in creating a secure and inclusive digital environment, and we actively champion these principles in our daily operations.

  While our primary focus is on societal impact, we also recognize the importance of minimizing our environmental footprint. We have taken steps to ensure our operations and research activities have a minimal impact on the environment. Through energy-efficient infrastructure, responsible resource consumption, and proper electronic waste management, we strive to reduce our carbon footprint and promote environmental sustainability.

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

Gender analysis

A split of our employees and directors by gender during the year is shown below:

	Male	Female
Directors	4*	–

* – At the time of this report the number of Directors is 3 (all Male).

Sustainability

We aim to conduct our business with honesty, integrity and openness, respecting human rights and the interests of our shareholders and employees. We aim to provide timely, regular and reliable information on the business to all our shareholders and conduct our operations to the highest standards.

We strive to create a safe and healthy working environment for the wellbeing of our staff and create a trusting and respectful environment, where all members of staff are encouraged to feel responsible for the reputation and performance of the Company.

We 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 we operate. Through maintaining good communications, members of staff are encouraged to realise the objectives of the Company and their own potential.

Steve Bassi
CEO

11 July 2023

Directors' Report

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2022 ("FY2022"). The Company was incorporated on 28 November 2018 and on 27 February 2020 extended its initial accounting reference date to 31 March 2020. On 7 March 2021 the Company shortened its accounting period to 31 December 2020 to align with the accounting periods of its target acquisition companies. On 3 August 2022 the Company changed its name from Cyba plc to Narf Industries plc to align its identity with that of the operating subsidiaries.

Principal Activity

The principal activity of the Group during the year was the development and marketing of software offering cybersecurity solutions.

Results

The Group recorded an operating loss of $2.6 million (2021: $0.9m for Narf US). Group losses for the year before taxation were $18.4 million (2021: $0.8m for Narf US), which included 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 acquisition takeover as further explained further below and in note 8 to the accounts). Revenue grew by over 30% to $2.5 million and the Group ended the year with contracted backlog of $10.4 million.

Operating expenses were up, primarily in relation to the work involved in completing the RTO. Otherwise they would have been consistent with 2021. The Board is expecting them to fall by $1.4m (50%) to 2023 as a result of the one-off costs in 2022 not being incurred in 2023 matched with our plan to streamline to core business.

Basis of presentation and RTO

These financial statements 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 RTO has been accounted for by showing the consolidated financial statements as a continuation of the Narf US subsidiaries. As such, the comparatives of the consolidated primary statements represent the combined results and assets, liabilities and equity of the Narf US subsidiaries.

The transactions were accounted for as reverse acquisitions since they did not meet the definition of a business combination under IFRS 3. In accordance with IFRS 2, a share based payment expense equal to the deemed cost of the acquisition less the fair value of the net assets of the Company at acquisition was recognised.

The comparatives within the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated cashflow statement and the consolidated statement of changes in equity represent the combined numbers of the legal subsidiaries and accounting acquirers, Narf Industries LLC and Narf Industries PR LLC. In the consolidated statement of financial position, the share capital and premium as at 31 December 2022 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 2021 represents the results of Narf US only and 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.

As a result of the acquisition the functional currency of the Group is now USD$. As such we were required to restate the Parent Company Statement of Financial Position as historically it had been presented in GBP £.

Dividends

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

Prior to the acquisition, the previous members of Narf US drew $75,000 and $360,000 for the years ended 31 December, 2022 and 2021 (unaudited), respectively.

Directors

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

Steve Bassi	Chief Executive Officer
John Herring	Executive Chairman
Rory Heier	Non-Executive Director
Robert Mitchell	Non-Executive Chairman (resigned 23 April 2023)

Details of the Directors' holding of Ordinary Shares and Warrants are set out in the Directors' Remuneration Report from page 13.

Further details of the interests of the Directors in the Warrants of the Company are set out in Note 18 of the financial statements.

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 17. The Company has one class of Ordinary Share and all shares have equal voting rights and rank pari passu for the distribution of dividends and repayment of capital.

Substantial Shareholdings

At 30 June 2023, 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	31.69%
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	65,064,542	3.83%
SRI International	59,856,100	3.53%

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 Board members have not traded in the Company shares since the admission to LSE.

With the late recent appointment of the Executive Chairman there are a number of immediate governance actions that will be addressed in Q3 2023, including the shareholding policy.

The Directors' remuneration comprises a basic fee and discretionary bonuses and/or long-term incentives to reflect their contribution to significant events such as the reverse takeover. 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 2½ years, is not paying dividends, is currently incurring losses as it gains scale, Its focus during the year ended 31 December 2022 was to integrate Narf US. In addition and as mentioned above, the remuneration of Directors was not linked to performance but to one-off events and we therefore do not consider the inclusion of this graph to be useful to shareholders at the current time. 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 Notes 5 and further referenced in the Directors' report.

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

	Base fee US$	Bonus US$	Long-term incentive US$	Total US$
Robert Mitchell (resigned 23.4.23)	149,994	187,493	29,479	**366,966**
Steve Bassi	60,000	–	–	**60,000**
John Herring	60,000	–	–	**60,000**
Rory Heier	123,794	187,493	29,479	**340,766**
	393,788	**374,986**	**58,958**	**827,732**

For the comparative period being the year to 31 December 2021:

	Base salary US$	Additional time-based payments US$	Pension contribution US$	Total US$
Robert Mitchell* (resigned 23.4.23)	81,000	81,000	–	**162,000**
Steve Bassi	60,000	–	–	**60,000**
John Herring	60,000	–	–	**60,000**
Rory Heier*	81,000	81,000	–	**162,000**
	282,000	**162,000**	**–**	**444,000**

* Mr Heier and Mr Mitchell were contracted to provide a maximum of ten hours of their time per month to the Company. Additional hours beyond this were charged on a time spent basis.

There were no performance measures associated with any aspect of Directors' remuneration during the year.

Payments to past Directors (audited)

There are no payments in the year to past Directors.

Bonus and incentive plans (audited)

During the year of Mr Mitchell and Mr Heier were awarded 25 million options (2021: nil) over the ordinary shares of the Company with a strike price of 2p per Share. These options vest immediately and have a three year term (see note 18).

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

The Chief Executive was appointed in June 2022 and therefore no information on the percentage change is presented. The CEO currently receives $5,000 per month for his Board service and currently does not take any other remuneration.

Other matters

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

Approval by members (unaudited)

The remuneration policies established during the transition will be put to members for approval at the next Annual General Meeting.

Directors' Report continued

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 30 June 2023 was:

	Number	% age of issued share capital – 2022
Rory Heier	11,375,000	0.67%
Steve Bassi	502,079,484	31.69%
John Herring	26,000,000	1.53%
	549,454,484	**32.37%**

Remuneration Committee (unaudited)

There is no separate Remuneration Committee at present, instead all remuneration matters are considered by the Board as a whole. It meets when required to consider all aspects of Directors' remuneration, share options and service contracts.

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 with the exception of the matters included in the Auditor's report, which contains specific information on the areas which resulted in a disclaimer of opinion.

This is the first financial reporting period for which consolidated financial statements, incorporating the businesses acquired in March 2022 (see Note 8 to the Financial Statements), are subject to International Finance Reporting Standards (IFRS). This administrative burden introduced by IFRS presented a significant hurdle which was the main reason for delay in completion of the Audit.

In addition to the record keeping matter, certain other challenges hindered the completion of the audit, the most significant being our ability to provide the auditors with various contracts and underlying records related to a sensitive contractual relationship as further discussed in the Executive Chairman's Statement (see the Sensitive Contract component of his Statement).

A decision was made to accept the auditor' disclaimers, as resolution will require more time and extending the trading suspension of our shares would negatively impact stakeholders.

Our team, now resourced with a new CFO, will continue to work diligently, and resolve all matters with our auditors to give all stakeholders the assurances they need in our reported financials.

Emissions

The Company is aware that it needs to measure its operational carbon footprint in order to limit and control its environmental impact. However, since the Company, due to its limited activities in the year under review, did not consume more than 40,000kWh of energy, the Company's emissions are not disclosed for this reason.

In the future, the Company will only measure the impact of its direct activities, as the full impact of the entire supply chain of its suppliers cannot be measured practically.

Financial Instruments

The Company has exposure to credit risk, liquidity risk and market risk. Note 21 presents information about the Company's exposure to these risks, along with the Company's objectives, processes and policies for managing the risks.

Events after the reporting period (see Note 24)

There have been no material events since the reporting date which have a material impact on an understanding of these financial statements.

Directors' Indemnity Provisions

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

Going concern

The following represents key financial metrics of the Group.

- At year-end, the consolidated statement of financial position presents Current Assets totaling $1.2 million. This included cash of $440,000 and trade receivables of $690,000.
- Total liabilities at year-end were $2.1 million, with 70% of the balance being cash advances from the founder and CEO for working capital purposes and the remainder being trade and other payables of $600,000.
- At 31 December, 2022, the Group had a $10.4 million backlog (representing contracts in progress), of which $5.9 million is expected to be realized in 2023.
- The Company has available net operating loss carryforwards of $5.9 million to offset future taxes.

Since the year-end, the CEO agreed to provide a $2 million credit facility not due until June 2024, leaving the Company $680,000 from which to further draw as of the date of this report. The year-end receivables of $690,000 were all collected in Q1 2023. The Company is on course for its revenue projections of at least 100% YoY growth, out of its $10.4 million backlog, whilst reducing operating expenses by 50% resulting in estimated break-even EBITDA and finance within the bounds or organic cash flow and current financing facilities.

These above points mean the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements. Further details are given in Note 2.3.

Auditors

The Board appointed PKF Littlejohn LLP as auditors of the Company on 21 March 2019 and thus this is their fourth period of appointment. They have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

Donations

The Company made no political donations during the current and prior periods.

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

The Directors are responsible for preparing this 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 Company and the financial performance and cash flows of the Company for that period.

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 accounting 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.

Directors' Report continued

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 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 Groups'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 IASo), give a true and fair view of the assets, liabilities, financial position and profit 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

Rory Heier
Non-Executive Director

11 July 2023

Corporate Governance Report

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 to the requirements of the UK Code of Corporate Governance published in July 2018 (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. However, the Directors will be looking to enhance the number of independent Directors in due course.
- 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 is interested in ordinary shares in the Company and cannot therefore be considered fully independent under the Code. However, the Non-executive Director is considered to be independent in character and judgement and 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 above, 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 our 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 on pages 12 to 14, 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 following completion of both the listing and the subsequent transaction. The Board met regularly throughout the year, and since, to discuss key issues and to monitor the overall performance of the Group. At its current stage of development, the Board considers all matters, such as Remuneration, Audit and Nominations as a whole. The Directors will actively seek to expand Board membership to provide additional levels of corporate governance procedures at the relevant opportunity.

Corporate Governance Report continued

Audit Committee and Financial reporting

The Audit Committee comprises Rory Heier (Chair) and John Herring (newly appointed Executive Chairman), each of whom have recent and relevant financial experience. The Audit Committee meets at least two times a year at the appropriate times in the reporting and audit cycle. 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 recognizes the weaknesses in the financial systems as outlined in the 31 December 2022 audit report and will work with the auditors, the Board, the Directors, and management to address and resolve the issues contained in the 2022 audit report; in particular, on compliance with accounting policies and ensuring that an improved system of internal financial control is implemented. Note the ultimate responsibility for reviewing and approving the annual report and accounts 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

The Board plans to meet with the auditor later on in the year to consider the internal procedures, controls, and other matters raised by the auditor. 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 year PKF provided reporting accountant services in relation to the audit of the Historical Financial Information as part of the RTO transaction to acquire Narf US, as well as providing an informal review of the 30 June 2022 interim consolidated financial statements. Details of the total fees paid to the auditors are set out in Note 4 to the accounts.

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 auditor. PKF Littlejohn LLP have been in their role as auditors for four years, providing standard external auditing services for the periods ended 31 March 2020, 31 December 2020, 31 December 2021 and 31 December 2022.

Remuneration committee

The Remuneration Committee consists of Rory Heier (Chair) and John Herring. The Remuneration Committee meets at least twice a year. 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), Steve Bassi and Rory Heier. 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) 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.

Independent Auditor's Report

To the Members of Narf Industries Plc

Disclaimer of opinion

We were engaged to audit the financial statements of Narf Industries Plc (the 'parent company') and its subsidiaries ("the group") for the year ended 31 December 2022 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Parent Company Statement of Financial Position, the Consolidated Statement of Cashflows, the Parent Company Statement of Cashflows, the Consolidated Statement of Changes in Equity, the Parent Company Statement of Changes in Equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

We do not express an opinion on the accompanying financial statements of the group and the parent company. Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

We identified weaknesses in management's internal processes and controls which meant that proper accounting records were not maintained by management. Given the potential wider consequences of this on our audit, we sought to extend our procedures. However, we were unable to complete our audit procedures as management was unable to provide sufficient and appropriate audit evidence in response to our extended testing requests. For this reason, we are unable to form an opinion on the reasonableness of the balances presented in the financial statements and the related note disclosures.

Management acquired two subsidiaries in one transaction during the year and in relation to the acquisition, we were unable to validate the opening balances. The financials of the acquired subsidiaries for the period ending 31 December 2021 were unaudited. Our audit opinion on the financial statements for the year ended 31 December 2022 is also disclaimed due to the inability to gain sufficient and appropriate audit evidence in respect of the opening balances of these subsidiaries.

Other matter

The financial statements of the two acquired subsidiaries for the year ended 31 December 2021 were not audited and as such, the comparatives of the consolidated primary statements within these financial statements are unaudited.

Our application of materiality

The scope of our audit was influenced by our application of materiality. The quantitative and qualitative thresholds for materiality determine the scope of our audit and the nature, timing, and extent of our audit procedures. Materiality for the consolidated financial statements was set as $76,000 based upon loss before tax. Materiality has been based upon loss before tax due to the value and significance of revenue, cost of sales and administrative expenses in the year Performance materiality and the triviality threshold for the consolidated financial statements was set at $53,200 and $3,800 respectively due to our accumulated knowledge of the group, the number of significant risks identified and their assessed risk.

Materiality for the parent company financial statements as a whole was set as $66,000 (2021: £99,000). This was calculated based upon the parent company's share of the group's loss before tax (2021: net assets) due the focus in the parent company on reducing costs and funding the subsidiaries operations. Performance materiality and triviality threshold for the parent company was set at $46,200 (2021: £69,300) and $3,300 (2021: £4,950) respectively due to the assessed risk and our accumulated knowledge of the parent company.

We also agreed to report to the Audit Committee any other differences below that triviality threshold that we believe warranted reporting on qualitative grounds.

Our approach to the audit

In designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular we looked at areas involving significant accounting estimates and judgements by the directors and considered future events that are inherently uncertain, such as revenue recognition and the recoverable value of the investment in subsidiaries and intangible assets. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

A full scope audit was performed on the complete financial information of the three components of the group. The three components are based on geographical location being the United Kingdom, the United States of America and Puerto Rico.

We audited the ultimate parent company, situated in the United Kingdom, and the two other reporting components. All audit work was conducted in the United Kingdom with regular interaction with the entity during all stage of the audit. However, as referenced in the Basis for disclaimer of opinion section of our audit report, we were unable to gain sufficient and appropriate audit evidence and therefore are unable to give an opinion on the financial statements.

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 addition to the matter described in the Basis for disclaimer of opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our scope addressed this matter
Revenue recognition	
The group recognised revenues totaling $2,547k (Note 3) for the year ended 31 December 2022. The revenue recognised in the year within the group relates to contracts entered into with a small number of customers. These contracts include a significant number of performance obligations and are of significant value. As such, there is a risk that the revenue recognised in the year in respect of these contracts may be materially incomplete or overstated as it has not been recognised correctly in accordance with IFRS 15 and the performance obligations met during the year. Furthermore, revenue may be materially misstated due to cut-off errors as significant judgements may be required to be made where milestones have not been fully met by the year-end.	Our work in this area included but was not limited to: • Obtaining an understanding of the information system and related controls relevant to each material income stream; • Evaluating the appropriateness of the information system and the effectiveness of the design and implementation of the related controls; • Obtaining each contract that was active in the year, reviewing management's revenue recognition accounting policy and assessing whether this is in accordance with IFRS 15; • For each contract obtained, reviewing the contract, and ascertaining whether the performance obligations were met in the year; and • Ensuring that the revenue recognised in the year was accurate and complete including whether revenue had been appropriately deferred and/or accrued. Sufficient and appropriate audit evidence could not be obtained in respect of the revenue and therefore, as noted in the Basis for disclaimer of opinion section, we are unable form an opinion on the reasonableness of the revenue balances presented in the financial statements and supporting disclosure notes.

Independent Auditor's Report continued

Key Audit Matter	How our scope addressed this matter
Business combinations accounting treatment and disclosure	
During the year, the parent company acquired two entities, Narf Industries LLC and Narf Industries PR LLC, through the issuance of shares as well as cash consideration. The directors have assessed these acquisitions to fall outside the scope of IFRS 3 as they do not believe that Narf Industries Plc meets the definition of a business per IFRS 3 (Notes 2.16 and 8). The treatment and disclosure of business combinations during the year are a significant risk area due to the complexity of the accounting for such acquisitions, the judgement required to be made by management in assessing the accounting treatment thereon as the acquisitions falls outside the scope of IFRS 3 and the value of the consideration paid for the two subsidiaries.	Our work in this area included but was not limited: • Obtaining the agreements in respect of the business combination transaction and ascertaining the key terms of the transaction; • Assessing the accounting treatment of the acquisitions and management's justifications; • Obtaining management's acquisition workings and ensuring that they have correctly valued the investment in the subsidiaries, the net assets of the parent company at acquisition, the reverse takeover share-based payment charge and the reverse acquisition reserve; • Ensuring that management have correctly consolidated the subsidiaries' results for 2022 and that the comparatives in the group primary statements represent the subsidiaries combined results and financial position; and • Ensuring disclosures in the financial statements are in line with UK-adopted IAS.
Carrying value of investment in subsidiaries	
As noted above, during the year the parent company acquired two entities during the period and the carrying value of the investments in these subsidiaries as at 31 December 2022 was $25,600k (Note 12). 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 (Note 2.16) when assessing the recoverable value of the investment in subsidiaries and whether it is impaired.	Our work in this area included but was not limited: • Obtaining and reviewing management's impairment assessment in respect of the investment in subsidiaries and supporting calculations; and • Ascertaining and challenging management's key assumptions and inputs.

Key Audit Matter	How our scope addressed this matter
Carrying value of capitalised development costs	
As at 31 December 2022, the carrying value of capitalised development costs at group level totalled $2,697k (Note 9). Given the value of the balance, the estimation required when conducting impairment reviews and the judgement required when capitalising costs (Note 2.16), there is a risk that capitalised development costs may be materially misstated as costs have been inappropriately capitalised and/or the asset is not fully recoverable.	Our work in this area included but was not limited: • Obtaining the directors' assessment of impairment and reviewing and challenging the key estimates and judgements used therein; and • Reviewing disclosures in the financial statements to ensure that they are in line with IAS 38. Sufficient and appropriate audit evidence could not be obtained in respect of the carrying value of intangible assets and therefore, as noted in the Basis for disclaimer of opinion section, we were unable to form an opinion on the reasonableness of the capitalised development costs balances presented in the financial statements and supporting disclosure notes.

Other information

The other information comprises the information included in the strategic and directors' report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the strategic and directors' reports. Our opinion on the group and parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the Basis for disclaimer of opinion section of our report, we have concluded that a material misstatement of the other information exists.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have been unable to form an opinion, whether based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

Notwithstanding our disclaimer of an opinion on the financial statements, in the light of the knowledge and understanding of the group and parent company and its environment obtained in the course of the audit performed subject to the pervasive limitation described above, we have not identified material misstatements in the strategic report or the directors' report.

Arising from the limitation of our work 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 by the parent company.

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 and the part of the directors' remuneration report to be audited 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 Statement of Directors Responsibilities, the directors are responsible for the preparation of the Group and Parent Company 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 Group and Parent Company financial statements, the directors are responsible for assessing the Group's and 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 and parent company or to cease operations, or have no realistic alternative but to do so.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the group and parent company as well as the sector in which they operate to identify laws and` regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, industry research and our cumulative audit knowledge and experience of the sector.
- We determined the principal laws and regulations currently relevant to the group and parent company in this regard to be those arising from UK Company Law, rules applicable to issuers on the LSE Standard List Main Market, including the FCA Listing Rules and the Disclosure Guidance and Transparency Rules.
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the group and parent company with those laws and regulations. These procedures included, but were not limited to:
  - Discussions with management regarding compliance with laws and regulations by the group and parent company;
  - Review of board minutes; and
  - Review of regulatory news announcements made throughout and post year-end.
- We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, that there was potential for management bias in relation to revenue recognition, the recoverable values assigned to the investment in subsidiaries and the intangible assets. We sought to address these risks by challenging the assumptions and judgements made by management when auditing these significant accounting estimates but were not able to conclude thereof (see the Key audit matters section of our report).

- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the group's and parent company's financial statements in accordance with ISAs (UK) and to issue an auditor's report.

However, because of the matters described in the Basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the group and parent company 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 public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other matters which we are required to address

We were appointed by the Audit Committee on 21 March 2019 to audit the financial statements for the period ending 31 March 2020 and subsequent financial periods. Our total uninterrupted period of engagement is 3 periods, covering the periods ending 31 March 2020, 31 December 2021 and 31 December 2022.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group and parent company and we remain independent of the group and parent company in conducting our audit.

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.

Joseph Archer (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Registered Auditor

15 Westferry Circus
Canary Wharf
London E14 4HD

Consolidated Statement of Comprehensive Income

For the year to 31 December 2022

	Notes	Year ended 31 December 2022 US$	(Unaudited) Year ended 31 December 2021 US$
Contract Revenue	3	**2,547,125**	1,939,516
Cost of Sales		**(1,828,887)**	(678,831)
Gross profit		**718,238**	1,260,685
Administrative expenses		**(3,303,583)**	(2,133,711)
Loss before depreciation and software license amortisation, share based payment expenses, interest and taxes	4	**(2,585,345)**	(873,026)
Depreciation and software license amortisation		**(329,999)**	(47,379)
Other share based payment expense	18	**(147,580)**	–
Operating loss		**(3,062,924)**	(920,405)
RTO share based payment expense	8	**(15,355,123)**	–
Interest receivable and other finance income		**3,376**	150,593
Finance costs		**(3,197)**	(767)
Loss on ordinary activities before taxation		**(18,417,868)**	(770,579)
Tax on loss on ordinary activities	6	**(7,839)**	(72,090)
Loss and total comprehensive income for the period attributable to the owners of the company		**(18,425,707)**	(842,669)
Earnings per share (basic and diluted) attributable to the equity holders (cents)	7	**(1.3)**	(0.1)

The comparative information is presented for Narf US, the accounting acquirers (see note 2.2)

The above results relate entirely to continuing activities.

The accompanying notes on pages 33 to 58 form part of these financial statements.

Consolidated Statement of Financial Position

For the year to 31 December 2022

	Notes	As at 31 December 2022 US$	(Unaudited) As at 31 December 2021 US$
Fixed Assets			
Intangible assets	9	**2,697,076**	1,303,351
Tangible assets	11	**15,990**	49,519
		2,713,066	1,352,870
Current Assets			
Trade and other receivables	13	**756,481**	48,074
Cash and cash equivalents	14	**442,751**	446,879
		1,199,232	494,953
Total Assets		**3,912,298**	1,847,823
Current Liabilities			
Trade and other payables	15	**595,962**	193,984
Non-Current Liabilities			
Loans	16	**1,513,727**	832,312
Total Liabilities		**2,109,689**	1,026,296
Net Assets		**1,802,609**	821,527
Equity			
Share capital	17	**204,012**	–*
Share premium	17	**35,074,061**	–
Reverse acquisition reserve	8	**(16,747,959)**	–
Foreign exchange reserve		**(43,411)**	–
Share based payment reserve	18	**229,185**	
Retained deficit		**(16,913,279)**	–
Members' equity		**–**	821,527
Total Equity		**1,802,609**	821,527

* – The comparative numbers for 2021 are that of the Narf US subsidiaries and as they are LLCs do not issue shares.

The comparative information is presented for the two subsidiaries Narf Industries LLC and Narf Industries PR LLC (together "Narf US"), the accounting acquirers (see note 2.2).

The accompanying notes on pages 33 to 58 form part of these financial statements.

These financial statements were approved by the Board of Directors on 11 July 2023 and were signed on its behalf by:

Rory Heier
Non-Executive Director

Company number: 11701224

Parent Company Statement of Financial Position

For the year to 31 December 2022

	Notes	As at 31 December 2022 US$	As at 31 December 2021 (Restated)* US$	As at 31 December 2020 (Restated)* US$
Fixed Assets				
Intangible assets	10	**1,620,663**	–	–
Investment in subsidiary undertakings	12	**25,600,000**	–	–
		27,220,663	–	–
Current Assets				
Trade and other receivables	13	**67,364**	2,007,220	222,752
Cash and cash equivalents	14	**210,282**	274,982	1,703,330
		277,646	2,282,202	1,926,082
Total Assets		**27,498,309**	2,282,202	1,926,082
Current Liabilities				
Trade and other payables	15	**313,829**	311,078	493,650
Total Liabilities		**313,829**	311,078	493,650
Net Assets		**27,184,480**	1,971,124	1,432,432
Equity				
Share capital	17	**204,012**	84,293	70,796
Share premium	17	**35,074,061**	7,447,611	4,871,168
Share based payment reserve	18	**229,185**	32,578	32,578
Foreign exchange reserve		**(43,411)**	(17,767)	–
Retained deficit		**(8,279,367)**	(5,575,591)	(3,542,110)
Total Equity		**27,184,480**	1,971,124	1,432,432

* – The 2021 and 2020 comparative figures have been restated as the presentational currency has been changed from GBP £ to USD $.

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 year was $2,714,845 (2021: $1,963,034).

The accompanying notes on pages 33 to 58 form part of these financial statements.

These financial statements were approved by the Board of Directors on 11 July 2023 and were signed on its behalf by:

Rory Heier
Non-Executive Director

Company number: 11701224

Consolidated Statement of Cash Flows

For the year to 31 December 2022

	Notes	Year ended 31 December 2022 US$	(unaudited) Year ended 31 December 2021 US$
Cash flow from operating activities			
Loss on ordinary activities before taxation		**(18,417,868)**	(770,579)
Adjustments for:			
Depreciation and software license amortisation		**329,999**	47,379
Software development amortisation		**226,938**	269,658
RTO and other share based payment expenses		**15,502,703**	–
(Increase)/decrease in trade and other receivables		**(701,723)**	105,730
Increase in trade and other payables		**67,140**	(76,948)
Net cash outflow from operating activities		**(2,992,811)**	(424,760)
Cashflow from investing activities			
Net amounts paid to former members to acquire control		**(3,615,433)**	–
Licence fee expenditure		**(500,000)**	–
Net cashflow from investing activities		**(4,115,433)**	–
Cashflow from financing activities			
Proceeds on the issue of shares		**7,650,881**	–
Costs related to share issues		**(1,145,814)**	–
Loan from former member		**702,000**	866,891
Loan repayment		**(20,292)**	(20,003)
Drawings by former members		**(75,000)**	(360,000)
Net interest received/(paid)		**180**	(766)
Net cash inflow from financing activities		**7,111,955**	486,122
Taxation paid		**(7,839)**	(72,090)
Net decrease in cash and cash equivalents		**(4,128)**	(10,728)
Cash and cash equivalents at the beginning of the period		**446,879**	457,607
Cash and cash equivalents at the end of the period		**442,751**	446,879
Supplemental information non-cash transactions:			
Shares issued to former members upon acquisition in lieu of cash consideration		**18,048,690**	–

The comparative information is presented for Narf US, the accounting acquirers (see note 2.2)

The accompanying notes on pages 33 to 58 form part of these financial statements.

Parent Company Statement of Cash Flows

For the year to 31 December 2022

	Notes	Year ended 31 December 2022 US$	Year ended 31 December 2021 (Restated) US$*
Cash flow from operating activities			
Loss for the period		**(2,714,845)**	(1,963,034)
Adjustments for:			
Amortisation of intangible assets		**296,470**	–
(Increase)/decrease in trade and other receivables		**(63,147)**	87,238
Increase/(decrease) in trade and other payables		**37,330**	(182,571)
Share based payments		**128,471**	–
Net cash outflow from operating activities		**(2,315,721)**	(2,058,367)
Cash flow from investing activities			
Decrease/(Increase) in prepaid consideration	9	**2,000,000**	(2,000,000)
Cash invested to acquire license		**(500,000)**	–
Cash amounts paid to acquire subsidiary undertaking		**(5,754,046)**	–
Net cash outflow from investing activities		**(4,254,046)**	(2,000,000)
Cashflow from financing activities			
Proceeds on the issue of shares		**7,650,881**	2,888,777
Costs related to share issues		**(1,145,814)**	(258,758)
Net cash inflow from financing activities		**6,505,067**	2,630,019
Net decrease in cash and cash equivalents		**(64,700)**	(1,428,348)
Cash and cash equivalents at the beginning of the period		**274,982**	1,703,330
Cash and cash equivalents at the end of the period	14	**210,282**	274,982

* – The 2021 comparative figures have been restated as the presentational currency has been changed from GBP £ to USD $.

The accompanying notes on pages 33 to 58 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year to 31 December 2022

	Share Capital US$	Share Premium US$	FX reserve US$	Share based payment reserve US$	Reverse Acquisition reserve US$	Retained Deficit US$	Members' Equity US$	Total US$
Balance at 1 January 2021	–	–	–	–	–	–	2,024,196	2,024,196
Total comprehensive loss for the period	–	–	–	–	–	–	(842,669)	(842,669)
Drawings by former members	–	–	–	–		–	(360,000)	(360,000)
Balance at 31 December 2021	**–**	**–**	**–**	**–**	**–**	**–**	**821,527**	**821,527**
Total comprehensive loss for the period	–	–	–	–	–	(18,425,707)	–	(18,425,707)
Drawings by former members	–	–	–	–	–	–	(75,000)	(75,000)
Reclassification of members' at acquisition	–	–	–	–	–	746,527	(746,527)	–
Recognition of plc equity at acquisition date	112,346	15,804,717	(1,840,675)	–	3,097,995	765,901	–	17,940,284
Issue of shares for acquisition	84,330	17,964,360	1,797,264	–	(19,845,954)	–	–	–
Share based payments	7,336	1,419,577	–	–	–	–	–	1,426,913
Issue of warrants and options	–	(114,593)	–	229,185	–	–	–	114,592
Balance at 31 December 2022	**204,012**	**35,074,061**	**(43,411)**	**229,185**	**(16,747,959)**	**(16,913,279)**	**–**	**1,802,609**

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

The accompanying notes on pages 33 to 58 form part of these financial statements.

Parent Company Statement of Changes in Equity

For the year to 31 December 2022

Restated in US$	Share Capital US$	Share Premium US$	Share based payment reserve US$	FX reserve US$	Retained Deficit US$	Total US$
Balance at April 2020	41,811	2,371,532	32,578	–	(1,920,657)	525,264
Total comprehensive loss for the period	–	–	–	–	(1,621,453)	(1,621,453)
Shares issued during the period	28,985	2,786,966	–	–	–	2,815,951
Costs related to share issues	–	(491,136)	–	–	–	(491,136)
Balance at 31 December 2020	**70,796**	**4,667,362**	**32,578**		**(3,542,110)**	**1,228,626**
Total comprehensive loss for the year	–	–	–	–	(1,963,034)	(1,963,034)
Shares issued during the year	13,497	2,888,777	–	–	–	2,902,274
Costs related to share issues	–	(258,758)	–	–	–	(258,758)
FX reserve arising on conversion to reporting currency	–	150,230	–	(17,767)	(70,447)	62,016
Balance at 31 December 2021	**84,293**	**7,447,611**	**32,578**	**(17,767)**	**(5,575,591)**	**1,971,124**
Total comprehensive loss for the year	–	–	–	–	(2,714,845)	(2,714,845)
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	–	(114,593)	229,185	–	–	114,592
FX reserve arising on conversion to reporting currency	(8,109)	2,995,551	–	(2,998,511)	11,069	–
Balance at 31 December 2022	**204,012**	**35,074,061**	**229,185**	**(43,411)**	**(8,279,367)**	**27,184,480**

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 (see note 8) – 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 33 to 58 form part of these financial statements.

Notes to the Financial Statements

For the year to 31 December 2022

1. General Information

The principal activity of Narf Industries Plc (the "Company") and its subsidiaries (the "Group'') is to develop and market software aimed at enhancing the cybersecurity measures of its clients. The subsidiaries consist of Narf Industries LLC, a California limited liability company and Narf Industries PR, LLC, a Puerto Rican limited liability company ("Narf US" or the "Operating Group"). The Company is the parent and sole member of both 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. They have been prepared showing the consolidated financial statements as a continuation of the Narf US subsidiaries. As such, the comparatives of the consolidated primary statements represent the combined results and assets, liabilities and equity of the Narf US subsidiaries.

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 acquisition last year. The comparative information (for year ended 31 December 2021) shows only the unaudited financial information of Narf US.

The comparatives within the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated cashflow statement and the consolidated statement of changes in equity represent the combined numbers of the legal subsidiaries and accounting acquirers, Narf Industries LLC and Narf Industries PR LLC. In the consolidated statement of financial position, the share capital and premium as at 31 December 2022 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 2021 represents the results of Narf US only and 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.

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 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.

2. Accounting Policies continued

They are deconsolidated from the date that control ceases. Please refer to note 8 for information on the consolidation of Narf Industries plc and the application of the reverse acquisition accounting principles.

The Group applies the acquisition method to account for business combinations that fall within the scope of IFRS 3. For commentary on how the acquisitions of Narf Industries US LLC and Narf Industries PR LLC, which falls outside the scope of IFRS 3, was accounted for, see note 8 below.

Acquisition related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised either in profit or loss or as a charge to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

On 15 March 2022, the Company acquired Narf Industries US LLC and Narf Industries PR LLC via a reverse takeover which resulted in the Company becoming the ultimate holding company of the Group. The transactions were accounted for as reverse acquisitions since they did not meet the definition of a business combination under IFRS 3. In accordance with IFRS 2, a share based payment expense equal to the deemed cost of the acquisition less the fair value of the net assets of the Company at acquisition was recognised. The comparatives within the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated cashflow statement and the consolidated statement of changes in equity represent the combined numbers of the legal subsidiaries and accounting acquirers, Narf Industries US LLC and Narf Industries PR LLC. In the consolidated statement of financial position, the share capital and premium as at 31 December 2022 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 2021 represents the results of Narf US and the results of the Narf US subsidiaries and the results of the Company for the period from acquisition date (15 March 2022) to the year-end. For more details of the key terms of the reverse takeover and a breakdown of what the reverse acquisition reserve as at 31 December 2022 comprises of, see note 8.

2.3 Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future. In making this determination, the Group considered (in part):

- the Group's $10.4 million backlog at 31 December, 2022 (representing contracts in progress at 31 December, 2022, see Note 3),
- the timing of near-term and future backlog receipts based on contract payment terms,
- the timing of receipt of the Group's Accounts Receivable at 31 December, 2022 of $690,000, see Notes 3 and 13,
- $680,000 available on a $2 million credit facility with an officer and shareholder, see Notes 16 and 23,
- future Group expense projections, including anticipated growth of the Group's operations along with anticipated reductions in Company operating expenses,
- the sales pipeline, and
- the availability of a cumulative net operating loss carryforward of $5.9 million at 31 December, 2022, see Note 6.

2. Accounting Policies continued

The Group is confident then that based on current cash position and the cash surplus to be generated from the operations over the foreseeable future, along with the $680,000 available under the credit facility, they will have sufficient liquid resources to meet its current and future liabilities as they fall due and that the Group is a going concern.

2.4 Foreign currency translation

The financial information is presented in US Dollars which is the Group's presentational currency as substantially all of the Group's operational activities are undertaken in US Dollars. The Company's functional currency is Sterling and the prior year Parent Company numbers have been restated from Sterling to US Dollars. 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.

2.5 Cash and cash equivalents

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

2.6 Intangible assets

Intangible assets comprise non-physical assets comprising amounts spent on developing software which facilitates the Group generating future sales along with the cost of acquiring the licensing rights in relation to the commercialisation of TIRG that can be determined with reasonable certainty. Royalty payments due to the licensor upon future sales cannot be determined with any certainty and accordingly has not been included in cost.

Regarding software development costs, this intangible represent amounts capitalized related to SaaS products available for subscription. In accordance with IAS 38, the Company expenses research and development costs up until the SaaS product enters into the application development stage at which time costs are capitalized through the point the SaaS product is ready for release at which point amortization begins. The application development stage includes:

(a) the design of the development path, including the configuration and interfaces of the software,

(b) coding,

(c) installation to hardware, and

(d) testing, including parallel processing.

Subsequent costs for data conversion, training, enhancements and bug fixes are expensed as incurred.

Intangible fixed assets are being amortised on the following basis:

Software development costs	17.5% using the reducing balance basis (indefinite life)
License	Over 5 years straight-line (finite life)

2. Accounting Policies continued

The useful life of the license is based on the term of that license agreement, whilst the amortisation method for computer software is intended to reflect the diminishing value of that software over time as alternative solutions are developed by the Group or third parties.

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 per 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. No impairment provision has been considered necessary.

2.7 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

2.8 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.

2.9 Trade and other payables

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

2.10 Financial instruments

Initial recognition

A financial asset or financial liability is recognised in the statement of financial position of the Company when it arises or when the Company becomes part of the contractual terms of the financial instrument.

Classification

Financial assets at amortised cost

The Company 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.

2. Accounting Policies continued

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 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.

2.11 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 warrant reserve, which is referred to as "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 Warrant reserve includes share warrants issued to shareholders in connection with share capital issues that 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 other currencies into the functional currency. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognised in profit or loss. All foreign exchange gains and losses are presented in the statement of profit or loss on a net basis, within 'other gains/(losses)'.

Members equity represents the combined interests of each member of Narf US and Narf PR prior to the RTO acquisition.

2. Accounting Policies continued

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 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 acquisition is 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.

2.12 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 profit or loss in the period in which they arise.

2.13 Earnings per share

Basic earnings per share is calculated by dividing:

The loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.

By weighting the average number of ordinary shares outstanding during the financial period.

2.14 Share-based payments

The Company has issued options to one of the Directors, a former director and warrants to one of the initial investors and to a major shareholder.

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 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.

As detailed in note 8 the difference between the fair value of the net assets of the Company acquired on the reverse take over and the market value of the shares in issue on that date has been treated as a share based payment representing the cost of Narf US obtaining a listing.

2. Accounting Policies continued

2.15 Taxation

The Company is subject to taxes in the United Kingdom tax jurisdiction. Substantially all revenue related operations are conducted by Narf USA and Narf PR. Narf USA is a limited liability company taxed as a partnership for the US federal tax jurisdiction. As partnership, Narf USA is not subject to US federal income tax and the federal tax effect of Narf USA's activities accrue to the Company, the sole member. Narf USA is also subject to a nominal California franchise tax. Narf PR is subject to the Government of the Commonwealth of Puerto income tax rate of 4%. Differences between Narf PR's taxable income per IFRS and the basis used for the Government of the Commonwealth of Puerto Rico are not material and, accordingly, no deferred tax assets or liabilities related to Puerto Rico are reflected in the accompanying consolidated financial statements.

Taxable losses of the Company from its activities in the United Kingdom and that inure to the Company from Narf USA as its sole partner differ from losses for the 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 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 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 Company intends to settle its current tax assets and liabilities on a net basis.

Notes to the Financial Statements continued

2. Accounting Policies continued

2.16 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 Company was granted certain licenses during the year relating to the commercialisation of cybersecurity software which is key to the 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 have 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 9.

Acquisition Accounting

The Directors have made a judgement that the acquisition of Narf US constituted a reverse takeover, and that it falls outside the scope of IFRS 3 (see Note 8). Accordingly, no goodwill or other intangible assets have been recognised on acquisition. The Directors have recognised a share-based payment equal to the fair value of the shares in issue immediately prior to the acquisition less the net assets of the parent Company on the date of acquisition. 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. The Directors have undertaken an impairment review to assess whether the investment should be written down. This review involves judgements about potential future cash flows which are highly subjective and subject to matters outside the control of the Directors.

Cost of Sales

Cost of sales primarily includes expenses associated with the amortisation of capitalised software development costs, personnel and contractors. The amount of personnel costs to allocate is determined by the respective project manager of each contract in progress during a given year. The project managers allocate a percentage of gross wage costs of each professional working on a project upon which a factor for payroll taxes and benefits is added. In addition, administrative costs are reviewed and costs directly related to servicing contracts are added.

Software Development Intangibles

Judgement is required when determining when a SaaS product under development enters into the application development stage, see 2.6. The Directors have undertaken an impairment review to assess whether the amount capitalised for development costs should be written down. This review involves judgements about potential future cash flows, which are highly subjective and subject to matters outside the control of the Directors. Further details are provided in Note 9.

2. Accounting Policies continued

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

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. As detailed in note 8 the difference between the fair value of the net assets of the Company acquired on the reverse take over (RTO") and the market value of the shares in issue on that date has been treated as a share-based payment representing the cost of Narf US obtaining a listing.

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 2022. 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
IFRS 9/IAS 39/IFRS 7/IFRS 4/IFRS 16	Interest rate benchmark reform
IAS 16	Amendments – Property Plant & Equipment
IAS37	Provisions, Contingent Liabilities and Contingent Assets

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 (and in some cases have not yet been adopted by the UK Endorsements Board):

Standard	Impact on initial application	Effective date
IAS 1	Amendments – Presentation and Classification of Liabilities as Current or Non-current	TBC
IAS 8	Amendments – Definition of Accounting Estimates	1 January 2023
IAS 1	Amendments – Disclosure of Accounting Policies	1 January 2023
IFRS 3	Amendments – Business Combinations – Conceptual Framework	1 January 2022
IFRS 17	Insurance contracts	31 December 2023

The directors are evaluating the impact that these standards will have on the consolidated financial statements of the Group and Company but it is not anticipated that they will have a material impact on the Group and Company.

2. Accounting Policies continued

2.18 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board as a whole.

The Group has no employees in the United Kingdom (bar one Non-Executive Director) and all of the current operations of the Group are in North America and thus no separate segments have been identified.

2.19 Financial Risk Management Objectives and Policies

The Company does not enter into any forward exchange rate contracts.

The main financial risks arising from the Company's activities are market risk, interest rate risk, foreign exchange risk, credit risk, liquidity risk and capital risk management. Further details on the risk disclosures can be found in Note 21.

3. Revenue

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 a contracts are performed/delivered. Significant performance obligations are defined within the Group's contracts. The Group invoices customers based on billing schedules contained within the related contracts. The Group considers trade and other receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been recorded. Costs incurred to obtain contracts are expensed as incurred and losses on contracts are recognized in the period when determined. The Group warrants that its deliverables will perform within parameters contained in the statements of work referenced in the contracts, and can measure such performance independent of the customer. Trade and other receivables are considered impaired (typically resulting from contract cancellations) and are decreased upon the determination of such impairment. No contract impairments were recorded in the years ended 31 December, 2022 and 2021.

Revenue for performance obligations is recognized as follows:

- **Professional Services:** As each performance obligation is completed and delivered, an output measurement.
- **Installation Services:** Upon delivery and installation of the contract product(s).
- **SaaS Subscriptions:** On a straight-line basis over the term of the SaaS contract period.

As performance obligations are completed and delivered, revenue is accrued in the caption Trade Accounts Receivable, which represents a conditional right to consideration. Should amounts invoiced and collected exceed completed and delivered performance, a liability would be recorded. There were no amounts invoiced and collected in excess of completed performance obligations at 31 December 2022 and 2021.

3. **Revenue** continued

Based on the above categories, disaggregated contract revenue was as follows:

	Year ended 31 December 2022 US$	(unaudited) Year ended 31 December 2021 US$
Professional services	**1,373,875**	939,513
Installations	**218,400**	170,000
SaaS subscriptions	**954,850**	830,003
Total revenue	**2,547,125**	1,939,516

Backlog represents performance obligations remaining on contracts in progress. The following table presents the Group's backlog at 31 December, 2022:

	31 December 2022 US$
Professional services	**9,375,031**
SaaS subscriptions	**1,061,042**
Total revenue backlog	**10,436,073**

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

	Year ended 31 December 2022 US$	Percent	(Unaudited) Year ended 31 December 2021 US$	Percent
US government procurement agency	**1,246,563**	**48.9%**	1,000,003	51.6%
DARPA	**1,154,939**	**45.4%**	333,966	17.2%
Dartmouth College	**–**	**0.0%**	153,059	7.9%
SRI International	**145,623**	**5.7%**	452,488	23.3%
	2,547,125	**100.0%**	1,939,516	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 a pass-through. DARPA stands for Defense Advanced Research Projects Agency, a US government research and development organisation. Dartmouth College is a pass-through entity for the US Office of Naval Research. SRI International is a US nonprofit research organisation and is a pass-through agency for DARPA.

Notes to the Financial Statements continued

4. Operating Profits

This is stated after charging:

	31 December 2022 US$	(unaudited) 31 December 2021 US$
Auditor's remuneration		
– audit of the Parent Company	**49,000**	–
– audit of subsidiary undertakings	**50,000**	–
– non-audit services		
Reporting accountant services	**12,000**	–
Informal review of interim financial statements	**1,800**	–
Amortisation of intangible assets	**512,937**	269,658
Depreciation of tangible fixed assets	**33,529**	47,379
Directors' remuneration	**827,732**	–
Other staff remuneration	**1,909,454**	1,394,472
Legal, professional and consultancy fees	**451,628**	337,135

5. Directors ad Staff Costs

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

	2022	(unaudited) 2021
Management and technical	**17**	11

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

	31 December 2022 US$	(unaudited) 31 December 2021 US$
Directors and Employees:		
Wages and salaries	**1,594,840**	1,171,663
Social security costs	**92,245**	88,115
Pension costs and other benefits	**222,369**	134,694
Director fees	**393,788**	–
Director share based payments	**58,958**	–
Director bonuses	**374,986**	–
	2,737,186	1,394,472

5. Directors ad Staff Costs continued

The average number of staff employed by the Group during the year, including Directors was 17 (2021: 11).

The remuneration and associated social security costs per Director for the year ended 31 December 2022 was all short term in nature and are as stated in the remuneration report on pages 12 to 14. A matter of note is that the chief executive officer of Narf Plc was a member of each of the Narf US entities until 15 March 2022 and received no remuneration or distribution from either entity during the years ended 31 December, 2022 and 2021.

6. Taxation

	31 December 2022 US$	(unaudited) 31 December 2021 US$
The charge for the period is made up as follows:		
Taxation on the results of Narf PR for the year	**7,839**	72,090
Deferred tax	**–**	–
Taxation charge/credit for the period	**7,839**	72,090

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:

	31 December 2022 US$	(unaudited) 31 December 2021 US$
Loss before taxation per accounts	**(18,417,868)**	(770,579)
Tax credit at the standard rate of corporation tax in the UK (19%), and Puerto Rico (4%)		
Weighted average Tax Rate – 18.96%	**(3,499,395)**	(146,410)
Overseas taxable profits	**7,839**	72,090
Impact of costs disallowed for tax purposes	**3,022,849**	146,410
Impact of unrelieved tax losses carried forward	**476,546**	–
	7,839	72,090

Estimated tax losses of $5,850,000 (FY2021: $3,500,000) are available for relief against future 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.

Notes to the Financial Statements continued

7. 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.

	31 December 2022 US$	(Unaudited) 31 December 2021 US$
Loss from continuing operations attributable to equity holders of the company	**(18,425,707)**	(842,669)
Weighted average number of ordinary shares in issue	**1,475,948,904**	588,088,644
Basic and fully diluted loss per share from continuing operations (cents)	**(1.3)**	(0.1)

As the acquired entities are LLCs treated as a partnership with no issued shares, we have assessed the EPS for 2021 by comparing the earnings of Narf US to the weighted average number of shares of the Company.

8. Reverse Acquisition

On 15 March 2022, Narf Industries plc ("Company") formerly known as Cyba plc, acquired through a combination of a share for partnership interests exchange and a set of cash payments to the acquiree companies and former partners, 100% ownership of Narf Industries US LLC and Narf Industries PR LLC ("Narf US"), whose principal activities are the development and marketing of software aimed at providing cybersecurity solutions to corporates.

Although the transaction resulted in each Narf US entity becoming wholly owned subsidiaries of the Company, the transaction constituted a reverse acquisition, as the previous owners of Narf US own a substantial majority of the Ordinary Shares of the Company and the executive management of Narf US became the executive management of Narf Industries plc.

In substance, the former owners of Narf US acquired a controlling interest in the Company and the transaction has therefore been accounted for as a reverse acquisition. As the Company's activities prior to the acquisition were purely the maintenance of the LSE listing, acquiring Narf US, seeking to acquire other cybersecurity firms and raising equity finance to provide the required funding for the operations ahead of the acquisition, it did not meet the definition of a business in accordance with IFRS 3.

Accordingly, this reverse acquisition does not constitute a business combination and was accounted for in accordance with IFRS 2 "Share-based Payments" and associated IFRIC guidance. Although the reverse acquisition is 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 and represents, in substance, the cost of acquiring an LSE listing.

The comparatives within the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated cashflow statement and the consolidated statement of changes in equity represent the combined numbers of the legal subsidiaries and accounting acquirers, Narf Industries US LLC and Narf Industries PR LLC. In the consolidated statement of financial position, the share capital and premium as at 31 December 2022 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 2021 represents the combined results of Narf US and Narf PR alone, and the 2022 consolidated statement of comprehensive income represents the result of the Group for the period.

8. Reverse Acquisition continued

On 15 March 2022, the Company issued 699.6 million Ordinary Shares and paid a further $4,166,667 to acquire all of the partnership interests in Narf US. Based on a share price of 2p per share (the price at which those shares issued as part of the placing that day were issued at) the Company's investment in Narf US was valued at $25.6 million, inclusive of the $2 million prepaid consideration and prior to the share based payment charges for the year recognised in the subsidiaries – see note 12 for further commentary regarding the carrying value of the investment in the subsidiary as at 31 December 2022.

As the legal subsidiaries, Narf US, were treated on consolidation as the accounting acquirer and the legal Parent Company, Narf Industries plc, was treated as the accounting subsidiary, the fair value of the shares acquired was $21.9 million based on a share price of 1.8p and 932.0 million Ordinary Shares in issue immediately prior to the reverse acquisition. According to IFRS 2 the value of the share-based payment is calculated as the difference between the deemed cost and the fair value of the net assets as at the acquisition date which are as follows:

	US$
Deemed cost	21,858,204
Trade and other receivables	7,818,621
Cash and cash equivalents	138,613
Trade and other payables	(1,454,153)
Net assets acquired	6,503,081
RTO share based payment expense	**15,355,123**

The difference between the deemed cost ($21.9m) and the fair value of the net assets assumed per above of $6.5m resulted in $15,355,123 being expensed within "reverse acquisition expenses" in accordance with IFRS 2, Share Based Payments, reflecting the economic cost to Narf US's owners of acquiring a quoted entity.

The reverse acquisition reserve which arose from the reverse takeover is made up as follows:

	US$
Pre-acquisition entity (a)	(6,503,082)
Narf US capital at acquisition (b)	0
Investment in Narf US (c)	(25,600,000)
Reverse acquisition expense (d)	15,355,123
Reverse acquisition reserve	**(16,747,959)**

(a) Recognition of preacquisition equity of Narf Industries plc at 15 March 2022

(b) Narf US entities had not issued any equity

(c) The value of the shares issued, cash paid and advances made in exchange for 100% ownership of Narf US. The above entry is required to eliminate the balance sheet impact of the transaction.

(d) The share based payment expense under IFRS 2 as per calculation above.

9. Intangible Assets – Group

	Licenses US$	Software Development Costs US$	Total US$
Cost			
At 1 January 2022	–	2,094,027	2,094,027
Additions	1,906,662	–	1,906,662
At 31 December 2022	**1,906,662**	**2,094,027**	**4,000,689**
Amortisation/Impairment			
At 1 January 2022	–	790,676	790,676
Charge for the period	285,999	226,938	512,937
At 31 December 2022	**285,999**	**1,017,614**	**1,303,613**
Net book amount			
At 31 December 2022	**1,620,663**	**1,076,413**	**2,697,076**
At 31 December 2021 (unaudited)	–	1,303,351	1,303,351

Amortisation of licenses is charged to the Income statement in the period to which it relates and disclosed within "Depreciation and software license amortisation". Amortisation of software development costs are included within "Cost of sales".

10. Intangible Assets – Parent Company

	Licenses US$	Total US$
Cost		
At 1 January 2022	–	–
Additions	1,906,662	1,906,662
At 31 December 2022	**1,906,662**	**1,906,662**
Amortisation/Impairment		
At 1 January 2022	–	–
Charge for the period	285,999	285,999
At 31 December 2022	**285,999**	**285,999**
Net book amount		
At 31 December 2022	**1,620,663**	**1,620,663**
A 31 December 2021	–	–

11. Tangible Assets – Group

	Cars US$	Leasehold Improvements US$	Furniture & Equipment US$	Total US$
Cost				
At 1 January 2022	147,098	25,425	222,723	395,246
Additions	–	–	–	–
At 31 December 2022	**147,098**	**25,425**	**222,723**	**395,246**
Amortisation/Impairment				
At 1 January 2022	116,714	6,290	222,723	345,727
Charge for the period	30,384	3,145	–	33,529
At 31 December 2022	**147,098**	**9,435**	**222,723**	**379,256**
Net book amount				
At 31 December 2022	**–**	**15,990**	**–**	**15,990**
At 31 December 2021 (unaudited)	30,384	19,135	–	49,519

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".

12. Investments in Subsidiary Undertakings – Parent Company

	Company US$
Acquisition of member interests in subsidiary undertakings:	
Opening balance	–
Prepaid consideration (Note 13)	2,000,000
Additional cash consideration	4,166,667
Shares issued to former members	19,433,333
Closing balance	**25,600,000**

Investments in subsidiary undertakings are valued at cost which is the fair valuation of consideration paid in cash and the Company's shares.

Notes to the Financial Statements continued

12. Investments in Subsidiary Undertakings – Parent Company continued

Principal subsidiaries

The group's subsidiaries at 31 December 2022 are set out below. Both 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

				Ownership	
Name	Country of Incorporation	Registered office	Principal Activity	2022	2021
Narf Industries LLC	USA	548 Market St. #37005 San Francisco, CA 94104	Provision of security goods and services to USG and affiliated entities	**100%**	0%
Narf Industries PR LLC	Puerto Rico	1413 Avenue Ponce de León, San Juan, Puerto Rico 00907	Provision of security goods and services to Non-USG entities	**100%**	0%

13. Trade and Other Receivables – Group and Parent Company

	Group		Company	
	As at 31 December 2022 US$	(Unaudited) As at 31 December 2021 US$	As at 31 December 2022 US$	As at 31 December 2021 (Restated) US$
Prepaid consideration	**–**	–	**–**	2,000,000
Accounts receivable	**688,617**	14,201	**–**	–
Prepayments and accrued income	**7,094**	33,373	**7,094**	7,220
Other receivables	**60,770**	500	**60,270**	–
	756,481	48,074	**67,364**	2,007,220

The prepaid consideration as at 31 December 2021 represented two non-refundable advances of US$1 million to each of Narf Industries LLC and Narf Industries PR LLC in accordance with heads of terms agreed between the Company and Narf whereby it was agreed, subject to legal diligence, that the Company would agree to acquire the entire equity capital of Narf. As detailed in Note 8 the acquisition of Narf was completed during the year and accordingly the prepaid consideration is part of the acquisition cost.

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

13. Trade and Other Receivables – Group and Parent Company continued

Ageing analysis

The following presents an ageing analysis of Accounts Receivable:

	As at 31 December 2022 US$	(Unaudited) As at 31 December 2021 US$
0-30 days	**640,630**	14,201
31-60 days	**47,987**	–
	688,617	14,201

The Group considers trade and other receivables to be fully collectible; accordingly, no bad debt provision or expenses have been recorded in either financial periods ending 31 December 2022 and 2021 respectively.

14. Cash and Cash Equivalents – Group and Parent Company

	Group		Company	
	31 December 2022 US$	(unaudited) 31 December 2021 US$	31 December 2022 US$	31 December 2021 (Restated) US$
Cash at bank and in hand	**442,751**	446,879	**210,282**	274,982
	442,751	446,879	**210,282**	274,982

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.

15. Trade and Other Payables – Group and Parent Company

	Group		Company	
	31 December 2022 US$	(Unaudited) 31 December 2021 US$	31 December 2022 US$	31 December 2021 (Restated) US$
Accounts payable	**100,291**	22,810	**73,593**	110,123
Other payables due within one year	**255,439**	171,174	**–**	–
Accrued expenses	**240,232**	–	**240,236**	200,955
	595,962	193,984	**313,829**	311,078

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 Note 21.

16. Creditors amounts falling due after more than one year – Group

	31 December 2022 US$	(Unaudited) 31 December 2021 US$
Loan from Director and Chief Executive Officer	**1,512,000**	810,000
Installment note on a vehicle (see Note 18)	**1,727**	22,312
	1,513,727	832,312

The Loan from Director and Chief Executive Officer represents non-interest bearing advances to the Group for working capital purposes from Steve Bassi, CEO (see Note 23). On 11 April, 2023, such advances, which then totalled $1,322,000, were converted into a $2 million credit facility due 30 June 2024 accruing simple interest daily at the US Federal short term 1 year interest rate (4.86% at 11 April, 2023) and leaving $678,000 available for further draw. 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 $750,000 at the end of any given month. No interest was accrued against amounts owed prior to 11 April 2023. As of the reporting date the balance under this credit facility was $1,170,144. 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 30 June, 2024. Should the Group and this individual decide any future excess working capital to repay this facility would be better invested in growing Group operations, the due date of 30 June, 2024 could be extended.

17. 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 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.

From 1 January 2021 to 31 December 2021 the Company issued 100,000,000 Shares at a price of £0.02 per placing share.

On 7 March 2022 the Company issued 7,500,000 Shares at a price of £0.01 per warrant share following the exercise of warrants.

On 15 March 2022 the Company issued 300,000,000 Shares at a price of £0.02 per placing share

On 16 March 2022 the Company issue 699,999,600 Shares to the former members of Narf US in exchange for 100% of the voting rights of Narf US at an equivalent price of £0.02 per share.

On 17 March 2022 the Company issued 59,856,100 Shares to SRI International in exchange for certain licensing rights at an equivalent price of £0.02 per share.

On 18 May 2022 the Company issued 1,000,000 shares to a supplier in settlement of outstanding professional fees at an equivalent price of £0.0168 per share.

17. Share Capital/Share Premium – Group and Parent Company continued

At 31 December 2022 the Company had 50 million options outstanding and 63 million warrants (see note 18)

	Number of shares on issue	Share capital (Restated) US$	Share premium (Restated) US$	Total (Restated) US$
Balance as at 1 January 2021	524,525,000	70,796	4,667,362	4,738,158
Shares issued during the year to 31 December 2021 (net of issue costs)	100,000,000	13,497	2,780,255	2,793,752
Balance as at 31 December 2021	**624,525,000**	**84,293**	**7,447,617**	**7,531,910**
Shares issued during the year to 31 December 2022 (net of issue costs)	**1,072,856,100**	**119,719**	**27,626,444**	**27,746,163**
Balance as at 31 December 2022	**1,697,381,100**	**204,012**	**35,074,061**	**35,278,073**

18. Share Based Payment Reserve – Group and Parent Company

Details of the warrants and options that were outstanding at 31 December 2022 are as follows:

Warrants

Issued	Exercisable from	Expiry date	Number outstanding	Exercise price
16.2.2022	14.03.22	14.03.23	13,000,000	£0.02
24.05.22	24.05.22	31.03.23	50,000,000	£0.02

Options

Issued	Exercisable from	Expiry date	Number outstanding	Exercise price
24.05.22	24.05.22	24.05.25	50,000,000	£0.02

	31 December 2022 US$	31 December 2021 (Restated) USS$
At beginning of year	**32,578**	32,578
Fair value of warrants exercised during the year	**(20,363)**	–
Fair value of warrants expired during the year	**(12,215)**	–
Fair value of warrants and options vesting during the year	**229,185**	–
At end of year	**229,185**	32,578

18. Share Based Payment Reserve – Group and Parent Company continued

The estimated fair value of the warrants and options granted in May 2022 was calculated by applying the Black-Scholes option pricing model. The assumptions used in the calculation were as follows:

	Options	Warrants
Share price at date of grant	1.55 pence	1.55 pence
Exercise price	2.00 pence	2.00 pence
Expected volatility	97%	97%
Expected dividend	Nil	Nil
Vesting criteria	Vest over three years	Vested
Contractual life	3 years	0.83 years
Risk free rate	1.58%	1.58%
Estimate fair value of each	0.96 cents (recognisable over 3 years)	0.43 cents

Of the amount credited to share based payment reserve $114,592 related to options issued for services provided and therefore resulted in a charge to the Statement of comprehensive Income and $114,593 related to brokerage services and therefore resulted in a reduction to the share premium account.

A share-based payment credit of $12,215 was recognised during the year on expiry of 4.5 million of the 12 million warrants in issue at the start of the year. The 13 million warrants issued in February 2022 were issued to investors in relation to a placing and therefore were not issued in lieu of services and accordingly have not been valued and accounted for.

19. Capital Commitments

As further discussed in Note 23, the Group have 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. The Group also has an installment note on a vehicle that expires in January 2024 (see Note 16).

Amounts payable in respect of leases:

	31 December 2022 US$	At 31 December 2021 (Restated) USS$
Less than 1yr	**49,385**	78,370
1 to 5 years	**1,727**	51,112
More than 5 years	**–**	–

20. Contingent Liabilities

There were no contingent liabilities at 31 December 2022 (2021; £nil).

21. Financial Instruments and Risk Management

The Company'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 Company's operations. The Company does not utilise complex financial instruments or hedging mechanisms.

Financial assets by category

The categories of financial assets are as follows:

	Group		Company	
	31 December 2022 US$	31 December 2021 US$	31 December 2022 US$	31 December 2021 (Restated) US$
Current assets at amortised cost:				
Accounts receivable	**688,617**	14,201	**–**	–
Other receivables	**60,770**	500	**60,270**	–
Cash and cash equivalents	**442,751**	446,879	**210,282**	274,982
	1,192,138	461,580	**270,552**	274,982

Financial liabilities by category

The categories of financial liabilities are as follows:

	Group		Company	
	31 December 2022 US$	31 December 2021 US$	31 December 2022 US$	31 December 2021 (Restated) US$
Current Liabilities measured at amortised cost:				
Accounts payable	**100,291**	22,810	**73,593**	110,123
Other payables due within one year	**495,671**	171,174	**240,236**	200.955
Long term loans	**1,513,727**	832,312	**–**	–
	2,109,689	1,026,926	**313,829**	311,078

All amounts owed by the Company are short term and payable in 0 to 3 months, apart from the Long term loan which is disclosed in Notes 16 and 23. Other payables includes an amount of $20,585 (2021: $20,292) which is repayable in equal monthly instalments over the upcoming year. The long term loans have a repayment date of 30 June 2024.

Notes to the Financial Statements continued

21. Financial Instruments and Risk Management continued

Credit risk

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

	Group		Company	
	31 December 2022 US$	31 December 2021 US$	31 December 2022 US$	31 December 2021 (Restated) US$
Accounts receivable	**688,617**	14,201	**–**	–
Other receivables	**60,770**	500	**60,270**	–
Cash and cash equivalents	**442,751**	446,879	**210,282**	274,982
	1,192,138	659,917	**270,552**	274,982

Interest rate risk

None of the Group's assets or liabilities are subject to any material interest rate risk since the only asset or liability which bears interest is a $22,312 lease liability (2021: $42,604) at a fixed interest rate and none of the assets earn any material interest. All deposits are placed with main clearing banks or held in cash wallets to facilitate non-sterling payments or expense payments. The deposits are placed in current accounts or short term deposit accounts.

The nature of the Group's activities and the basis of funding are such that the Group seeks to maintain liquid resources to meet its expenses for at least twelve months. The current cash position and the cash surplus to be generated from the operations over the foreseeable future, along with the $680,000 available under the credit facility means the Group will have sufficient liquid resources to meet its expenditure requirements over the upcoming twelve months.

Credit and liquidity risk

Credit risk is the risk of an unexpected loss if a counter party to a financial instrument fails to meet its commercial obligations. The Group's maximum credit risk exposure is limited to the carrying amount of cash and receivables. Credit risk is managed by contracting with US government customers clients who have proven ability to pay and by the Group depositing surplus funds with financial institutions with a credit rating equivalent to, or above, the main UK clearing banks whilst keeping amounts in electronic wallets to the minimum required for day-to-day operations. The Group and Company maintain adequate bank balances to meet those financial liabilities that are payable in the short term (between 0 to 3 months).

Foreign exchange risk

The Group operates in a global market with income and costs possibly arising in a number of currencies. The majority of the operating revenues and costs are incurred in US Dollars although there are a number of Sterling costs incurred by the Company in relation to the Non-Executive directors and 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. All of the Group's assets and liabilities are denominated in US dollars.

22. Capital Management

The Group manages its capital to ensure 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 capital structure of the Group as at 31 December 2022 consisted of equity attributable to the equity holders of the Company, totalling $1,802,609 bolstered by working capital advances from an officer and shareholder (see Notes 16 and 23).

The Company 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 Company will balance its overall capital structure through the payment of dividends and new share issues. The Company has no plans to take on debt capital.

23. Related Party Transactions

The compensation payable to Key Management personnel, who comprise the Directors, comprised $827,732 payable by the Company 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 $180,810 was due to a director and officer in respect of Directors remuneration.

During the year the Company made an overpayment for services of $60,270 (2021: $nil) to a company of which Robert Mitchell is a director. Since the year end this amount has been recovered in full.

During the year payments were made to former members of Narf US totaling $75,000 relating to profit distributions to members, prior to the acquisition in March 2022. Such distributions were S360,000 for the year ended 31 December 2021 (unaudited).

Included in the caption Trade and Other Payables on the accompanying Consolidated Statement of Financial Position are $61,700 and $13,100 at 31 December, 2022 and 2021 respectively, related to an office operating lease agreement between the Group and an entity in which an officer and shareholder is an owner. Included in Administrative Expenses on the accompanying Consolidated Statement of Comprehensive Income is $57,600 and $57,100 in operating lease expense for the years ended 31 December 2022 and 2021 (unaudited), respectfully. This operating lease agreement expired on 1 June, 2023 and minimum rental payments of $4,800 per month means a charge of $28,800 for the year ending 31 December, 2023. The Group is currently reviewing this arrangement to determine the economics of renewal.

As further discussed in Note 16, the CEO, a director and major shareholder, made loans to the Company which at year end totalled $1,512,000 (2021: $810,000 unaudited). The amounts represented non-interest bearing advances to the Group for working capital purposes.

At 31 December, 2020, Narf US owed a net $61,891 to certain companies owned by a director and officer. This amount was forgiven in the year ended 31 December 2021 and is recorded as income in the caption Interest Receivable and Other Finance Income in the accompanying Consolidated Statement of Comprehensive Income.

24. Events subsequent to year end

There have been no events since the year end that have any material impact on an understanding of these financial statements, with the exception of the conversion of advances from the Chief Executive Officer to a credit facility, see Notes 16 and 23.

25. Prior Period Restatement – Parent Company

As both the operating companies that were acquired under the reverse takeover have a functional and reporting currency of US Dollars, these financial statements have also been prepared in US Dollars. This has meant that the Comparatives in the Company Statement of Financial Position, Statement of Changes in Equity and Cashflow Statement were restated in US Dollars. Sterling amounts reported in the Company Statement of Financial Position at 31 December 2021 have been restated to US Dollars using the closing foreign exchange rate at 31 December 2021. Sterling amounts reported in the Company Statement of Comprehensive Income and Statement of Cashflows for the year ended 31 December 2021 have been restated to US Dollars using the average foreign exchange rate for the year ended 31 December 2021.

26. Control

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

Directors and Advisors

Directors	John Herring, *Executive Chairman* Steve Bassi, *Chief Executive* Rory Heier, *Non-Executive Director* Robert Mitchell, *Non-Executive Chairman (resigned 23 April 2023)*
Company Secretary	Rory Heier
Head Office & Registered Office	5 Fleet Place London EC4M 7RD
Auditors	PKF Littlejohn LLP 15 Westferry Circus London E14 4HD
Financial Adviser and Broker	Tennyson Securities Limited 2nd Floor, 65 Petty France London SW1H 9EU
Registrars and Transfer Office	Link Market Services Limited The Registry, Beckenham Road Beckenham BR3 4TU
Lawyers	Charles Russell Speechlys LLP 5 Fleet Place London EC4M 7RD
Financial Public Relations	St Brides Partners Limited Warnford Court 29 Throgmorton Street London EC2N 2AT
Registered Number	11701224