

Falanx Group Limited

Report and financial statements
year ended 31 March 2021

Company number 1730012 (British Virgin Islands)

Falanx Group Limited



Falanx Group Limited (“Falanx” or the “Company” or the “Group”), listed on the AIM Market of the London Stock Exchange, is a cyber defence and intelligence services provider working with blue chip and government clients internationally and SMEs across the globe to protect their assets from a range of threats.

The Group has two business divisions:

- **Falanx Cyber:** Comprehensive offensive and defensive cyber security services encompassing both Managed Services (e.g. MDR, Managed EDR, Triarii) and Professional Services (e.g. Penetration Testing, Ransomware protection, Red Teaming) operating as Falanx Cyber
- **Falanx Intelligence:** Political & Security Risk and Business Intelligence services operating as Falanx Assynt.



Falanx Cyber

Falanx Cyber provides a full range of professional services and managed monitoring services to government and commercial organisations worldwide.



Falanx Intelligence

Falanx Assynt provides Political & Security Risk and Business Intelligence services globally, providing clients the information they need to make key decisions.

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Business Overview

Financial Highlights

Results for the year to 31 March 2021 as per trading update announced on 18 August 2021

- Revenues £5.24m (2020: £5.85m) a decrease of 10.4% (as previously reported), during the COVID-19 period in H1, revenues showed a strong recovery in H2
- Group wide monthly recurring revenues broadly consistent with 2020
- Significant recovery in gross margin in the H2 driven by high utilisation of the professional services teams in the Cyber Security division
- Operational and cash-based costs reduced by c25%
- Reduction in Adjusted EBITDA* loss to £1.26m (2020: £1.56m)
- Overall loss £3.55m (2020: £2.88m) with the increase caused by a £1.44m non-cash impairment of the Furnace investment and receivable following its spin out in December 2019
- £1.25m equity fundraise completed in September 2020
- Cash balances at 31 March 2021 £0.55m (2020: £0.07m), normal working capital position and HMRC in terms
- Loss per share 0.77p (2020: 0.72p)
- Shareholders' funds £2.73m (2020: £4.97m)

Post Period Financial Highlights

- Core Cyber Security division making major progress following revamping of service offerings in the last two years
 - Now profitable and expected to remain the case moving forwards compared to losing £0.41m in 2021
 - Refocused into a single cyber security monitoring service (Triarii) which has further improved its gross margin
 - Order intake now ahead of pre COVID-19 pandemic levels
- Assynt trading strongly, with monthly recurring revenue contracts +20% by value since the start of the current financial year
- Overall, a much-improved financial performance for the current year to date, and costs firmly under control
- Stronger cash position following initial £1m BOOST&Co investment in August 2021, expected to grow to £2.5m to support investment and enhancing M&A activity
- Cash at 31 August 2021 £0.89m

Operational highlights

- Update to the Cyber Security Divisions Managed Detection and Response ("MDR") service to support our Detection in Depth approach with the launch of a wider range of services with enhanced capabilities. Extended capability means we now offer Extended Detection and Response (XDR) along with leading providers of security services
 - Triarii XDR on the Elastic platform
 - Triarii XDR on the Microsoft Azure Platform
 - Managed Endpoint Detection and Response (M-EDR) based on Elastic as well as N-able platform
 - Triarii lite on Elastic for an entry level product to the SME market
- Moved to full home working during C19, with two leases exited, saving approximately £0.15m per annum
- Achieved a £1.2m extension and expansion from an existing global technology client in January 2021 expected to benefit the next 3 years
- Assynt expanded its country coverage to 40 separate countries and extending the Global Themes to include COVID-19

Business Overview

Post Period Operational Highlights

Cyber Division

- Strong inflow of customer orders in the Cyber Division, high utilisation levels supporting break through into adjusted EBITDA profitability
- Move to a single Triarii monitoring platform now complete, leading to lower support costs whilst increasing customer functionality
- Biggest ever single divisional order received in April 2021 for £1m of penetration testing to be delivered over the next three years from a global financial services company
- N-Able completed spinout from Solar Winds in July 21, opening up further routes to address this market of 25,000 MSP users and 500,000 end user customers against a compelling cyber security requirement. Falanx expects this to start benefitting the second half of the current year
- The launch of the new f:CEL (Falanx: Cyber Exposure Level) to help customers understand their Cyber risk at an affordable price point, supporting SMEs through to Enterprises

Assynt Division

- Opening of Irish subsidiary to support rollout of expanded contract to supply embedded analysts to a global technology company, initial contract value expected to be £1m over three years with potential for further expansion
- Recognised by Chambers & Partners in their 2021 rankings, listed as one of five firms in their top tier of global Geopolitical Risk providers

Mike Read, Chief Executive, said:

“Cyber Protection is no longer a ‘nice to have’, instead it is an essential part of any business risk discussion. Hackers and criminals are attacking every sector and every size of organisation. With the need for home working, arising from COVID 19, hacking has been made easier and risks have increased, Organisations can no longer avoid investing in protecting themselves. Clearly like other organisations we have experienced some delays in the progress of our business due to COVID-19 but recent growth has been encouraging and it seems as though these are now behind us.”

“Our services portfolio is very well positioned to address this exciting opportunity, and this is now feeding through into improving revenues and profits in the core Cyber Security division. Our pipeline of future business is strong both in terms of quantum and quality of opportunities including those from our deepening relationship with N-Able Inc.”

“Our separate Assynt division has a solid and growing base of contracts as well as new prospects with some of the world’s largest companies, and this is a valuable asset in its own right.”

“Given the progress and increasingly favourable cyber-security market trends I am increasingly confident that Falanx’s core business is well positioned to deliver significant shareholder value.”

(*) Adjusted EBITDA is a non-IFRS headline measure used by management to measure the Group’s and individual divisions performance and is based on operating profit before the impact of financing costs, IFRS16, share based payment charges, depreciation, amortisation, impairment charges and highlighted items. IFRS16 is excluded so that the underlying rental costs of the premises are reflected in this metric.

Chairman's Statement

I am pleased to present your Company's Annual Report & Accounts for the year ending 31st March 2021.

The financial highlights and performance will be addressed in some detail in the reports of both the Chief Executive and the Chief Financial Officer, so I will confine my comments to the more strategic aspects of our operations.

Certainly, the past 12 months have seen the continued, insidious growth in cyber-related crime and, in particular, the very noticeable emergence of ransomware as a key cyber risk. The complacency of many companies in the SME sector to recognise their vulnerability to this criminal activity still surprises me and my colleagues; particularly as the past 24 months has seen a very significant and permanent shift towards distributed working patterns which makes cyber-crime more, not less, likely. All companies, of whatever size, fall prey to this type of crime and it is only through rigorous training of the workforce and the 24/7 monitoring of IT infrastructures that businesses will be able to robustly protect themselves from its calamitous consequences. Directors of businesses, big and small, public, and private, need to continually satisfy themselves that their IT assets are secure from being compromised.

In our core cyber services division, this was a year of two halves, with customer spending in the initial six-month period clearly disrupted by the impact of COVID-19. The second half witnessed a gradual and sustained recovery in business activity such that the core cyber division since the year end, moved into profitability at an adjusted EBITDA level. In part, this has been accomplished through rigorous cost control as well as the introduction of Triarii, our new sophisticated and flexible cyber protection platform which is delivering better customer results along with margin efficiencies. It also reflects the growing importance of our strategic channel partners, N-able based in the USA and Trustmarque based in the UK. Both relationships allow us to reach into a sizeable community of customers and managed service providers around the globe, many of whom do not have access to the advanced cyber protection capabilities that are delivered by Triarii. We look forward to deepening these key relationships over the forthcoming months and years.

Turning to our Business Intelligence division, Falanx Assynt, activity for the year was less volatile than Cyber, but still felt the impact of COVID-19 in terms of business development and organic growth. Assynt is a business with substantial recurring revenues with some of the world's largest and globally active technology companies. These relationships are steady and deepening and, again, we are seeing some encouraging signs of growth coming from them as business activity around the world begins to recover to pre-pandemic levels. We were proud that in August 2021, the Company achieved the distinction of being rated by Chambers in the top 2021 global providers of strategic corporate intelligence. This is a distinction that reflects the quality of the team of analysts that has been assembled in the Company and we look forward to continuing steady improvement in the business.

We announced in September that in August we received support from Boost & Co which has become our debt stakeholder, supporting our organic growth with working capital and providing us with some acquisition funding should we identify any suitable opportunities.

We believe that the business world is steadily emerging from the bunker into which it retreated during the pandemic. This process is not occurring in an even manner around the world and some geographies still remain stubbornly inward looking. However, and in many ways lamentably, the cyber war between criminals and corporates continues to escalate and the stakes are getting higher. For this reason, we believe that Falanx is well-positioned and has an important role to play in diminishing the ever-evolving threat of cyber-crime.

As ever, we express our thanks to all our employees who have showed resilience, determination, and flexibility in helping your company weather the COVID-19 storm and position us for what we expect to be a busy future.

Approved by the Board on 28 September 2021 and signed on its behalf by

A Hambro
Non-Executive Chairman

Chief Executive Officer's Statement

Falanx is a provider of Cyber Security and Strategic Intelligence services to over 470 customers worldwide. Customers include Managed Service Providers ("MSPs"), IT providers, governments, large multinationals and small to medium enterprises (SMEs). Our services are sold via two independent business units supported by a common corporate services team

Falanx Cyber Defence ("FCD")

Our Cyber division has two business lines: Offensive (Professional Services, including Penetration Testing) and Defensive (a range of managed services) which are sold either through our partners or directly by our sales teams. These generate high quality repeat and recurring revenues, and our strategy is to grow these by delivering services which are highly relevant to customer needs in the post pandemic, digital world, and its dramatically increasing cyber security threats. These are already showing that they can generate value for shareholders.

Financial Performance

The division recorded revenues of £3.12m (2020: £3.71m) for the year to 31 March 2021. As referenced in our interim results, the reduced revenues were due to delays in sales and deliveries in the first few months of the financial year as COVID-19 impacted. Sales orders during this period were circa £0.1m per month compared to c£0.2m per month before COVID-19. These recovered strongly in the second half of the year when the division recorded much higher revenues. Revenues from our new cyber security Extended Detection and Response ("XDR") solution ("Triarii") also commenced in the second half and these helped the recovery, complementing our traditional ability to provide Managed Detection and Response (MDR) services through value-added capabilities.

Gross margins were 33% (2020: 38%) with the fall being due to a) low utilisation of professional services staff during the worst of COVID-19 which reduced gross margin to 27% in the first six months; combined with b) temporary additional technology platform costs in the second half of the year whilst migrating existing clients onto the new Triarii MDR platform. We chose to fully maintain our highly skilled and cohesive workforce in anticipation of a rebound, so that the division could capitalise on renewed growth post the immediate disruption of COVID-19. This proved to be an excellent decision. Gross margins improved to 37% in the second half of the year as utilisation improved. The Triarii customer migration program has subsequently been completed and gross margins are expected to further improve significantly in the year to 31 March 2022. Furthermore, in some cases the migration has led to existing customers electing to expand their coverage beyond MDR to Triarii XDR with the extended protection afforded by our Detection in Depth philosophy.

Underlying operational & cash-based costs (including premises, sales and marketing and administration) were under tight control and were reduced by 20% to £1.46m (2020: £1.82m). This was achieved through closure of premises, lower travel, salary sacrifices, lower discretionary spend and some limited support from the furlough scheme. Despite a lower cost base, we maintained our exceptionally high level of customer service across all services.

Overall, the adjusted loss was £0.44m (2020: £0.41m) with there being a much-improved performance in the second half of the year, and March 2021 being one of the strongest months in the division's history.

Operational Review

The financial year commenced just after the start of the COVID-19 pandemic. Our investment in cloud-based infrastructure meant that we were able to quickly and seamlessly move to a remote operating model and ensured continuity of operations. We rapidly adjusted our model to ensure continuity of service for our customers and were also able to make significant savings in costs – including savings on premises costs as well as a significantly reduced spend on travel and living. We focussed our efforts on looking after our customers and staff during this difficult period and have no doubt that this contributed to the recovery in the second half of the year. There were delays in sales cycles and the ability of customers to receive some of our services, but this improved significantly in the second half of the year.

The move to a remote working world massively increased the risk of a cyber-attack for virtually every business, large or small. This heightened risk greatly increased demand for cyber security services once the initial disruption of the crisis was stabilised. In the period we have signed over 40 entirely new customers and this has helped both MDR and Professional services. Orders rebounded swiftly in the second half leading to the much-improved financial performance described above, despite there being some ongoing disruption from the lack of access to client premises for certain projects.

Total orders for the period were £3.5m (2020: £3.4m) and increased despite lower orders in the the first half of the year which was impacted by COVID-19. They comprised circa £2.3m of Professional Services and £1.2m Managed Services.

MDR and Security Operations Centre ("SOC") services

Our move away from legacy MDR platforms to current and leading technologies has resulted in a vastly improved range of capabilities. This further supports our 'mantra' of being able to provide affordable cyber protection to businesses of all sizes, large and small. Our Triarii philosophy of 'Detection in Depth' has been well received and we continue to expand the number of touchpoints we monitor in an IT estate to ensure that, wherever an attack may initiate, we have the best chance possible of detecting it before it does harm to a business. Our product set now includes:

1. Triarii XDR (based on the Elastic platform)
2. Triarii XDR (based on Microsoft Azure Sentinel)

Chief Executive Officer's Statement

3. Triarii Lite (MDR for smaller businesses)
4. Managed Endpoint Detection and Response (M-EDR)
5. Managed EDR (N-Able EDR)

Consequently, we can deliver enterprise-grade protection to the masses at an affordable price-point, protecting people around the clock, 24/7/365 via our SOC in Reading.

Our Triarii technologies have also expanded our market reach to include cloud, hybrid and on-premise infrastructures, distributed / remote workforces and organisations heavily invested in Microsoft Azure.

Professional Services

Falanx Cyber now offers an extended portfolio of professional cyber security services. We offer a wide range of ethical offensive services designed to simulate real-world cyber criminals and, in doing so, enable us to identify weaknesses in clients' defences and advise them as to how they can better protect themselves and their assets. These services range from specific penetration testing services through to social engineering techniques (such as phishing and red teaming *inter alia*) which can then be integrated into tailored security awareness training. We continue to serve customers in a diverse range of sectors including Government, Finance, Legal, Insurance, Retail, IT and Telecoms. This service line continues to benefit from a high level of repeat business and expansions and extensions of customer commitments.

Routes to Market

To accelerate growth beyond the confines of traditional direct sales and cross-selling opportunities between service lines, Falanx Cyber utilises a 'Channel' model, providing security services via its growing network of MSP partners. These IT outsourcing organisations have a longstanding and trusted status with their customers for the provision of essential business IT functions and, as such, they are natural partners for Falanx Cyber and a significant extension of our market reach.

The spinout of N-able (formerly SolarWinds MSP) into a separately traded public company, N-able, Inc ("N-able"), completed in July 2021. A key strategy of N-able is to empower and protect its 25,000 MSP customers (and over 500,000 end users) with cybersecurity products and services, and the Company believes that it is very well positioned to address this market. Falanx has already been working increasingly closely with N-able to develop this opportunity and broaden services and routes to market, and we expect to feel the benefit of this in the second half of the current financial year.

Current Year Update

Falanx Cyber Defence has had a strong performance since the start of the new financial year. The division is profitable at an adjusted EBITDA level, it has high levels of customer orders and is growing its Monthly Recurring Revenue ("MRR") base with the SOC services described above. The sales pipeline is strong across our channels including N-Able and TrustMarque as well as for the direct sales team. This is being driven by even greater cyber security threats and organisations needing to address these with urgency.

We have launched our new cyber evaluation model targeting all businesses, from the largest to the smallest. In summary, everyone needs to understand how an attacker might view their business from the outside, thereby gaining an understanding of the likelihood of being attacked. Our recently launched, affordable assessment service, Falanx Cyber Exposure Level ("f:CEL"), provides, objectively, exactly that understanding.

The division won its largest ever contract in April 2021 worth £1.0m over a three-year period. This is from an existing global financial services customer and is for the provision of Penetration Testing services. We continue to have positive discussions with the client and believe there is the opportunity for further growth.

Overall sales orders for penetration testing were more than £0.25m (excluding the above £1m contract) per month for the first 7 months of this calendar year compared to £0.15m in the first 7 months of the last Financial Year. This has been converted into revenue based on high levels of utilisation in our highly motivated and expert team.

The migration from legacy platforms to Triarii is now complete and this now delivers a much greater capability to our customers. Furthermore, this reduces our external software licence costs. This is resulting in further improved gross margins and overall financial performance.

We now have a strong cyber security business which is well positioned to address this exciting market opportunity and its powerful drivers, in the move to a digital world. Our services are well aligned against the growing market opportunity. Furthermore, customer demand has grown significantly compared with the pre pandemic environment. The combination of strong and growing demand for the Falanx Cyber portfolio of services, the market pull of the MSP 'Channel' model, the accelerating opportunity offered by N-Able and other strategic channel partners, combined with the Triarii XDR service, gives our core division strong growth potential which is already generating returns.

Chief Executive Officer's Statement

Falanx Assynt

Our strategic Intelligence business unit, Falanx Assynt, provides market-leading geopolitical reporting and analysis focused on key major emerging markets and overarching global themes. Its client base includes some of the largest and most recognised global corporate names. Assynt's two principal business lines are the provision of subscription-based Assynt Reports and the provision of embedded analysts into clients. These are supplemented by an Intelligence Consulting practice which provides tailored reports to address specific client requirements.

Financial Review

Annual revenues for the year were £2.12m (2020: £2.14m). Certain projects were put on hold during the COVID-19 pandemic, and this held back planned revenue growth as corporates did less travel and held back on activities in emerging markets. Our highly resilient revenue model which is circa 95% monthly recurring enabled us to mitigate any revenue retrenchment. We had invested c£0.15m in further central analyst capacity to support planned sales of report subscriptions and business intelligence consulting assignments but these were delayed due to COVID-19. Consequently, gross margin was reduced to 26% (2020: 38%). Operating overheads were reduced by c40% to £0.47m by the closure of premises and reduced travel arising from COVID-19 as well as lower marketing and hiring costs. Overall adjusted EBITDA increased to £0.1m (2020: break-even).

Operational Review

Our plans for further expansion for the year were put on hold as the critical focus became the need to match our client's priorities and in some cases the need to retrench. This has resulted in some customer churn in both the Assynt Report and embedded analyst business lines. Notwithstanding that, revenues overall held up well and are now back on track. The pandemic most affected our consulting revenues, due to a decrease in client interest in projects in emerging markets at a time of uncertainty.

For our Assynt Report subscriber base of global corporates (many of which are headquartered outside of the UK), we have produced over 1,200 reports analysing key geopolitical events in 40 countries, including specialist analysis of international jihadist trends. Over the course of the year, we have expanded our reporting to address significant global themes falling out from the COVID-19 pandemic. These have been very well received by our clients.

The Assynt team has been very successfully working on a virtual basis since March 2020. The existing business model whereby two thirds of our staff already worked in third party offices as embedded analysts, made the transition to remote working due to lockdown easy to implement. The decision not to renew our London office lease on expiry in June 2020 was thus a clear-cut opportunity for cost saving with no impact on efficiency.

The value of the embedded analyst service continues to be recognised by clients as a means to integrate Assynt's geopolitical understanding and business-focused analytical expertise into our host client's operational capabilities without requiring headcount signoff in the client. All our most critical clients have demonstrated the value we deliver by maintaining or increasing their spend with Assynt despite COVID-19 pressures. In particular, a £1.2m three-year contract won in January 2021, with one of the world's largest technology companies has been further expanded in the financial year to 31 March 2022, with a requirement for embedded analysts in EU territories. This will be serviced from the Group's newly formed subsidiary in Ireland and is expected to generate revenues of c£1.0m over the next three years. We believe that there is further significant potential for growth in this service.

Since the close of this period, Falanx Assynt has once again been recognised by Chambers & Partners, listed in their 2021 rankings as one of only five firms in their band one, top tier of global Geopolitical Risk providers. Charles Hollis, the Managing Director of Assynt, was also rated among the top five individual practitioners globally.

Future Prospects

The Assynt division has a strong pipeline of new business, and a growing contract base which will allow it to generate increasing returns.

Our Teams

Across both Business Units the teams have adjusted to the new working from home environment and have continued to provide a very high level of support to our customers and suppliers. – I and the Board want to thank them.

Approved by the Board on 28 September 2021 and signed on its behalf by

Chief Executive Officer's Statement

M D Read
Chief Executive Officer

Chief Financial Officer's Report

Revenue

Group revenues fell by 10 % to £5.24m (2020: £5.85m), mainly due to the COVID-19 period in the first six months, which largely affected the Cyber division. Revenues in the second half of the year were approximately £2.8m and this represented growth of c25% compared with the first six months and utilisation improved as clients resumed delayed projects. Sales order values for professional services such as penetration testing significantly grew in the second half and on average were c£0.22m per month which was ahead of the average level before the onset of the crisis.

The business has continued to benefit from a strong element generated from the recurring contracts in each division, and overall, this was constant at 55% (2020: 56%). At the end of the period monthly recurring revenues across the Group stood at approximately £0.25m per month (2020: £0.26m). Our future order book of work remained strong with an order book £2.7m (2020: £2.7m) as well as deferred incomes (contract liabilities) of £1.1m (2020: £1.2m). This order book increased substantially post the year end with a total of £2.0m of future revenues being won under multi-year framework agreements with large global customers in each division.

During the year we added over 40 new cyber accounts (including several larger accounts) as well as significantly expanding our existing clients spend on cyber security services. Our churn in acquired customer bases has been low and as an example, the churn for First Base (acquired March 2018) has been less than 1% although the overall business has grown by circa 15% per annum (excluding the short-term impact of COVID-19). The Assynt division has a different customer profile to the Cyber division with approximately 75% of its clients being international and approximately 90% of them paying in advance with an average advance period of seven months.

Overall, our number of customers invoiced was 292 (2020: 284) and overall, the company dealt with circa 470 (2020: 440) customers.

Cost of sales

Cost of sales represents cost items which vary more closely as a function of sales demand and therefore revenues. The Intelligence division's cost base is largely employment costs for full time and external consultants who produce intelligence reports for customers as well as certain database access licences. The Cyber division costs include the team who deliver the monitoring and professional services, external licence fees for technology platform and its support (some of which are fixed and some of which are variable) as well as certain consultants for delivery of specific client assignments.

Gross margin

The Group's gross margin was 30% (2020: 38%). The reduction was mainly due to:

- Low utilisation issues in the cyber division in the first half of the year as clients delayed projects due to COVID-19 which affected the fully maintained workforce. This began to recover in the second half of the year. Overall group margins were 27% in the first half and 32% in the second half of the year.
- Additional external licence fees of c£0.14m were also incurred in the second half of the year by the monitoring business in the Cyber division due to the planned migration to the Triarii platform away from legacy applications. This was equivalent to circa 8% of the Cyber divisions revenues in that period. This was completed in June 2021 and gross margins have since then significantly recovered with the use of a single technology platform.
- £0.2m investment in the expansion of central analyst teams in the Assynt division in support of planned incremental sales of report subscriptions and business intelligence consulting assignments, which were delayed due to COVID-19 impacts.

Operational and cash-based costs

Administrative expenses excluding depreciation, impairment and amortisation and highlighted costs decreased by 25% to £2.84m from £3.78m due to the tight control of spend around marketing, travel, headcount, and premises reduction. Average headcount (including cost of sales) in the year was 84 (2020: 81) with the increase arising from higher levels of professional services staff.

Highlighted costs

Highlighted costs were £0.11m (2020: £0.32m) mainly represented the expense of closing premises in London and Sussex during summer 2020. Restructuring costs included certain corporate development professional fees around specific projects. Rental costs are normalised to exclude the impact of IFRS 16 on the Reading lease (commenced July 19), reducing the overall adjustment by £107,000 (2020: £76,000).

Share Option Charges

Share option charges were £0.18m (2020: £0.23m) and mainly arose from options granted in April 2020 as part of a voluntary salary sacrifice scheme by the staff and directors.

EBITDA

Adjusted EBITDA loss for the year was £1.26m (2020: £1.56m) after adjusting for the items highlighted above. Overall reported EBITDA loss (excluding share option charges) was £1.37m (2020: £1.89m).

Chief Financial Officer's Report

Depreciation, amortisation, and impairment

The investment of £1.44m in Furnace Technologies Ltd ("Furnace"), which was spun out of the Group in December 2019, was fully impaired due to inherent objective valuation uncertainties arising from its early nature and lack of external financing to support the carrying value. Furnace has made some initial sales and is currently seeking external investment and Falanx will review its carrying value accordingly. Falanx's forward business plans do not have any dependency of Furnace's financial performance and Falanx has no obligation to provide further financial support.

Depreciation of fixed assets was £76,000 (2020: £87,000), and a further IFRS 16 amortisation charge of £109,000 (2020: £77,000) was recorded in respect of the right of use asset related to the Reading lease acquired in July 2019. A consistent £0.29m charge arose from the amortisation of acquired customer base intangible assets from First Base (ten-year amortisation period, straight line basis, acquired March 2018) and Securestorm Limited (three-year amortisation period, straight line basis, acquired July 2018).

Financing costs

Net financing costs were £33,000 (2020: £24,000) and mainly arose from IFRS 16 treatment of the Reading office lease which commenced in July 2019.

Result for the year

Due to the non-cash impairment of Furnace the loss increased from £2.88m to £3.55m and loss per share increased to 0.77p from 0.72p.

Non-current assets

Goodwill arising on the acquisitions of Falanx Cyber Defence, First Base and Securestorm remained at £1.85m and no impairment was deemed necessary. As referenced above the investment in Furnace was fully impaired during the year and was carried at £nil (2020: £1.44m). Customer relationships from First Base and Securestorm were carried at a total of £1.68m (2020: £1.97m) with the reduction arising from straight line amortisation referred to above. The Group's non-current assets also include the future value of the lease of the Reading premises of £0.36m (2020: £0.47m) which commenced in July 2019. A creditor of £0.35m (2020: £0.44m) is carried to reflect future liabilities and £0.09m (2020: £0.09m) are included in current liabilities. Fixed assets which include furniture plant and equipment were £0.16m (2020: £0.20m).

Working capital

Amounts due from customers (including contract assets), was £0.75m (2020: £1.5m) with the reduction due to certain larger customer payments being made earlier than in the previous year. Collections since the year end have been normal and no incidence of bad debt has been recorded since the previous annual report. Overall debtor days fell from 66 to 28 days due to higher cash collections before the end of the year. Prepayments were again reduced due renegotiated supplier contracts being in place with lower levels of advance payments. Other receivables included c£0.11m of R&D tax credits which were received in full after the year end. The Group continued to have a very low incidence of delayed and/or non-payment of debts by customers and our average losses over the last three years were only 0.06% of revenue. Taxes payable increased due to the payment plan negotiated with HMRC in July 2020 in response to COVID-19. A deferred payment plan was agreed with HMRC to reschedule up to £0.64m of payroll taxes outstanding at 30 June 2020 over 2 years as well as taking advantage of published time to pay plans on VAT. The group is fully in compliance with these plans.

Contract liabilities (deferred income) were £1.11m (2020: £1.23m) with the difference being due to the timing of certain advance customer billings.

Capital structure

On 29 September 2020 Falanx announced the completion of a fundraising exercise for £1.25m by issuance of 125,000,000 new ordinary shares of nil nominal value and at 31 March 2021 there were 525,401,185 (2020: 400,401,185) shares of nil par value in issue.

In February 2021 the Company received shareholder permission to carry out a capital reconstruction exercise to support an application for a UK government loan which required retained losses to be less than fifty percent of issued capital and as a result £14.0m of the credit balance on share premium was used to reduce the accumulated losses and a further £1.0m was transferred to a special non distributable reserve (the "2022 Liabilities Reserve") in respect of certain longer term liabilities, and the balance on this will transfer to accumulated losses on 31 December 2022

On 21 April 2020 approximately 33 million (6.3% of the issued capital) new share options and warrants were issued to staff and directors in exchange for salary reductions for the six months to 30 September 2020. These options were priced at 1p each and have a life of 10 years from the date of grant. Staff and directors waived approximately 25.7m options and a further 9m lapsed in June 2020.

Chief Financial Officer's Report

Overall, at 31 March 2021 the Company had approximately 73.3m employee options outstanding representing c14% of the issued capital. The average option price was c2.7p (2020: 4.6p).

The Group continues to rationalise legal entity structure to best align it with the current opportunity as well as to reduce costs and streamline tax management. The Groups incorporation status as a BVI entity is a legacy of its pre 2013 IPO business plan and the Board will review moving it to a UK status at an appropriate time, taking into account the significant professional fees which would be associated with such a change. The Group's memorandum and articles of association were revised in March 2019 to align with UK incorporated entities more closely. The Group is fully resident and registered in the UK from a tax perspective. The Group has streamlined its subsidiary structure to reduce the number of active legal entities and to align structures more effectively within the divisions.

At the year-end shareholders' funds stood at £2.73m (2020: £4.97m).

Statement of Cash Flows

The Company consumed £0.40m (2020: £1.67m) of cash in operations in the year. The deferral of certain HMRC liabilities under COVID 19 helped reduce outflow by circa £0.5m and a strong collections performance further helped cash working capital performance resulting in an improvement of £0.69m cash inflow from debtors to £0.97m (2020: £0.27m). When adjusted for the net impact of HMRC deferrals and payments under premises leases, operational cash out flow was circa 75% of EBITDA (2020: 80%) which is similar to historic performance.

£1.25m of shares were issued in September 2020 as part of the Company's response to COVID-19 and this resulted in net proceeds of c£1.13m Closing cash balances at 31 March 2021 were £0.55m (2020: £0.08m). A governmental "Bounce Back Loan" of £50,000 was received by a subsidiary in May 2020.

Post Balance Sheet Events

Trading performance for the four months to 31 July is set out below (from unaudited management accounts)

| | 4 months to 31 July 2021 | | 4 months to 31 July 2020 | |
|---------------|--------------------------|----------------|--------------------------|----------------|
| | Revenue £'m | Adj EBITDA £'m | Revenue £'m | Adj EBITDA £'m |
| Cyber | 1.20 | 0.03 | 0.95 | (0.14) |
| Assynt | 0.65 | (0.04) | 0.72 | (0.05) |
| Central Costs | | (0.31) | | (0.23) |
| | | (0.32) | | (0.42) |

Cyber Security Division:

- Strong utilisation and increasing profits as expected following the ongoing recovery from COVID-19 impacts.
- The divisions Monthly Recurring Revenue ("MRR") is now growing with new sales of Triarii offsetting some churn, caused mainly by larger clients move to own SOCs.
- The monthly run rate of orders was circa £0.34m per month in the six months to 30 June 2021 compared to an average of £0.19m per month in the same period in 2020.
- Gross margins much stronger in the current financial year (circa 40%) with further improvements following the completion of the move to a single monitoring platform (Triarii).
- In April 2021 this division won its largest ever sales order, with a £1m multi-year contract for penetration testing which is expected to be delivered over three years.

Assynt Strategic Intelligence Division

- The division has expanded its overseas presence with the establishment of a wholly owned subsidiary in Ireland which can service large global clients. It has already won its first contracts which are expected to have a sales value of c£1.0m over the next three years. This has increased the contracted revenue base to circa £0.19m per month, an increase of c19% from the start of the year. These are expected to benefit September 2021 onwards.

Central costs are higher than the previous year which reflected the COVID-19 salary sacrifice scheme.

Chief Financial Officer's Report

On 18 August 2021 the Group announced a five-year Growth Loan facility with BOOST&Co the key terms of which are

- Initial £1m loan secured over the Group's assets, expected to increase to £2.5m to fund acquisitions & investment programmes
- Annual interest of 11%, and straight-line amortisation of the loan commencing after 12 months
- The loan carries a 3% early prepayment fee on the then amount outstanding

The proceeds of the Loan will enable the Group to make earnings enhancing acquisitions to strengthen its core Cyber division, as well as supporting the Group's overall organic growth plans.

I R Selby
Chief Financial Officer

Directors

Alex Hambro

Alex Hambro (non-executive Chairman) has been active in the investment sector both in the UK and the USA for some 30 years, during which time he has acted as a principal investor, manager and sponsor of private equity and venture capital management teams. As well as his responsibilities at Falanx, Alex is a founder and Chairman of Judges Scientific plc, a scientific instrumentation group. In addition to these two AIM company responsibilities, Alex is also Chairman of OTAQ plc and a Non-Executive Director of Octopus Apollo VCT plc and Oberon Investments Group plc.

Mike Read

Mike Read (Chief Executive Officer) has over 30 years' experience in the global Telecommunications, Media and Technology (TMT) sector and has been a director of eight public companies. He has held numerous 'C' level roles in the UK and USA, including, CEO of Pipex Communications, Executive Director at Daisy Group Plc, Non-Executive Director at Nasstar Plc, and Non-Executive Chairman at IntY Limited. Mike has significant experience helping to build international technology companies, having been involved on over 50 M&A transactions.

Ian Selby

Ian Selby (Chief Financial Officer and Company Secretary) is a Chartered Accountant with significant experience in the technology, security and business services sectors. He was previously the CFO of AIM listed Westminster Group plc where he supported the development of their successful managed services business and the raising of the associated financing. Prior to this, he was Group Finance Director of Zenith Hygiene Group plc, where he was instrumental in executing a successful trade sale and prior to this was the CFO of a listed software company focused on financial and public sectors. Ian has held international finance roles in listed technology companies including Halliburton Inc, Sybase Inc and Micro Focus plc. He qualified as a Chartered Accountant with Coopers & Lybrand Deloitte and holds a degree in Physics from the University of Birmingham. Ian is responsible for finance, premises, HR and IT infrastructure.

Emma Shaw

Emma Shaw (independent non-executive Director) is the Managing Director of Esoteric Limited, an Electronic Sweeping, Counter-Espionage and Intelligence gathering company. An MBA graduate, and a Chartered Security Professional (CSyP) Emma's early career was spent with the Royal Military Police, followed by a career in the Ministry of Defence. Emma is also the former Chairman and Fellow of the Security Institute; a Board member of the Defence Industry Security Association (DISA); a Fellow of the Chartered Management Institute and member of the Advisory Council for CSARN.

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2021.

Business Review

The Group's results for the year are set out in the consolidated statement of comprehensive income on page 38 of these financial statements.

A review of the business, significant contracts, progress and the Group's future prospects can be found in the Chairman's Statement.

Key Performance Indicators

| Performance Indicator | Description | Why measured | 2021 | 2020 | Comment |
|---|--|--|---------------|-------------|--|
| Group revenue - £'m | Changes in total revenue compared to prior year | Revenue growth gives a quantified indication of the rate at which the Group's business activity is expanding over time | £5.2 | £5.9 | Impact of COVID-19 delays mainly in the Cyber division in the first half of the financial year with recovery in the second half |
| Gross margin | Percentage of total revenue retained by the Group after direct costs deduction | Provides an indication of sales profitability and proportion of revenue available to cover other running costs | 30% | 38% | Lower margin in the first half in the cyber division due to low utilisation in COVID19 and maintenance of full workforce. Recovery in the second half and into the current financial year. |
| EBITDA - £'m | A measure of profits excluding non-cash items such as share option charges, impairment, depreciation, and amortisation | Offers a clearer reflection of the ability to generate cash | £(1.5) | £ (2.0) | Decreased loss as a result of tight cost control and lower highlighted costs. |
| Adjusted EBITDA - £'m | A management measure of profits adjusted for non-underlying items such as restructuring, and acquisition related and excluding the impact of IFRS 16 | Underlying performance of business operations | £(1.2) | £ (1.5) | Decreased loss as a result of tight cost control |
| Cash conversion | Operational cash flow / EBITDA | Measures the ability of the business to convert profit into cash and correlation between EBITDA and cash performance | 29% | 85% | When adjusted for the impact of COVID-19 HMRC deferrals and premises rental c75%. Average over 4 years circa 100%. |
| Recurring revenue % | Recurring revenue lines / total revenue | Shows visibility of recurring revenue growth rate | 55% | 56% | Broadly in line with prior year |
| Monthly recurring revenue - £'m | Revenue from the provision of services on a recurring basis | Shows predictable monthly metrics to track progress against objective of becoming profitable solely on recurring revenue | 0.25 | 0.26 | Some churn in Cyber due to legacy platform offsetting wins. Significant growth in Assynt since the year end, August 2021 circa £0.28m |
| Number of Invoiced customers | Number of customers invoiced over the preceding 12 months | Measure of customer concentration (includes acquired customer base) | 292 | 284 | Move towards larger contracts and invoices in each division. Circa 470 (2020: 440) customers dealt with |
| Headcount | Average headcount during the year | Shows average number of employees in the year | 84 | 81 | Increase in billable consultants. |
| Contract liabilities (deferred income) - £'m | Contracted and invoiced revenue yet to be recognised (deferred income) | Shows visibility into invoiced amounts to be recognised in future periods | £1.1 | £1.2 | Broadly static, some timing issues. |

Directors' report

Dividends

The consolidated statement of comprehensive income for the year is set out on page 38 and shows the loss for the year. The Directors do not recommend the proposal of a final dividend in respect of the current year.

Events after reporting date

- On 29 April 2021, the Group announced changes to certain outstanding share options to reduce potential tax charges for both the option holder and the Company. This involved the cancellation of 29,119,200 unapproved share options with exercise prices between 1p and 1.92p, and their immediate reissue under identical terms under the Group's EMI approved scheme.
- On 18 August 2021, the Group announced a five-year Growth Loan facility with BOOST&Co of which the key terms are:
 - Initial £1m loan secured over the Group's assets, expected to increase to £2.5m to fund acquisitions & investment programmes
 - Annual interest of 11%, and straight-line amortisation of the loan commencing after 12 months
 - The loan carries a 3% early prepayment fee on the then amount outstanding
 - The proceeds of this will enable the Group to make earnings enhancing acquisitions to strengthen its core Cyber division, as well as supporting the Group's overall organic growth plans.
- On 18 August 2021, the Group announced that options over a total of 7,000,000 Ordinary Shares of nil par value each were granted to 7 employees.

Directors

The Directors who served the Company during the year and up to the date of this report were as follows:

Executive Directors

M D Read
I R Selby

Non-Executive Directors

E Shaw
A Hambro

Directors' interests

The Directors' interests in the share capital of the Company at the year-end were as stated below:

| | 2021 | | 2020 | |
|-----------------------|------------------|--------|------------------|--------|
| | Number of shares | % Held | Number of shares | % Held |
| M D Read [^] | 15,313,940 | 2.91% | 11,453,940 | 2.86% |
| E Shaw | 1,366,666 | 0.26% | 866,667 | 0.22% |
| I R Selby | 2,069,348 | 0.39% | 1,069,348 | 0.27% |
| A Hambro | 2,750,000 | 0.52% | 250,000 | 0.31% |

[^] M D Read has 6,000,000 warrants, vesting and exercisable as detailed in note 12.

Group's policy on payment of creditors

It is the Group's policy to pay suppliers in accordance with the terms and conditions agreed between the Group and its suppliers, provided that the goods and services have been supplied in accordance with the agreed terms and conditions. At the end of the financial year ended 31 March 2021, creditors' days were 84 days (2020: 69 days). At present the vast majority of the Group's creditors, including taxation are within agreed terms.

Political and charitable donations

There were no political and charitable donations made by the Group during the year.

Directors' report

Financial Instruments

The Group's financial risk management objectives are to control debt levels and to ensure sufficient working capital for the Group's overheads and capital expenditure commitments. Financial instruments are disclosed and discussed in note 29 to the financial statements.

Falanx People

Falanx Group employs around 77 team members in the UK and 7 internationally (2020: 74 employees in the UK and 7 internationally). Our employees are at the very heart of the organisation and are our most valuable asset. We recognise that, to ensure that we have a competitive advantage, our employees should have the best opportunity to thrive and succeed. We therefore engage with our team to support motivation, retention and performance.

As an organisation, we have used our technology infrastructure where we heavily invested in the last year, to enable successful and secure remote working and effective collaboration across our international workforce, including UK, Dubai, Hong Kong, Italy and the US. Many of our employees work remotely with the ability to be based in our new and vibrant office space in Reading, UK a hub for technology. In Reading, we have created a modern and collaborative environment for our employees.

Our remote working model has enabled Falanx to secure the highest calibre of technology talent at more senior levels within the organisation that require experience and technical skills.

We are proud to provide Internship opportunities into our Security Operations Centre in Reading. We work in partnership with leading Universities in the UK and employ 3 university students each year on a year industrial placement. We have retained some of these students following graduation who have progressed onto successful careers in Cyber Security.

Retaining our talent is key and we are keen to ensure that we have a competitive advantage as an employer of choice. We provide our employees with a benefits package to include Private Medical Insurance, a health cash plan, life insurances, a pension scheme, an employee benefits platform which includes a Bike to Work scheme.

In April 2020 we launched an employee share option where cash remuneration was reduced in exchange for share options which aligned staff with shareholder interests during the peak of the COVID-19 crisis. We are pleased that there was a good level of uptake around the organisation. We have our staff keep well, both physically and mentally during the COVID-19 pandemic and we continue with a focus on wellbeing on an ongoing basis.

To ensure that the Company is positioned for projected growth plans; Falanx provides a Management Development Programme to talented managers to enhance their skills to lead growing teams and take on increased accountability. We have been delighted with our teams' progress; it has helped them to make intelligent decisions with confidence, making better use of resources, managing performance at a team level and working towards business goals through strategic translation. In addition, it has built trust and stronger working relationships within our leadership team and helps support succession planning.

We encourage our people to continue to develop their skills and keep up to date with new technology, standards, processes and regional risks and threats. Training needs are identified through the regular development meetings team members have with their line managers. The Company are fully supportive of providing training that supports personal development plans, helps retention and has clear business benefits.

Business Ethics and ways of working

Falanx is committed to ensuring that the business operates in a responsible and ethical manner and we ensure that our employees are committed to the Falanx ways of working through our robust policies, processes and procedures. Falanx ensures the following policies are followed and adhered to in respect of business ethics:

Anti-Bribery and Anti-Corruption Policy

Falanx Group is committed to conducting business in an ethical and honest manner and is committed to implementing and enforcing systems that ensure bribery is prevented. Falanx has zero-tolerance for bribery and corrupt activities. We are committed to acting professionally, fairly, and with integrity in all business dealings and relationships, wherever in the country we operate.

Falanx will constantly uphold all laws relating to anti-bribery and corruption in all the jurisdictions in which we operate. We are bound by the laws of the UK Bribery Act 2010 and the FCPA 1977 (amended 1998), in regard to our conduct both at home and abroad.

Directors' report

Dignity at Work Policy

All employees of Falanx have an important part to play in the overall success of the business and everyone is respected and valued for their contribution at every level. At Falanx, we foster and promote a healthy, collaborative and supportive environment and encourage all our colleagues to work together in harmony in a way that encourages self-development, team success and knowledge sharing.

Falanx is committed to protecting the dignity and wellbeing of everyone and encourages practices that take into account the rights of all individuals and seeks to eliminate all forms of unacceptable behaviour. It is in our best interests to promote a safe, healthy and fair environment where people are given every opportunity to excel and thrive in their workplace.

Equality and Diversity Policy

Falanx is committed to promoting a culture that actively values difference and recognises that people from different backgrounds and experiences can bring valuable insights to the workplace and enhance the way we work.

Falanx aims to be an inclusive organisation, committed to providing equal opportunities throughout employment including in the recruitment, training and development of employees, and to pro-actively tackling and eliminating discrimination.

Whistleblowing Policy

Falanx is committed to ensuring that practices and procedures in respect of all employees, partners and customers are of the highest quality. All employees are expected to maintain the highest standards of integrity and good faith.

The Public Interest Disclosure Act 1998 protects workers who blow the whistle about wrongdoing. The Policy is intended to provide guidance as to the circumstances under which such protection is available and the steps to be taken should an employee feel that a matter of public interest is at stake.

Health and safety

Falanx ensures the Health and Safety of its employees by taking all necessary steps in providing a Healthy and safe working environment. Relevant assessments are carried out and appropriate training is provided to all employees.

Environmental Policy

Falanx has a low environmental footprint. Its move to remote working has significantly reduced the need for commuting, and a much lower level of business travel will also reduce its carbon footprint. The main energy consumption is driven by use of devices such as laptops and mobile phones and the Company believes that there is little impact. Furthermore, the Company is operating in a paperless environment wherever possible.

Directors' report

Section 172 Statement

Whilst as a BVI incorporated company Falanx Group Limited is outside the scope of s172 of the UK Companies Act 2006 the board believes that it is highly relevant to Falanx and is therefore reporting under it.

Directors of a company must act in a way that they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole, taking into account the non-exhaustive list of factors set out in Section 172 of the Companies Act 2006.

Section 172 also requires directors to take into consideration the interests of other stakeholders set out in Section 172(1) in their decision making.

Engagement with our members and wider stakeholder groups plays an essential role throughout our business. We are cognisant of fostering an effective and mutually beneficial relationship with each stakeholder group. Our understanding of stakeholder needs and concerns is factored into boardroom discussions regarding the potential long-term impacts of our strategic decisions on each group. Post the reporting year end, the Board have continued to have regard to the interests of the Companies stakeholders, including the potential impact of its future activities on the community, the environment and the company's reputation when making decisions. The Board also continue to take all necessary measures to ensure the Company is acting in good faith and fairly between members and is promoting the success of the company for its members in the long term.

The table below acts as our Section 172 statement by setting out the key stakeholder groups and how the board has engaged with them over the reporting year.

| Stakeholder | Why we engage | How we engage |
|-------------------|---|--|
| Our investors | We maintain and value regular dialogue with our investors and place great importance on our relationship with them. We know that our investors expect a comprehensive insight into the financial performance of the company, and awareness of long-term strategy and direction. As such, we aim to provide high levels of transparency and clarity about our results and long-term strategy to build trust in our future plans. | <ul style="list-style-type: none"> The board has stated that its core focus is the Cyber Division due to its expected ability to generate stronger returns for shareholders and that it will be the focus for investment going forward. Regular reports and analysis on investors and shareholders, opinion sought from corporate advisors and direct engagement where possible. Annual Report and interim results Company website AGM held 17 December 2020 (virtually due to COVID-19) Stock exchange announcements and press releases. Analyst research at the appropriate moment including research for wider distribution |
| Our employees | Our people are at the heart of our business. Effective employee engagement leads to a happier, healthier workforce who are invested in the success of the company and who are all pulling in the same direction. Our engagement seeks to address any employee concerns regarding working conditions, health and safety, training and development, as well as workforce diversity. | <ul style="list-style-type: none"> Open and regular informal dialogue Formal annual reviews Competitive employee benefit packages including healthcare, discount vouchers and death in service insurances Opportunity to participate in share-based incentives Encouraging ongoing employee training and development Employment of a professional HR manager to help manage and development our human capital Board level communication and interaction with roadshows and 'town hall meetings' both physically and virtually where appropriate During COVID-19 regular reviews of staff welfare, mental health, office safety, comprehensive Health and Safety assessments using external advisors ahead of office changes Weekly/daily contact with all team members to check on welfare during lockdown Monitoring of local safety issues for certain employees in overseas locations |
| Regulatory bodies | The Group's operations are subject to a wide range of laws, regulations, and listing requirements including data | <ul style="list-style-type: none"> Company website Stock exchange announcements |

Directors' report

| | | |
|-----------------|--|---|
| | protection, tax, employment, environmental and health and safety legislation, along with contractual terms. | <ul style="list-style-type: none"> • Annual Report • Direct contact with regulators • Compliance updates at Board meetings • Risk reviews • Internal and external audits of key business processes around cyber security • Use of external reputable advisors where appropriate |
| Our customers | We aim to listen to and engage with our customers on a regular basis to ensure that we understand their needs. We ensure that information is easily accessible and customer concerns are dealt with in a timely and professional manner. | <ul style="list-style-type: none"> • Ongoing review of customer feedback • Face-to-face meetings with customers to further develop relationships • Ongoing promotional and advertising activity • Development of long-term recurring contracts and deep customer relationships |
| Our suppliers | We have a number of key partners and suppliers with whom we have built strong relationships with and strongly value. We establish effective engagement channels to ensure our relationships remain collaborative and forward focused, and to foster relationships of mutual trust and loyalty. | <ul style="list-style-type: none"> • Open two-way dialogue and regular face to face meetings where possible. • Ongoing performance review and feedback • Formal checks for data security compliance • Due diligence where appropriate, is carried out before a new supplier is engaged • Revised commercial terms were implemented during COVID-19 |
| The environment | We are a low carbon footprint business and are predominantly office based (either company, home or client). | <ul style="list-style-type: none"> • Use of video conferencing where possible to mitigate the need for travel. • 2 offices were closed during the year (London and Sussex) and this has reduced the carbon footprint by reducing commuting travel significantly. • Business travel and consequent carbon emissions have been greatly reduced with the move to online meetings. |

| Key Decision | Actions Taken | Stakeholder considerations |
|---|---|---|
| Protection of business and stakeholders during COVID-19 | <ul style="list-style-type: none"> • Move to remote deployment and homeworking for staff in March 2020 to comply with government advice. Since then the business has largely moved to a remote environment with the exception of the cyber security SOC. • Upgrading of infrastructure to ensure continuity of operations • Adoption of cost and cash husbanding strategies to protect business such as salary sacrifice, spend reductions, furlough and HMRC time to pay • Full maintenance of cyber protection capabilities to support customer and internal operations | <ul style="list-style-type: none"> • Employee welfare by reducing the need to travel to premises and exposure to increased COVID-19 risk. Regularly checking on them during remote working. Company medical benefits include access to counselling and support services • COVID-19 testing before office attendance • Customer interest by ensuring that their key cyber protections were in place and fully operational at a time of increased risk • Investor interest by optimising cash position whilst ensuring that liabilities could be met in agreed timescales. Salary sacrifice trading cash remuneration for directors and staff for share options to reduce short term cash outflow whilst engaging staff further with the company through equity participation • Delays in certain onsite work during COVID-19 in line with government guidance |
| Premises realignment | <ul style="list-style-type: none"> • Exited from leases in London and Sussex with a single lease in Reading going forward. Use of serviced offices where relevant is a forward strategy. | <ul style="list-style-type: none"> • Reading lease has a 5-year term with a 3-year break (in July 2022) which allows for continuity of operations whilst retaining flexibility • Offices in London and Sussex were closed during the Summer of 2020 as leases had expired therefore reducing ongoing cost and liabilities for shareholders |

Directors' report

| | | |
|--|--|---|
| | | <ul style="list-style-type: none"> • Lack of need to commute improving work life balance and reducing commuting costs for staff whilst still being able to deliver against customers • Reduction in commuting reducing carbon impact from either public or private transport and therefore supporting the environment |
| Realignment of Cyber technology infrastructure | Development of Triarii platform based on 3 rd party components to deliver against customer requirements | <ul style="list-style-type: none"> • Improvement of client delivery to help them protect against cyber threats. This included engagement with key partners and customers to best align with the market opportunity, therefore growing long term shareholder value with increasing revenue opportunity • Triarii gaining rapid uptake of new users, supporting shareholder interest by a more streamlined customer offering using only a single technology platform with significantly lower external licencing costs and greater staff efficiency. • Use 3rd party technology components to reduce R&D spend requirement to allow focus on customer service and not technology platform |

The above statement should be read in conjunction with the Corporate Governance Statement on pages 29 to 33.

Principal Risks and Uncertainties

The following are the risk factors associated with the Group's business and industry:

Cyber Security

The Group is a high-profile provider of Cyber Security services to governmental and corporate customers. A breach of its own cyber security could result in significant damage to reputation and could lead to a loss of existing customers and reduced ability to gain new customers. This could by definition, create pressure on the Group's cash flows.

The Group mitigates this by a combination of people, processes and technologies. A dedicated Data Protection Officer is in situ to provide independent (of operations) oversight of data security and Falanx as a cyber security company embeds it into every aspect of its operations and makes the relevant investment in infrastructure. Regular training is given to all staff including online courses run by dedicated providers and this includes refresher training. The DPO is running seminars and briefings around the organisation to advise on appropriate practices. The business continues to invest in its infrastructure and resources to ensure that its internal systems are configured to ensure good security. A Chief Information Security Officer ("CISO") security team of cyber security experts within the Group continually monitor our security state and risk profile and advises the board on policy. The Group continually reviews its technology infrastructure for delivery of customer services to align them with market requirements and this includes the use of supported 3rd party and proprietary systems.

Reliance on Key Contracts and Business Relationships

The Group is reducing its customer concentration risk by acquisition of further customers through organic development as well as M&A. The Group has realigned its Cyber sales strategy to concentrate on SMEs with lower spends but who are less likely to develop their own SOCs. The Cyber Division addresses its market through channel partners including N-Able Inc (formerly SolarWinds MSP) and TrustMarque and the Company and its senior management, works closely with them to develop opportunity and monitor performance. This means that customer concentration is lower than previous periods. In the 12 months to 31 March 2021, no customer represented more than 10% of Group revenue. Many customers, particularly in the Cyber division's consulting revenues do not have long term agreements but have repeatedly transacted with the Group for many years. Where the Group uses external licences for its operations it seeks protections such as multiple suppliers, industry standard and widely deployed technologies and escrow arrangements for source code.

Pipeline opportunities

The Group has a significant number of small, medium and major contracts in contemplation in the form of a pipeline of opportunities. However, there is no certainty these opportunities will be entered into or converted into concluded contracts or that the expected level of work will in fact, if converted to contracts, be awarded to the Group. In addition, there can be no certainty that any contracts resulting from conversion of the opportunity will be profitable or even not loss-making. Furthermore, whilst the Group operates in high growth sectors with strong drivers, there is an always an inherent macroeconomic exposure which could impact its clients.

Directors' report

The Company may need additional access to capital in the future

The Group's capital requirements depend on numerous factors, including its ability to expand its business and its strategy of making complementary acquisitions. If its capital requirements vary materially from its current plans, the Group may require further financing. Any additional equity financing may be dilutive to shareholders, and debt financing, if available, may involve restrictions on financing and operating activities and adversely affect the Group's dividend policy. In addition, there can be no assurance that the Group will be able to raise additional funds when needed or that such funds will be available on terms favourable or acceptable to the Group. If the Group is unable to obtain additional financing as needed, the Group may be required to reduce the scope of the Group's operations or anticipated expansion, dispose of assets or to cease trading.

Management of future growth

The Group's plans for growth will challenge the Group's management team, customer support, marketing, administrative and technological resources. If the Group is unable to manage its growth effectively its business, operations or financial condition may deteriorate. The Group will consider future acquisition opportunities. If the Group is unable successfully to integrate an acquired company or business, the acquisition could lead to disruptions to the business. If the operations or assimilation of an acquired business does not accord with the Group's expectations, the Group may have to decrease the value afforded to the acquired business or realign the Group's structure.

Going Concern

The Financial Statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

1. The Group operates in the high growth Cyber Security and Strategic Intelligence markets. The COVID-19 situation has driven the move to an online environment for many aspects of business and this is increasing demand for the Group's services, although clearly a company cannot be immune from any major macroeconomic issues.
2. The Group's financial performance has significantly improved since 1 April 2021, and this continues from the post COVID-19 recovery which commenced in the autumn of 2020.
3. The Cyber Security division is now profitable and expected to remain the case moving forwards at an adjusted EBITDA level compared with losing c£0.45m at an adjusted EBITDA level in the year ended 31 March 2021. This division has a strong backlog of work from orders (including the divisions largest ever order for £1m (over 3 years)) which was won in April 2021. The recurring revenue Triarii cyber security monitoring service has a strong pipeline of business from channels and direct sales, and this is expected to help further support revenue growth. This service has a high incremental margin and can significantly increase divisional performance. Adjusted EBITDA has had a historically very close correlation with cash performance.
4. The Assynt division has signed significant new contract expansions and extensions with a major existing client which should increase its recurring revenues to circa £0.19m per month compared with £0.15m at the start of the year. This should enable it to be profitable on a regular basis without any consulting assignments.
5. Overall, the Group has a high level of recurring revenues, currently more than £0.28m per month, and a high level of repeat business of more than £2.0m per annum. This reduces its exposure to new sales situations. The Group's creditors are broadly in line and the group has a normal working capital position and an agreed payment plan is in place with HMRC and is in terms. The Group has a historically very low incidence of bad debts.
6. Group central costs are lower than in previous years and there is no major requirement for capital expenditure following the disposal of Furnace in the year ended 31 March 2020.
7. The above and the associated business plans and detailed forecasts, enable the directors to believe that the Group's existing cash resources (excluding the drawdown of the £1.5m from the second phase of the loan from BOOST&Co) are sufficient for it to remain a going concern for at least 12 months from the date of these accounts. This analysis has included the repayment of all amounts due under the loan and to HMRC under the COVID-19 deferral plan as well as it to have a normal working capital profile.
8. A stringent stress test scenario as a downgrade to the above has also been prepared. This assumes that there are no further sales of Triarii MRR and no further recurring revenues in the Assynt business beyond the existing contract bases. Furthermore, in this scenario the Group does not adjust its cost based in this scenario. This shows that, with the drawdown of the second tranche of £1.5m of the loan that the Group would still have significant cash balances at 12m from the date of these accounts.
9. Should this stringent stress test scenario not be achieved, then further mitigating actions would be carried out to ensure that the Group remains within its resources, and these would include a reduction of planned capital expenditure, headcount reduction, reducing discretionary spend and sales investment, freezing or reducing pay and cancelling recruitment, and all of these are within the director's control. Further incremental measures could also involve the potential disposal of non-core assets which the Group believes, could generate proceeds which are significant compared to the recent market capitalisation of the Group. Further actions could include seeking further support from existing and new shareholders and debt providers.

Directors' report

Based on the above, the Group expects to have will have sufficient resources to meets its liabilities as they fall due for at least 12 months from the date of these accounts.

Further details of our COVID-19 response and impact are set out in the s172 report on pages 18 to 19.

Information to shareholders - Website

The Group has its own web site (www.falanx.com) for the purposes of improving information flow to its shareholders and potential investors.

Substantial shareholdings

On 10 September 2021 the following were holders of 3% or more of the Group's issued share capital:

| Registered holder | Number of Ordinary Shares | Percentage of Issued Capital |
|--------------------------------------|----------------------------------|-------------------------------------|
| Amati AIM VCT plc | 85,000,000 | 16.16% |
| Octopus Investments Nominees Limited | 50,000,000 | 9.51% |
| Unicorn VCT | 33,333,333 | 6.34% |
| Premier Miton Group PLC | 32,554,339 | 6.19% |
| Walker Crips Investment Management | 26,149,010 | 4.97% |

Auditors

The auditors BDO LLP have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the annual general meeting of the Company.

Disclosure of information to the auditors

So far as the Directors are aware, there is no relevant audit information of which the Group's auditors are unaware and they have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Statement of Directors' Responsibilities

The Statement of Directors' Responsibilities can be found on page 28 of these financial statements. The Statement of Directors' Responsibilities forms part of the Directors' report.

On behalf of the Board

I R Selby
Director

28 September 2021

Remuneration & Nomination Committee report

The Remuneration and Nomination Committee comprises Emma Shaw (Chairman), Alex Hambro and meets as and when necessary but normally at least twice per year. It keeps under review the skill requirements of the Board and the skill, knowledge, experience, length of service and performance of the Directors. It also reviews their external interests with a view to identifying any actual, perceived or potential conflicts of interests, including the time available to commit to their duties to the Group. It sets and reviews the scale and structure of the Executive Directors' remuneration packages, including share options and the terms of the service contracts. The remuneration and the terms and conditions of the Non-Executive Directors are determined by the Executive Directors in conjunction with external advisors with due regard to the interests of the shareholders and the performance of the Group.

The Committee also makes recommendations to the Board concerning the allocation of share options to employees. The Committee also monitors the independence of each Non-Executive Director and makes recommendations concerning such to the Board. The results of these reviews are important when the Board considers succession planning and the re-election and reappointment of Directors. Members of the Committee take no part in any discussions concerning their own circumstances. The Committee and in conjunction with the CEO are also responsible for keeping under review the senior management team of the organisation to ensuring the continued ability of the organisation to compete effectively in the marketplace.

The CEO may attend upon invitation, particularly around executive remuneration and the CFO may be asked to attend to discuss technical matters. The Terms of Reference are disclosed on the Company's website and are reviewed by the Board annually and amended where appropriate.

As a Company whose shares are admitted to trading on AIM, the preparation of a Remuneration & Nomination Committee report is not an obligation. The Group has, however, sought to provide information that is appropriate to its size and organisation and is will put the approval of this report to shareholders for an advisory approval at the next AGM. This committee met twice during the year. The committee, in conjunction with other executives where relevant considers nomination and succession matters.

Executive Directors' Remuneration Policy

The Remuneration Committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and to set the remuneration packages of individual Directors. This includes agreeing with the Board the framework for remuneration of the Chief Executive, all other Executive Directors and such other members of the senior executive management of the Company as it is designated to consider. It is furthermore responsible for determining the total individual remuneration packages of each Director, including, where appropriate, bonuses, benefits, incentive payments and share options.

The Committee's policy is to provide a remuneration package which will attract and retain Directors and management with the ability and experience required to manage the Group and to provide superior long-term performance. It is the aim of the Committee to reward Directors competitively and on the broad principle that their remuneration should be in line with the remuneration paid to senior management of comparable companies. There are four main elements of the remuneration package for Executive Directors: base salary, share options, benefits and annual bonus. Notice periods for Executive Directors are between 6 and 12 months.

Base salary is reviewed annually and in setting salary levels the Remuneration Committee considers the experience and responsibilities of the Executive Directors and their personal performance during the previous period. The Committee also takes account of external market data, as well as the rates of increases for other employees within the Group.

Share options are granted having regard to an individual's seniority within the business and are designed to give Directors and staff an interest in the increase in the value of the Group and to align them with all shareholders. It is the Group's policy to use EMI approved schemes wherever possible and should an individual not be eligible at a certain point where unapproved options are granted, then if they subsequently become eligible for EMI criteria then their existing options will be cancelled and reissued on identical terms under EMI, reducing potential tax charges on both the individual and Company. On 29 April 2021, certain unapproved options granted in September 2019 to directors and senior managers were cancelled and immediately reissued on identical terms under the EMI scheme.

Benefits primarily comprise the provision of, pension payments, group wide health insurance (or cash equivalent), any wider staff benefits and participation in the Group life assurance scheme.

All Executive Directors and executive management participate in the Group's annual bonus scheme, which is based upon the assessment of individual performance, taking into account the overall groups performance and financial position.

Remuneration & Nomination Committee report

Non-Executive Directors' remuneration

Non-Executive Directors' remuneration is determined by the Board as a whole and is in conjunction with external advisors, with each refraining from determining their own remuneration. The fees paid to Non-Executive Directors are set at a level intended to attract individuals with the necessary experience and ability to make a significant contribution to the Group.

It is anticipated that Non-Executive Directors will spend an average of 2 days a month undertaking their Role and Duties. This will include attendance at board meetings, the AGM, and an annual planning day. They also attend periodic Remuneration, Risk and Audit Committee meetings. They are required to spend time fully considering all relevant papers prior to each meeting. Non-executive directors have 3-month notice periods in their letters of appointment. Non-executive directors are paid through company payroll systems.

In addition to the above they may be required to devote additional time to the Company when it is undergoing a period of particularly increased activity and may be required to support the Company by attending meetings with clients and advisors etc.

Directors' remuneration

| | Salary and fees | Benefits in kind | Pension contribution | 2021 Total | 2020 Total |
|---------------------------------|-----------------|------------------|----------------------|----------------|----------------|
| | £ | £ | £ | £ | £ |
| Executive Directors: | | | | | |
| M D Read | 47,001 | 5,491 | — | 52,492 | 108,667 |
| J R Blamire* | — | — | — | — | 85,042 |
| I R Selby | 111,133 | 135 | 1,751 | 113,019 | 127,636 |
| Non-executive Directors: | | | | | |
| E Shaw | 19,250 | — | — | 19,250 | 23,500 |
| A Hambro | 19,000 | — | — | 19,000 | 25,288 |
| | 196,384 | 5,626 | 1,751 | 203,761 | 370,133 |

Total board remuneration fell by 45% in the year to £0.20m (2020: £0.37m). All directors reduced their cash remuneration as part of the salary sacrifice scheme announced in April 2020.

Mike Read did not take any additional remuneration above his Chairman fees of £25,000 per annum in the year ended 31 March 2018 despite taking over duties as full time Chief Executive Officer in November 2017 in order to support the Company's financial position and help it husband resources at that point. As stated in previous annual reports, this additional effort has been recognised by a contingent £100,000 bonus scheme payable under certain circumstances (such as departure (good leaver), death, redundancy, retirement, change of control) provided that the Company has achieved certain valuation metrics at that point. This by definition, remains unpaid as at the date of this report.

* J R Blamire resigned 19 December 2019 as part of the Furnace MBO. He entered into a compromise agreement which allowed him to retain his share options for a further six months but was not eligible to receive any further payment, save for usual reimbursement of accrued expenses incurred under the Group's policy.

Remuneration & Nomination Committee report

Directors Interests in Share Options

The interests of Directors in options over the share capital of the Company at year end were as stated below:

| 1.925 pence options | 2021 | 2020 |
|---------------------|-----------|-----------|
| | Number | Number |
| M D Read | 5,000,000 | 5,000,000 |
| I R Selby | 5,000,000 | 5,000,000 |

These Share Options were granted at a price 1.925p. All options are exercisable between 1 April 2020 and 31 March 2030. They vest in three tranches: the first tranche immediately exercisable, the second tranche when the share price reaches 2.89p (50% above exercise price for 1 month) and the third tranche when the share price reaches 3.85p (100% above exercise price for 1 month), save for the event of a change of control in the Company, in which case they will vest in full. They were granted under the rules of the EMI scheme, and where an individual grant does not fall within HMRC EMI rules they are granted as an unapproved option which will typically be subject to PAYE and NI. As referenced in the previous annual report, they were cancelled and reissued as EMI options in April 2021, with there being no other changes to key terms.

| 3.50 pence options | 2021 | 2020 |
|--------------------|--------|-----------|
| | Number | Number |
| M D Read ** | — | 1,500,000 |
| I R Selby ** | — | 1,500,000 |
| E Shaw ** | — | 250,000 |

** options surrendered 21 April 2020

These Share Options were granted at a price 19% over the then current share price. They vest in three tranches: the first tranche when the share price reaches 6.5p (25%), the second tranche when the share price reaches 9p (25%) and the third tranche when the share price reaches 12p (50%). The Share Options only vest if the average share price has reached the relevant threshold level for a period of three months, save for the event of a change of control in the Company, in which case they will vest in full. Based on the mid-market closing price on 20 December 2018 of 2.95p there is no gain at all unless the share price increases by 120% and full gains are not achieved until a gain of 307% has been achieved. They were granted under the rules of the EMI scheme, and where an individual grant does not fall within HMRC EMI rules they are granted as an unapproved option which will typically be subject to PAYE and NI.

| 5.00 pence options | 2021 | 2020 |
|--------------------|--------|-----------|
| | Number | Number |
| M D Read ** | — | 5,000,000 |
| I R Selby ** | — | 5,000,000 |
| E Shaw ** | — | 500,000 |

** options surrendered 21 April 2020

These options were granted on 14 March 2018 at a 10% premium to the prevailing share price, and vest in three tranches: the first tranche when the share price reaches 7.5p (25%), the second tranche when the share price reaches 10p (25%) and the third tranche when the share price reaches 12.5p (50%). The Share Options only vest if the average share price has reached the relevant threshold level for a period of three months, save for the event of a change of control in the Company, in which case they will vest in full. Based on the mid-market closing price of 4.5p on the date of issue, there is no gain at all unless the share price increases by 66% and full gains are not achieved until a gain of 178% has been achieved. They were granted under the rules of the EMI scheme, and where an individual grant does not fall within HMRC EMI rules they are granted as an unapproved option which will typically be subject to PAYE and NI.

Remuneration & Nomination Committee report

| 5.875 pence options | 2021 Number | 2020 Number |
|---------------------|----------------|----------------|
| E Shaw ** | — | 750,000 |

** options surrendered 21 April 2020

These options were granted on 24th January 2017 and vest as below.

| Date from which Options are exercisable | % which can be exercised |
|---|--------------------------|
| Earlier of 12 months from the Date of Grant and date at which the share price of the Company has consistently been at 6p or above for 6 months | 33.3% |
| Earlier of 24 months from the Date of Grant and date at which the Share Price of the Company has consistently been at 12p or above for 6 months | 33.3% |
| Earlier of 36 months from the Date of Grant and date at which the Share Price of the Company has consistently been at 20p or above for 6 months | 33.4% |

Salary Sacrifice Scheme

In April 2020 in response to the COVID-19 situation the company implemented a voluntary salary sacrifice scheme whereby cash remuneration was swapped for share options for staff and executives and warrants for non-executives. Emma Shaw, Mike Read and Ian Selby (as well as other executives and staff) waived certain of their previously granted options (& warrants) as detailed above to allow for headroom for the new issue. The issuance of new options was not conditional on the sacrifice of existing options. These all have an exercise price of 1p each and a duration of 10 years. Warrants have similar economic characteristics to the options. The closing price on the night before this scheme was first announced on 31 March 2020 was c0.55p and the exercise price represented an uplift of 75%. Both the options and warrants have customary good leaver and bad leaver provisions and acceleration of vesting criteria in certain specified circumstances.

| Director | Number of options granted |
|-----------|---------------------------|
| M D Read | 6,600,000 |
| I R Selby | 2,520,000 |

These options which were unapproved from a taxation perspective, were surrendered in April 2021 and were immediately reissued under identical terms under the Group's EMI scheme.

The table below sets out details on the issue of the warrants in respect of non-executive directors

| Non-Executive Director | Number of warrants granted |
|------------------------|----------------------------|
| A Hambro | 1,200,000 |
| E Shaw | 399,600 |

In total 31,400,000 options and 1,599,600 warrants were issued to directors, senior managers and staff. In order to reduce the overall number of options outstanding to mitigate against future dilution approximately 25.7m options were waived and these include the items marked ** above and on previous pages in this report. The overall scheme saved approximately £0.2m of cash remuneration costs during the period it operated between 1 April 2020 and 30 September 2020.

Remuneration & Nomination Committee report

Directors' interests in transactions

No director had, during or at the end of the year, a material interest in any contract which was significant in relation to the Group's business, except in respect of service agreements. In the year ended 31 March 2020, there was a single transaction the details of which are set out below.

In December 2019 the Group disposed of part of its interest in the Furnace IP development to Furnace Technologies Limited, a company founded by John Blamire, a former director of the Group. Mr Blamire stepped down from the board at that point.

The Board viewed that whilst there was a strong potential market opportunity for Furnace, but determined that Furnace, which was and still is pre-revenue and loss making, is non-core to Falanx's cyber services market. Furnace had consumed approximately £0.4m of cash resources in the financial year up to its disposal in December 2019.

Falanx sold the business and assets of Furnace for a sale price of £1.1m, to be funded by way of an unsecured loan note, plus the issue and allotment to Falanx of 20% of the shares in Furnace Technologies Limited. The loan note has a five-year term and carries a 5% coupon. Furthermore, in the event that Furnace is sold during the five years following the initial sale by Falanx, Falanx will receive an additional 20% of the proceeds of a sale in the first 12 months, amortising down to zero over the remaining four years. Falanx also benefits from certain accelerated loan repayment arrangements in the event of a sale or change of control in Furnace. This resulted in a reclassification of Falanx's current R&D and other intangibles to investments.

Mr Blamire did not participate in board meetings concerning this and was kept offside. The sale of Furnace to Furnace Technologies Limited, a company in which John Blamire is a substantial shareholder and director, was a related party transaction pursuant to rule 13 of the AIM Rules for Companies. Accordingly, the Directors of Falanx (excluding John Blamire) having consulted with the Company's nominated adviser, Stifel, and considered that the terms of the transaction are fair and reasonable insofar as the Company's shareholders are concerned. Mr Blamire waived his contract of employment at that point and entered into a compromise agreement under which further no monies were payable (save for accrued routine expenses) and he and the other purchaser were allowed to keep their share options until 19 June 2020.

The investment in Furnace was fully impaired in the year ended 31 March 2021 as referenced in note 17 to these accounts

E Shaw
Chairman

28 September 2021

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report, Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the financial performance and cash flows of the Group for that year. In preparing these financial statements, the Directors are required to:

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with International Accounting Standards;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with all applicable legislation and as regard to the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website

Corporate Governance Report

Statement by the Chairman on Corporate Governance

As the Company's shares are traded on the AIM market of the London Stock Exchange Falanx Group Limited (Falanx) has chosen to comply with the Quoted Companies Alliance Corporate Governance Code "the Code".

This report describes how the Group has complied with the Code and explains any departures from the ten principles within the Code. A description of the Board and its committees, together with the Group's systems of internal financial control is set out below.

1. Generation of Long-Term Growth and Shareholder Value

The Company is addressing markets which it believes have long term growth potential with industry growth rates of greater than GDP. The Security sector has traditionally grown ahead of GDP against a backdrop of political, economic, social and technological drivers. The Company provides highly relevant services to its clients to help them protect their organisations and consistently invests in innovation. The Company's strategy is to generate sustainable cash flows and profits from predictable and growing recurring revenues.

2. The Board

The Board comprises a non-executive Chairman, the Chief Executive Officer, the Chief Financial Officer, and one independent non-executive director. It is intended that Board will evolve as the Group grows to include at least one more independent non-executive director including a qualified accountant or similar as audit committee chair with a planned start in 2022.

The Board meets at least 11 times a year. The Chief Executive and the Chief Financial Officer are engaged full-time and the Chairman and independent non-executive Director are required to spend two days per month considering Company matters and attending the monthly Board meeting. Executive directors along with senior management meet on at least monthly basis and they are in regular close communication as a matter of routine. Executives formally speak once per week and the board had biweekly update calls during the worst periods of the COVID-19 crisis. Senior management regularly attend board meetings and have full right of access to speak with non-executive directors.

In the year ended 31 March 2021 there were 11 board meetings which were attended by all directors. The audit committee and the remuneration committee each met twice during the year and were attended by Alex Hambro and Emma Shaw.

The Group believes that in its Board it has at its disposal an appropriate range of skills, training and experience to ensure the interests of all stakeholders in the Group are fully accommodated at this stage in its evolution.

Directors biographies are on <https://falanx.com/meet-the-board/>.

3. Board matters

The Board has a schedule of matters specifically reserved for its decision. It is responsible for formulating the Group's corporate strategy, monitoring financial performance, acquisitions, approval of major capital expenditure, treasury and risk management policies.

Board papers are sent out to all directors in advance of each Board meeting including management accounts and accompanying reports from the executive directors. Annual budgets are approved by the Board. Operational control is delegated by the Board to the executive directors.

The Company Secretary acts as the conduit for all governance related matters and shareholder enquiries and passes them on the Chairman to respond. The board maintains full and open communications and all members of staff have access to board members including the Chairman and CEO.

4. Corporate culture

The Board is responsible for ensuring a high standard of corporate conduct. The Board achieves this by ensuring that appropriate policies on behaviour and ethics are in place and signed up to by all employees. Performance is appraised taking into account not just the achievement of objectives, but the behaviour's demonstrated to do so. All managers and the Board lead by example in their behaviour and ethical values demonstrated. The relevant senior management present to the Board at least quarterly (and mostly monthly) on their area's performance. The Company has a dedicated and professionally qualified HR manager who works to support the high standards expected and further details of our people policies are referred to on pages 16 and 17. The Company has a dedicated Data Protection Officer who manages the specific risks around the Group's operations and who works very closely with the cyber security team. The Group continually invests in its IT and cyber security infrastructure. The Company seeks to minimise its environmental impact where possible, an example being the use of video conferencing to reduce travel costs and this is increased since the onset of COVID-19 in March 2020 and continues to the date of this report. The group makes use of electronic as opposed to physical media in its communications and in 2016 changed its articles as allowed under BVI law, to allow the use of solely electronic media for distribution of annual reports, notices of meetings and other shareholder communications.

Corporate Governance Report

5. Board Performance and Delivering Growth

The performance of the Board is primarily measured by the achievement of certain KPI's in the business which are aligned with the growth strategy. These include measures against budgeted gross margins, EBITDA, recurring revenues, forward contract book, customer satisfaction, debtor performance, cash usage and generation, project deliveries, successful corporate transactions, and return on invested capital. The Directors consider that the Company and Board are not yet of a sufficient size for a full Board evaluation to make commercial and practical sense. All executive directors have annual performance reviews. In the frequent Board meetings/calls, the Directors can discuss any areas where they feel a change would benefit the Company and the directors can consult with the Company's advisors. As the Company grows, it expects to expand the Board and with the Board expansion, to re-consider the need for Board evaluation.

6. Succession Planning

The board continually reviews its composition to maximise its effectiveness. This includes determining and reviewing the skills against current and expected business requirements of executive and non-executive directors as well as those of key senior management.

7. Company Secretary

All directors have access to the advice of the company secretary and the independent director and can take external independent company secretarial and legal advice on certain matters, if necessary, at the Company's expense.

The CFO currently acts as the Group's company secretary as it is appropriate for this stage in Falanx's evolution. The board does not see any conflict at this stage but may in the future engage additional resources if appropriate.

8. Board Committees

The Board has a remuneration committee and an audit committee.

The audit committee comprises Alex Hambro (chairman) and Emma Shaw. The committee meets as necessary (but at least twice per year) to monitor the Group's internal control systems and major accounting and audit related issues. There are plans to evolve the Company's governance structure in 2022 so that the audit committee has an independent chair who is a professionally qualified accountant or equivalent. Alex Hambro is an experienced corporate financier and director of public companies.

The remuneration and nomination committee is chaired by Emma Shaw and consists of her and Alex Hambro. It is responsible for determining the contract terms, remuneration and other benefits for executive directors, including performance-related bonus and share option schemes. The remuneration of non-executive directors is agreed by the board as a whole and is done in conjunction with external advisors. It also considers matters of nomination and succession. The Company continues to review the need for further committees.

9. Engagement with Shareholders

On 27 March 2019 the company announced a variation of its memorandum and articles of association to reduce directors' powers to issue shares and to bring it more into line with typical UK structures. These changes were voluntarily done by the company and were not required under BVI law.

The Board values the views of its shareholders. The company will hold Annual General Meetings which are used to communicate with all investors (where possible under prevailing COVID-19 guidance), and they are encouraged to participate. The December 2020 AGM was held as a closed meeting due to the then current COVID-19 situation. The directors are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a formal resolution to approve the Annual Report. Shareholders can also contact the Company Secretary or the Chairman via the Company's website. The December 2020 AGM approved resolutions whereby all shareholder communications such as meeting notices and the annual report could be provided solely in electronic format. This would speed up communication, lower printing costs and reduce the environmental impact of producing paper copies.

On 26 February 2021 the Company held a General Meeting to approve a capital reconstruction as detailed in the statement of changes equity to these accounts. This was held virtually due to the COVID-19 rules at that point.

The Board takes full cognisance of the results of any poll or feedback from shareholders and the Chairman will respond as appropriate whether by email or by offering a chance to meet with the shareholder to explain the Board's position.

Corporate Governance Report

10. Internal control

Internal control systems are designed to meet the needs of the Group and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss. The key procedures which the directors have established with a view to providing effective internal financial control are as follows: –

- **Management structure**

The Board has overall responsibility for the Group and there is a schedule of matters specifically reserved for decisions by the Board.

- **Quality and integrity of personnel**

The integrity and competence of personnel are ensured through high recruitment standards including vetting of staff under relevant security standards, and subsequent training courses. High quality personnel are an essential part of the control environment.

- **Identification of business risks**

The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate courses of action to manage those risks. The boards of our Group businesses also actively identify risks and are reviewed at most board meetings and are formally reviewed in greater depth on a quarterly basis and ensure mitigating controls and appropriate insurances are in place. These are done at both a top level and are cascaded down through the organisation.

- **Budgetary process**

Each year the Board approves the annual budget. Key risk areas are identified. Performance is monitored, and relevant action taken throughout the year through the monthly reporting to the Board of variances from the budget and preparation of updated forecasts on at least a quarterly basis for the year (and together with information on the key risk areas).

- **Authorisation procedures**

Capital and revenue expenditure are regulated by a budgetary process and authority limits for approval of expenditure are in place. For expenditure beyond specified levels, detailed written proposals are submitted to and approved by the Board. Once authorised, such expenditure is reviewed and monitored by the Board. Where the capital expenditure is against the development of software products or services it is reviewed against expected returns from future sales and delivery against agreed milestones.

Reviews of specific industry and regulatory risk areas (for example maintenance of cyber security accreditations) are carried out on a periodic basis by staff separate from the operation of those areas.

11. Advisors

The Board selects advisory relationships based on their relevance of expertise, track record of success, ability to add value to the development of shareholder value and to support the Company in discharging its duties as a listed company.

Statement of Compliance

Save for the Companies Act, there is no mandatory corporate governance regime in the British Virgin Islands with which the Group must comply. However, the Directors recognise the importance of sound corporate governance and in accordance with AIM Rule 50 complies with the QCA Guidelines for AIM Companies.

Board of Directors

The Board's principal responsibilities include assisting in the formulation of corporate strategy, reviewing and approving all significant corporate transactions, monitoring operational and financial performance, reviewing and approving annual budgets and generally assisting management to enhance the overall performance of the Group in order to deliver maximum value to its shareholders. The Group holds Board meetings at least eight times each financial year and at other times as and when required. The Group will be adding additional relevant non-executive Directors in the year to further balance the Board.

Committees

The Group has in operation the following committees: An Audit Committee and a Remuneration & Nomination Committee.

Corporate Governance Report

Audit Committee

The Audit Committee comprises Alex Hambro (Chairman) of Emma Shaw (non-executive) and meets at least twice a year. Other Executive Directors are permitted to attend meetings at the discretion of the Chairman of the Committee. There is an opportunity for any meeting to be in private between the Non-Executive Director and the Company's auditor to consider any matter they wish to bring to the attention of the Committee. The terms of reference and areas of delegated responsibility of the Audit Committee are in the consideration and approval of the following matters:

- monitoring the quality and effectiveness of the internal control environment, including the risk management procedures followed by the Group;
- reviewing the Group's accounting policies and ensuring compliance with relevant accounting standards;
- reviewing the Group's reporting and accounting procedures;
- ensuring that the financial performance of the business is properly measured, controlled and reported on;
- reviewing the scope and effectiveness of the external audit and compliance by the Group with statutory and regulatory requirements;
- approving the external auditors' terms of engagement, their audit plan, their remuneration and any non-audit work;
- considering reports from the auditor on the outcome of the audit process and ensuring that any recommendations arising are communicated to the Board and implemented on a timely basis;
- reviewing the Board's statement on internal control in the Annual Report;
- ensuring compliance with the relevant requirements of the AIM Rules; and
- It is the intention of the board to recruit a further non-executive director at an appropriate moment and they will become the audit committee chair

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises Emma Shaw (Chairman) and Alex Hambro and meets as and when necessary. Other directors may attend its meetings by invitation from time to time. It keeps under review the skill requirements of the Board and the skill, knowledge, experience, length of service and performance of the Directors. It also reviews their external interests with a view to identifying any actual, perceived or potential conflicts of interests, including the time available to commit to their duties to the Group. It sets and reviews the scale and structure of the Executive Directors' remuneration packages, including share options and the terms of the service contracts. The remuneration and the terms and conditions of the Non-Executive Directors are determined by the Executive Directors with due regard to the interests of the shareholders and the performance of the Group. The Committee also makes recommendations to the Board concerning the allocation of share options to employees.

The Committee also monitors the independence of each Non-Executive Director and makes recommendations concerning such to the Board. The results of these reviews are important when the Board considers succession planning and the re-election and reappointment of Directors. Members of the Committee take no part in any discussions concerning their own circumstances.

The Committee is also responsible for keeping under review the senior management team of the organisation to ensuring the continued ability of the organisation to compete effectively in the marketplace.

Internal Control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide it with reasonable assurance regarding the reliability of financial information used within the business and for publication. The Board is also responsible for ensuring that assets are safeguarded, and risk is identified as early as practicably possible. As noted, the Audit Committee has a significant role in this area. The internal control systems established are designed to manage rather than completely eliminate risk and can only provide reasonable but not absolute assurance against misstatement or loss. The Group does not currently have an internal audit function, and this will be kept under review as the Group progresses. The Board reviews the effectiveness of the systems of internal control and its reporting procedures and augments and develops these procedures as required to ensure that an appropriate control framework is maintained at all times. The principal control mechanisms deployed by the Group are:

- Board approval for all strategic and commercially significant transactions;
- detailed scrutiny of the monthly management accounts with all material variances investigated;
- executive review and monitoring of key decision-making processes at subsidiary Board level;
- Board reports on business performance and commercial developments;
- periodic risk assessments at each business involving senior executive management;
- standard accounting controls and reporting procedures; and
- regularly liaising with the Group's auditor and other professionals as required.

Corporate Governance Report

Shareholder Communication

The Group's website (www.falanx.com) is the primary source of information on the Group. This includes an overview of the activities of the Group, information on the Group's subsidiaries and details of all recent Group announcements. All announcements are reviewed by the Board and its NOMAD ahead of announcement and the Board continually keeps the need for any regulatory announcement under review. All shareholder communication is in electronic form and the Company does not produce hard copy documentation.

Corporate Responsibility

Falanx Group Limited operates responsibly with regards to its shareholders, employees, other stakeholders, the environment and the wider community. The Group is committed to the well-being of all employees and ensures that their health, safety and general welfare is paramount at all times. We also maintain open and fair relationships with all clients and suppliers while ensuring that all transactions are operated on an arm's length, commercial basis.

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial period. The Directors have elected to prepare these financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable by law.

Approved by the Board on 28 September 2021 and signed on its behalf by

I R Selby
Director

Independent auditors' report

to the members of Falanx Group Limited

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 31 March 2021 and of the Group's loss for the year then ended; and
- the Group financial statements have been properly prepared in accordance with international Financial Reporting Standards as adopted by the European Union

We have audited the financial statements of *Falanx Group Limited* (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2021 which comprise the consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international Financial Reporting Standards as adopted by the European Union

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

We obtained management's forecast performing analytical review on future performance to consider results in comparison to those experienced in the most recent years. The key assumption used in the forecasts is the growth rate for each brand. These were considered in light of recent results, marketing activity and future expectations.

We also obtained and analysed a 'reverse stress test' calculating the decrease in revenue (i.e. the reduction in growth rates) necessary such that the going concern assumption would no longer be appropriate. The likelihood of this decrease was considered remote by the Directors. Finally, we also reviewed minutes of board meetings occurring post year end for any unusual events that could have an impact on the Group of the Parent Company's ability to continue as a going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

| | | | |
|-----------------------------|---|-------------|-------------|
| Coverage¹ | <i>100% (2020: 100%) of Group loss before tax 93% (2020: 94%) of Group revenue 99% (2020: 100%) of Group total assets</i> | | |
| Key audit matters | Carrying value of Intangibles | 2021 Yes | 2020 Yes |

¹ These are areas which have been subject to a full scope audit by the group engagement team

Independent auditors' report

to the members of Falanx Group Limited

| | |
|--------------------|---|
| Materiality | <i>Group financial statements as a whole</i> £116,000 (2020: £144,000) based on 5% of loss before tax adjusted for write off of investment as detailed below (2020: 5% of loss before tax) |
|--------------------|---|

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

We considered the risk of the financial statements being misstated or not prepared in accordance with the underlying legislation or standards. We then directed our work toward areas of the financial statements, which we assessed as having the highest risk of containing material misstatements. We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls and the industry in which they operate.

There are 8 significant components in the Group, which are all registered and operate in the UK, each of which is subject to a full scope audit by BDO LLP. The audit was carried out for all significant components by the Group audit team. The remaining subsidiaries are all considered non-significant components (Falanx Cyber Defence Spain S.L., Falanx Group US LLC, F G Consulting Services DMCC and Sterling Risk (Asia)), or are dormant (Falanx Protection Limited). The non-significant components were subject to an analytical review by the audit team to provide assurance to the Group audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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) that 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.

| Key audit matter | | How the scope of our audit addressed the key audit matter |
|---|--|--|
| <p><i>Carrying value of intangibles – customer relationships.</i></p> <p>The accounting policies are disclosed in Notes 2 and 3 and details of the intangibles including inputs to the valuation model are disclosed in Note 14</p> | <p>Intangible assets, specifically customer relationships, represent a significant part of the assets of the Group and there are significant judgements and estimates that need to be made in carrying out the valuation of these assets which is therefore considered to be a significant risk. These judgements are made in respect of the underlying assumptions which include revenue growth rates, revenue multiples, attrition rate, return on workforce, useful life and the discount factor applied to present value of the balances.</p> <p>Management is required to consider whether there are any indications of impairment but in this case determined to conduct an impairment review in order to assess carrying values at the end of the 12-month re-measurement period.</p> <p>The valuation was carried out using a value in use model prepared by management.</p> | <p>In this area our audit work included the following:</p> <ul style="list-style-type: none"> • The inputs and assumptions used in the valuation model were checked to supporting documentation and industry benchmarks. • We considered the significant judgements and estimates used in the model and these were assessed in relation to the historical results actually achieved including results to date. • We held a discussion with management to challenge the key assumptions and gain a better understanding of their approach to valuation. <p>Key observation: Based on the outcome of the above procedures, we consider that the judgements and estimates made in considering the carrying value of customer relationships were appropriate.</p> |

Independent auditors' report

to the members of Falanx Group Limited

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

| | | Group financial statements | |
|--|--|---|--|
| | | 2021 £ | 2020 £ |
| Materiality | | 116,000 | 144,000 |
| Basis for determining materiality | | 5% loss before tax adjusted for write off of investment in year. | 5% loss before tax |
| Rationale for the benchmark applied | | Loss before tax identified as a key indicator as it is reported to management on a monthly basis and one of the board's key measures of performance of the Group | Loss before tax identified as a key indicator as it is reported to management on a monthly basis and one of the board's key measures of performance of the Group |
| Performance materiality | | 81,200 | 100,100 |
| Basis for determining performance materiality | | 70% of materiality – based on our assessment of the relevant risk factors within the entity, e.g. previous experience of misstatements, management's attitude towards proposed adjustments, the level of estimation inherent within the financial statements, number of locations and testing approach. | |

Component materiality

Whilst materiality for the financial statements as a whole was £116,000, each component of the Group was audited to a lower level of materiality. Significant component materiality ranged from £21,000 to £104,000 (2020: £800 to £134,000).

Reporting threshold

We reported to the Audit Committee all potential adjustments in excess of £5,000 (2020: £6,900). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Other information

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

We have nothing to report in this regard.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report

to the members of Falanx Group Limited

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was 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 legal and regulatory framework applicable to the Group and the sector in which it operates and considered the significant laws and regulations related to HMRC and taxes imposed. We considered the extent to which non-compliance might have a material effect on the Group financial statements or their continued operation.

We assessed the susceptibility of the financial statement to material misstatement including fraud and evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to revenue recognition, posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates.

Our audit procedures in response to the above included:

- Challenging assumptions made by management in their significant accounting estimates in particular in relation to the value in use of intangible assets (refer to Key Audit Matter above);
- Identifying and testing journal entries, as selected by risk factors including size, description and posted outside of normal working times;
- We assessed the susceptibility of the Group's financial statements to material misstatement, including understanding where and how fraud might occur. This included reviewing a sample of revenue entries to agreed arrangements with customers to check delivery has been recorded in line with contracts and that the Group's accounting policy has been correctly applied and that the amounts have been correctly presented in the profit and loss account;
- Review of legal and regulatory costs incurred;
- Discussion with management with regards to potential breaches of laws and regulations or contingent liabilities;
- Discussion with the team regarding potential non-compliance with laws and regulations and fraud risks; and
- Reading minutes of meetings of those charged with governance.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

PAUL FENNER, FCA
Senior Statutory Auditor
BDO LLP, Chartered Accountants
London, UK

28 September 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Consolidated income statement

for the year ended 31 March 2021

| | Note | 2021 £ | 2020 £ |
|---|------|--------------------|-------------|
| Revenue | 4 | 5,244,161 | 5,851,175 |
| Cost of sales | | (3,668,176) | (3,638,105) |
| Gross profit | | 1,575,985 | 2,213,070 |
| Administrative expenses | | (5,095,355) | (5,068,146) |
| Operating loss | 6 | (3,519,370) | (2,855,076) |
| Analysis of operating loss | | | |
| Operating loss | | (3,519,370) | (2,855,076) |
| Share option expense | | 175,949 | 228,366 |
| Depreciation and amortisation | | 533,482 | 482,675 |
| Impairment of Furnace equity investment | 17 | 340,000 | 260,000 |
| Impairment of Furnace loan receivable | 18 | 1,100,000 | — |
| Highlighted costs | 5.1 | 110,354 | 320,173 |
| Adjusted EBITDA loss | 5.2 | (1,259,585) | (1,563,862) |
| Finance income | 9 | 4 | 2,100 |
| Finance expense | 9 | (32,574) | (26,029) |
| Finance expense – net | | (32,570) | (23,929) |
| Loss before income tax | | (3,551,940) | (2,879,005) |
| Income tax expense | 10 | - | (2,323) |
| Loss for the year | | (3,551,940) | (2,881,328) |
| Loss per share | | | |
| Basic loss per share | 11 | (0.77) p | (0.72) p |
| Diluted loss per share | 11 | (0.77) p | (0.72) p |

Consolidated income statement

for the year ended 31 March 2021

| | 2021 | 2020 |
|--|--------------------|--------------------|
| | £ | £ |
| Loss for the year | (3,551,940) | (2,881,328) |
| Other comprehensive income: | | |
| Re-translation of foreign subsidiaries | 5,403 | (4,600) |
| Other comprehensive income for the year, net of tax | 5,403 | (4,600) |
| Total comprehensive income for the year | (3,546,537) | (2,885,928) |
| Attributable to: | | |
| Owners of the parent | (3,546,537) | (2,885,928) |
| Total comprehensive income for the year | (3,546,537) | (2,885,928) |

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 10.

The notes on pages 43 to 72 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 March 2021

| | Note | 2021 £ | 2020 £ |
|---|---------|------------------|------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 155,831 | 195,423 |
| Intangible assets | 14 | 3,702,840 | 3,893,809 |
| Right of use asset | 15 | 363,271 | 472,253 |
| Investments with fair value through Profit and Loss (Furnace) | 17 | — | 340,000 |
| Furnace Loan Receivable | 18 | — | 1,100,000 |
| | | 4,221,942 | 6,001,485 |
| Current assets | | | |
| Trade and other receivables | 19 | 1,076,216 | 2,169,635 |
| Cash and cash equivalents | 20 | 545,321 | 79,282 |
| | | 1,621,537 | 2,248,917 |
| Total assets | | 5,843,479 | 8,250,402 |
| Equity | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | 21 / 22 | 4,033,161 | 17,903,427 |
| Translation reserve | | (107,777) | (113,180) |
| Shares based payment reserve | 12 | 747,243 | 587,325 |
| 2022 liabilities reserve | | 1,000,000 | — |
| Accumulated losses | 23 | (2,943,989) | (13,408,080) |
| Total equity | | 2,728,638 | 4,969,492 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Deferred tax liability | 24 | 9,529 | 9,529 |
| Lease liability | 26 | 252,874 | 348,872 |
| Borrowings | 27 | 42,129 | — |
| Other payables | | 5,409 | — |
| | | 309,941 | 358,401 |
| Current liabilities | | | |
| Trade and other payables | 25 | 1,592,715 | 1,595,850 |
| Contract liabilities | 4 | 1,108,317 | 1,237,347 |
| Lease liability | 26 | 95,997 | 89,312 |
| Borrowings | 27 | 7,871 | — |
| | | 2,804,900 | 2,922,509 |
| Total liabilities | | 3,114,841 | 3,280,910 |
| Total equity and liabilities | | 5,843,479 | 8,250,402 |

The notes on pages 43 to 72 are an integral part of these consolidated financial statements.

The financial statements were authorised for issue by the Board of Directors on 28 September 2021 and were signed on its behalf by:

M D Read
Director

I R Selby
Director

Company number: 1730012 (British Virgin Islands)

Consolidated statement of changes in equity

for the year ended 31 March 2021

| | Note | Share capital £ | Accumulated losses £ | Translation Reserve £ | Share based payment reserve £ | 2022 Liabilities reserve | Total £ |
|---|------|--------------------|-------------------------|--------------------------|----------------------------------|--------------------------|------------------|
| Balance at 1 April 2019 | | 17,903,427 | (10,526,752) | (108,580) | 358,959 | — | 7,627,054 |
| Loss for the year | | — | (2,881,328) | — | — | — | (2,881,328) |
| Re-translation of foreign subsidiaries | | — | — | (4,600) | — | — | (4,600) |
| Transactions with owners: | | | | | | | |
| Share based payment charge | 12 | — | — | — | 228,366 | — | 228,366 |
| Balance at 31 March 2020 | | 17,903,427 | (13,408,080) | (113,180) | 587,325 | — | 4,969,492 |
| Loss for the year | | — | (3,551,940) | — | — | — | (3,551,940) |
| Re-translation of foreign subsidiaries | | — | — | 5,403 | — | — | 5,403 |
| Transactions with owners: | | | | | | | |
| Capital reconstruction | | (15,000,000) | 14,000,000 | — | — | 1,000,000 | — |
| Issue of share capital | | 1,247,600 | — | — | — | — | 1,247,600 |
| Costs of issue of share capital | | (117,866) | — | — | — | — | (117,866) |
| Share based payment charge | 12 | — | — | — | 175,949 | — | 175,949 |
| Forfeited share options reversed through reserves | | — | 16,031 | — | (16,031) | — | — |
| Balance as at 31 March 2021 | | 4,033,161 | (2,943,989) | (107,777) | 747,243 | 1,000,000 | 2,728,638 |

The share capital account represents the amount subscribed for share capital, net of share issue expenses. Share issue expenses comprise the costs in respect of the issue by the Company of new shares.

Accumulated losses represents the cumulative losses of the Group attributable to the owners of the parent.

The translation reserve represents the cumulative movement in the translation of foreign subsidiaries into the presentation currency.

The share based payment reserve represents the cumulative share option and warrant charges.

The 2022 Liabilities reserve is a special non distributable reserve in respect of certain longer term liabilities including HMRC COVID -19 deferral and rental liabilities on the Reading office. The balance on this account will transfer to accumulated losses on 31 December 2022. This reserve was created as part of the capital variation in completed in February 2021.

The notes on pages 43 to 72 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 March 2021

| | Note | 2021 £ | 2020 £ |
|---|------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Loss before tax | | (3,551,940) | (2,879,005) |
| Adjustments for: | | | |
| Depreciation | | 75,753 | 87,300 |
| Amortisation and impairment of intangibles | | 348,748 | 318,180 |
| Amortisation of right of use assets | 15 | 108,981 | 77,195 |
| Impairment of investment in Furnace | 17 | 340,000 | 260,000 |
| Impairment of loan receivable | 18 | 1,100,000 | — |
| Share based payment | 12 | 175,949 | 228,366 |
| Profit on disposal of Furnace IP | 16 | — | (58,666) |
| Net finance expense recognised in profit or loss | 9 | 32,569 | 23,929 |
| | | (1,369,940) | (1,942,701) |
| Changes in working capital: | | | |
| Decrease in inventories | | — | 3,828 |
| Decrease / (Increase) in trade and other receivables | | 1,093,419 | (57,539) |
| (Decrease) / Increase in trade, contract liabilities and other payables | | (126,756) | 332,023 |
| Cash used in operations | | (403,277) | (1,664,389) |
| Interest paid | | (3,774) | (1,754) |
| Tax paid | | — | (387) |
| Net cash used in continued operating activities | | (407,051) | (1,666,530) |
| Cash flows from investing activities | | | |
| Interest received | | 4 | 2,100 |
| Acquisition of property, plant and equipment | | (36,161) | (255,070) |
| Expenditure on development cost | | (157,779) | (378,484) |
| Acquisition of investment | | — | (61,820) |
| Net cash used in investing activities | | (193,936) | (693,274) |
| Cash flows from financing activities | | | |
| Repayment of lease liabilities | | (89,313) | — |
| Interest on lease interest | | (28,799) | — |
| Proceeds from bank borrowing | | 50,000 | — |
| Proceeds from issue of shares | | 1,247,600 | — |
| Costs of share issuance | | (117,866) | — |
| Net cash generated from financing activities | | 1,061,623 | — |
| Net increase/(decrease) in cash equivalents | | 460,636 | (2,359,804) |
| Cash and cash equivalents at beginning of year | | 79,282 | 2,443,686 |
| Foreign exchange gains/(losses) on cash and cash equivalents | | 5,403 | (4,600) |
| Cash and cash equivalents at end of year | | 545,321 | 79,282 |

The notes on pages 43 to 72 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2021

1. General information

Falanx Group Limited (the "Company" or "Falanx") and its subsidiaries (together the "Group") operate in the cyber security and intelligence markets.

The Company is a public limited company which is listed on the AIM Market of the London Stock Exchange and is incorporated and domiciled in the British Virgin Islands. The address of its registered office is PO Box 173, Kingston Chambers, Road Town, Tortola, British Virgin Islands. The UK registered office The Blade, Abbey Square, Reading, RG1 3BE.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all the years presented unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The functional and presentational currency for the financial statements is Sterling. The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

2.1.1 Going concern

The Financial Statements have been prepared on a going concern basis which notwithstanding the loss for the year ended 31 March 21. This basis assumes that the Group will have access to sufficient funding through the realization of assets in the ordinary course of business to enable it to continue to operate for the foreseeable future. The Directors consider the application of going concern to be appropriate for the following reasons.

1. The Group operates in the high growth Cyber Security and Strategic Intelligence markets. The COVID-19 situation has driven the move to an online environment for many aspects of business and this is increasing demand for the Group's services, although clearly a company cannot be immune from any major macroeconomic issues.
2. The Group's financial performance has significantly improved since 1 April 2021, and this continues from the post COVID-19 recovery which commenced in the autumn of 2020.
3. The Cyber Security division is now profitable at an adjusted EBITDA level compared with losing c£0.45m at an adjusted EBITDA level in the year ended 31 March 2021. This division has a strong backlog of work from orders (including the divisions largest ever order for £1m (over 3 years)) which was won in April 2021. The recurring revenue Triarii cyber security monitoring service has a strong pipeline of business from channels and direct sales, and this is expected to help further support revenue growth. This service has a high incremental margin and can significantly increase divisional performance. Adjusted EBITDA has had a historically very close correlation with cash performance.
4. The Assynt division has signed significant new contract expansions and extensions with a major existing client which should increase its recurring revenues to circa £0.19m per month compared with £0.15m at the start of the year. This should enable it to be profitable on a regular basis without any consulting assignments.
5. Overall, the Group has a high level of recurring revenues, currently more than £0.28m per month, and a high level of repeat business of more than £2.0m per annum. This reduces its exposure to new sales situations. The Group's creditors are broadly in line and the group has a normal working capital position and an agreed payment plan is in place with HMRC and is in terms. The Group has a historically very low incidence of bad debts.
6. Group central costs are lower than in previous years and there is no major requirement for capital expenditure following the disposal of Furnace in the year ended 31 March 2020.
7. The above and the associated business plans and detailed forecasts, enable the directors to believe that the Group's existing cash resources (excluding the drawdown of the £1.5m from the second phase of the loan from BOOST&Co) are sufficient for it to remain a going concern for at least 12 months from the date of these accounts. This analysis has included the repayment of all amounts due under the loan and to HMRC under the COVID-19 deferral plan as well as it to have a normal working capital profile.

Notes to the consolidated financial statements

for the year ended 31 March 2021

8. A stringent stress test scenario as a downgrade to the above has also been prepared. This assumes that there are no further sales of Triarii MRR and no further recurring revenues in the Assynt business beyond the existing contract bases. Furthermore, in this scenario the Group does not adjust its cost based in this scenario. This shows that, with the drawdown of the second tranche of £1.5m of the loan that the Group would still have significant cash balances at 12m from the date of these accounts.
9. Should this stringent stress test scenario not be achieved, then further mitigating actions would be carried out to ensure that the Group remains within its resources, and these would include a reduction of planned capital expenditure, headcount reduction, reducing discretionary spend and sales investment, freezing or reducing pay and cancelling recruitment, and all of these are within the director's control. Further incremental measures could also involve the potential disposal of non-core assets which the Group believes, could generate proceeds which are significant compared to the recent market capitalisation of the Group. Further actions could include seeking further support from existing and new shareholders and debt providers.

Based on the above, the Group expects to have will have sufficient resources to meets its liabilities as they fall due for at least 12 months from the date of these accounts.

2.1.2 New and Revised Standards

Standards in effect in 2021

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2022:

- *Onerous Contracts – Cost of Fulfilling a Contract* (Amendments to IAS 37);
- *Property, Plant and Equipment: Proceeds before Intended Use* (Amendments to IAS 16);
- *Annual Improvements to IFRS Standards 2018-2020* (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- *References to Conceptual Framework* (Amendments to IFRS 3).

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the Group in future periods.

A number of IFRS and IFRIC interpretations are also currently in issue which are not relevant for the Group's activities and which have not therefore been adopted in preparing these financial statements.

2.1.3 Alternative performance measures (APM)

In the reporting of financial information, the Directors have adopted the APM "Adjusted EBITDA" (APMs were previously termed 'Non-GAAP measures'), which is not defined or specified under International Financial Reporting Standards (IFRS). This is a key metric which the Board uses to assess the performance of the Group and its divisions as it reflects the costs. Rental costs are charged against this measure as they are largely under the control of the division and correlate closely with cash performance.

This measure is not defined by IFRS and therefore may not be directly comparable with other companies' APMS, including those in the Group's industry.

APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

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Purpose

The Directors believe that this APM assists in providing additional useful information on the underlying trends, performance and position of the Group. This APM is also used to enhance the comparability of information between reporting periods and business units, by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding the Group's performance. Furthermore, the use of EBITDA means a closer correlation with the cash performance of the business. Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes and this remains consistent with the prior year.

The key APM that the Group has focused on is as follows:

Adjusted EBITDA: This is the headline measure used by management to measure the Group's performance and is based on operating profit before the impact of financing costs, IFRS16, share based payment charges, depreciation, amortisation, impairment charges and other highlighted items. Highlighted items (note 5.1) relate to certain costs that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group.

2.2 Consolidation

Subsidiaries

Subsidiary undertakings are entities that are controlled by the Company. The definition of control involves three elements: power over the investee; exposure or rights to variable returns and the ability to use the power over the investee to affect the amount of the investor's returns. The Group generally obtains power through voting rights. Subsidiaries are consolidated from the date at which the Group obtains the relevant level of control and are de-consolidated from the date at which control ceases.

The acquisition method of accounting is used for all business combinations. On acquisition, the cost is measured at the aggregate of their fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquire. Any costs directly attributable to the business combination are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (Revised), "Business Combinations" are recognised at fair values at the acquisition date.

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is recognised directly in profit or loss. Any subsequent adjustment to reflect changes in consideration arising from contingent consideration amendments are recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group. All subsidiaries are wholly owned by the Group.

2.3 Segmental reporting

In accordance with IFRS 8, segmental information is presented based on the way in which financial information is reported internally to the chief operating decision maker. The Group's internal financial reporting is organised along product and service lines and therefore segmental information has been presented about business segments. A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns which are different from those of other business segments.

2.4 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities.

Revenue is recognised on the following bases:

| Class of revenue | Recognition criteria |
|--------------------------|---|
| Subscription fees | straight line basis over the life of the contract |
| Managed services | straight line basis over the life of the contract |
| Consultancy | on delivery of service to customers |
| Vulnerability assessment | on delivery of service to customers |

Revenue is recognised as the client receives the benefit of the services provided under a commercial contract, in an amount that reflects the consideration to which the provider expects to be entitled for the transfer of the goods or services.

Notes to the consolidated financial statements

for the year ended 31 March 2021

Performance obligations and timing of revenue recognition

Revenue from the provision of professional services such as penetration testing, consultancy and strategic intelligence assignments are recognised as services are rendered, based on the contracted daily billing rate and the number of days delivered during the period. Revenue from pre-paid contracts are deferred in the balance sheet and recognised on utilisation of service by the client.

Revenue from cyber monitoring contracts (including installation), intelligence embedded analyst and report subscriptions includes advance payments made by the customer is deferred (as a contract liability) and is then subsequently recognised on a straight-line basis over the term of the contract. Where they are billed periodically in a monthly in arrears basis, revenues are recognised at that point.

Contracts values are typically fixed price and the pricing level is based on management experience of pricing adequate mark up of prime cost. Where additional services need to be delivered outside of the contract a time and materials basis based on day rates is used.

Determining the transaction price

The Group's revenue is derived from fixed price contracts and therefore the amount of revenues to be earned from each contract is determined by reference to those fixed prices. Costs of obtaining long-term contracts and costs of associated sales commissions are prepaid and amortised over the terms of the contract on a straight-line basis. Commissions paid to sale staff for work in obtaining the Prepaid Consultancy are recognised in the month of invoice. The timing and any conditionality for the payment of commissions is governed under the then applicable sales incentive plan.

Revenues are exclusive of applicable sales taxes and are net of any trade discounts. There are no financing components in any of our revenue streams.

Contract Assets (accrued incomes) balance were £63,692 (2020: £27,747) and is included in prepayments and accrued income (note 19) and the change compared to the previous year was due to short term timing differences. Contract Liabilities (deferred incomes) balance of £1,108,317 (2020: £1,237,347). Included in the Contract Liabilities at the 31 March 2021 were approximately £121,327 (2020: £40,926) residual balance from prior year. All Contract Assets at the 2021-year end arose towards the end of the period. All contract assets have short cash conversion periods and all assets at the year-end have since been monetised.

The Board considers that the information in note 4 adequately depicts how the nature, amount, timing and uncertainty of revenue and cash flow are affected by economic factors.

2.5 Taxation

The tax expense for the year represents the total of current taxation and deferred taxation. The charge in respect of current taxation is based on the estimated taxable profit for the year. Taxable profit for the year is based on the profit as shown in the income statement, as adjusted for items of income or expenditure which are not deductible or chargeable for tax purposes. The current tax liability for the year is calculated using tax rates which have either been enacted or substantively enacted at the reporting date.

Deferred tax is provided in full, using the liability method on temporary differences arising between the tax base of assets and liabilities and their carrying values in the financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates which have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of tax assets and unutilised tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carrying forward of tax assets and unutilised tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and adjusted to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date.

Notes to the consolidated financial statements

for the year ended 31 March 2021

2.6 Foreign Currency

The Company has determined Sterling as its functional currency, as this is the currency of the economic environment in which the Company predominantly operates.

Transactions in currencies other than Sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, the monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary assets and liabilities are carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on exchange are included in profit or loss.

Foreign currency differences arising on retranslation are recognised in profit or loss.

In the case of foreign entities, the financial statements of the Group's overseas operations are translated as follows on consolidation: assets and liabilities, at exchange rates ruling on reporting date, income and expense items at the average rate of exchange for the period and equity at exchange rates ruling on the dates of the transactions. Exchange differences arising are classified as equity and transferred to a separate translation reserve. Such translation differences are recognised in profit or loss in the period in which the operation is disposed of. Foreign exchange gains and losses arising from monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely within the foreseeable future, are considered to form part of net investment in a foreign operation and are recognised directly in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Foreign currency gains and losses are reported on a net basis.

2.7 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

All assets are depreciated in order to write off the costs, less anticipated residual values of the assets over their useful economic lives on a straight-line basis as follows:

- Fixtures and fittings: 5 years
- Computer equipment: 3 years

2.8 Intangible assets

Acquired intangible assets are shown at historical cost. Acquired intangible assets have a finite useful life and are carried at cost, less accumulated amortisation over the finite useful life. All charges in the year are shown in the income statement in administrative expenses.

Goodwill

Goodwill arising on acquisition is stated at cost. Goodwill is not amortised, but subject to an annual test for impairment. Impairment testing is performed by the Directors. Where impairment is identified, it is charged to the income statement in that period.

Software and brand licences

Acquired software and brand licences are shown at historical cost. Software and brand licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of software and brand licences over the period of the licence. The brand and software licences have been fully amortised in previous accounting periods.

Research and development

Research expenditure is charged to the income statement in the year incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software product and use or sell it;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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for the year ended 31 March 2021

Other development expenditures that do not meet these criteria are charged to the income statement in the year incurred. Development costs recognised as assets are amortised over their estimated useful life, which does not exceed 5 years.

Government tax credits available on eligible Research and Development expenditure ('R&D Tax Credits') and not reclaimable through other means are recognised in income and treated as a government grant.

Customer relationships

Customer relationships are amortised over the period expected to benefit as follows:

- First Base: 10 years
- Securestorm: 3 years

2.9 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A review for indicators of impairment is performed annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Any impairment charge is recognised in the income statement in the year in which it occurs. When an impairment loss, other than an impairment loss on goodwill, subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have resulted, net of depreciation, had no impairment loss been recognised for the asset in prior years.

2.10 Financial instruments

The Group applies a simplified method of the expected credit loss model when calculating impairment losses on its financial assets which are measured at amortised cost such as trade receivables, other debtors and prepayments. This resulted in greater judgement due to the need to factor in forward-looking information when estimating the appropriate amount to provisions

(a) Financial Assets

The Group's Financial Assets include Cash and Cash Equivalents, Trade Receivables and Other Receivables.

- **Initial Recognition and Measurement:** Financial Assets are classified as amortised cost and initially measured at fair value.
- **Subsequent Measurement:** Financial assets are subsequently measured at amortised cost, using the effective interest method, less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial. The company only offers short periods of credit to its customers and recorded average debtor days of 37 at 31 March 2021 (2020: 66)
- **Derecognition of Financial Assets:** The Company derecognises a Financial Asset only when the contractual rights to the cash flows from the asset expire, or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity.

(b) Financial Liabilities and Equity Instruments

The Group's Financial Liabilities include Trade Payables, Accruals and Other Payables. Financial Liabilities are classified at amortised cost.

(c) Investments

Investments not in subsidiary undertakings are carried at fair value through profit and loss.

Classification as Debt or Equity. Financial Liabilities and Equity Instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a Financial Liability and an Equity Instrument.

2.11 Share capital

Ordinary shares (of nil par value) in the Company are classified as equity. By definition all amounts arising from the issue of these shares are attributable to Share Capital as are any directly attributable (including any warrants issued as commissions) to issue of new shares are shown in equity as a deduction to the share capital account. The Company does not maintain a separate share premium account.

Notes to the consolidated financial statements

for the year ended 31 March 2021

2.12 Reserves

The consolidated financial statements include the following reserves: translation reserve, share option reserve, 2022 Liabilities reserve and accumulated losses. Premiums paid on the issue of share capital, less any costs relating to these, are posted to the share capital account as referenced above.

2.13 Trade payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method. As the payment period of trade payables is short, future cash payments are not discounted as the effect is not material.

2.14 Leases

When entering into a contract the Group assesses whether or not a lease exists. A lease exists if a contract conveys a right to control the use of an identified asset under a period of time in exchange for consideration. Leases of low value items and short-term leases (leases of less than 12 months at the commencement date) are charged to the profit or loss on a straight-line basis over the lease term in administrative expenses.

The Group recognises right-of-use assets at cost and lease liabilities on the statement of financial position at the lease commencement date based on the present value of future lease payments. The right-of-use assets are amortised on a straight-line basis over the length of the lease term. The lease liabilities are recognised at amortised cost using the effective interest rate method. Discount rates used reflect the incremental borrowing rate specific to the lease.

2.15 Pensions

The Company operates a defined contribution pension scheme under which fixed contributions are payable. Pension costs charged to the income statement represent amounts payable to the scheme during the year.

2.16 Share-based payments

The cost of share-based payment arrangements, which occur when employees receive shares or share options, is recognised in the income statement over the period over which the shares or share options vest.

The expense is calculated based on the value of the awards made, as required by IFRS 2, 'Share-based payment'. The fair value of the awards is calculated by using the Black-Scholes and Monte Carlo option pricing models taking into account the expected life of the awards, the expected volatility of the return on the underlying share price, vesting criteria, the market value of the shares, the strike price of the awards and the risk-free rate of return. The charge to the income statement is adjusted for the effect of service conditions and non-market performance conditions such that it is based on the number of awards expected to vest. Where vesting is dependent on market-based performance conditions, the likelihood of the conditions being achieved is adjusted for in the initial valuation and the charge to the income statement is not, therefore, adjusted so long as all other conditions are met.

Where an award is granted with no vesting conditions, the full value of the award is recognised immediately in the income statement.

2.17 Provisions

Provisions are recognised in the statement of financial position where there is a legal or constructive obligation to transfer economic benefits as a result of a past event. Provisions are discounted using a rate which reflects the effect of the time value of money and the risks specific to the obligation, where the effect of discounting is material.

Provisions are measured at the present value of expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time, value of money and the risks specific to the obligation. The increase in provision due to the passage of time is recognised as interest expense.

Notes to the consolidated financial statements

for the year ended 31 March 2021

3. Critical accounting estimates and judgements

The preparation of the Group financial statements in conformity with IFRSs as applied in accordance with the provisions of the Companies Act 2006 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the present circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Group financial statements are disclosed below.

Judgements:

Investment in Furnace Technologies Limited

The investment agreement in Furnace Technologies Limited has allocated Falanx Group Limited 20% of its equity. It is considered a financial as opposed to an operational investment as Falanx does not have the right to appoint a board member and plays no part in its operations or policymaking. There is no ongoing obligation to provide further investment to Furnace and Furnace has no part in the business plans of Falanx. There is no interchange of management personnel and any transactions between the companies are small and are on an arm's length basis. Consequently, it has not been treated as an associated company. The investment balance has been impaired in full as at 31 March 2021 on the following basis;

- Furnace had not yet generated material revenues
- Furnace had not received external funding at the date of this report which would allow an objective measure of the equity value which would validate the capital structure and its carrying value.

Estimates:

Management do not consider there to be significant accounting estimates in respect of the year ended 31 March 2021.

Impairment of intangible assets

Management have assessed indicators of impairment and conducted an impairment review of intangible assets. They have made judgements as to the likelihood of them generating future cash flows, the period over which those cash flows will be received and the costs which are attributable against them. The recoverable amount is determined using the value in use calculation. The use of this method requires the estimation of future cash flows and the selection of a suitable discount rate in order to calculate the present value of these cash flows (refer to note 14.2).

In support of the assumptions, management use a variety of sources. In addition, management have undertaken scenario analyses, including a reduction in sales forecasts, which would not result in the value in use being less than the carrying value of the cash-generating unit. However, if the business model is not successful, the carrying value of the intangible assets may be impaired and may require writing down.

4. Segmental reporting

As described in note 2, the Directors consider that the Group's internal financial reporting is organised along product and service lines and, therefore, segmental information has been presented about business segments. The categorisation of business activities into segments is analysed per division to be consistent with the views of the chief operating decision maker, as highlighted in the Chief Executive Officer's report. The segmental analysis of the Group's business is derived from its principal activities as set out below. The information below also comprises the disclosures required by IFRS 8 in respect of products and services as the Directors consider that the products and services sold by the disclosed segments are essentially similar and therefore no additional disclosure in respect of products and services is required. The other segment consists of the parent company's administrative operation.

Notes to the consolidated financial statements

for the year ended 31 March 2021

4. Segmental reporting continued

Reportable segments

The reportable segment results for the year ended 31 March 2021 are as follows:

| | Intelligence | Cyber | Corporate segment | Total |
|---|------------------|------------------|--------------------|--------------------|
| | £ | £ | £ | £ |
| Assynt report & embedded analysts | 2,016,062 | — | — | 2,016,062 |
| Professional services | 108,375 | 2,272,951 | — | 2,381,326 |
| Monitoring managed services | — | 846,773 | — | 876,773 |
| Revenues from external customers | 2,124,437 | 3,119,724 | — | 5,244,161 |
| Gross Margin | 559,048 | 1,016,937 | — | 1,575,985 |
| Segment Reported EBITDA | (32,312) | (419,020) | (918,607) | (1,369,939) |
| Highlighted costs (Note 5) | 123,247 | (27,369) | 14,476 | 110,354 |
| Segment Adjusted EBITDA | 90,935 | (446,389) | (904,131) | (1,259,585) |
| Finance expense-net | — | (1,346) | (31,224) | (32,570) |
| Depreciation and amortisation | (29,587) | (308,590) | (195,305) | (533,482) |
| Impairment of Furnace equity investment (Note 17) | — | — | (340,000) | (340,000) |
| Impairment of Furnace loan investment (Note 18) | — | — | (1,100,000) | (1,100,000) |
| Share option expense | (2,313) | (8,112) | (165,524) | (175,949) |
| Segment loss before tax for the year | (64,212) | (737,068) | (2,750,660) | 3,551,940 |

The reportable segment results for the year ended 31 March 2020 are as follows:

| | Intelligence | Cyber | Corporate segment | Total |
|---|------------------|------------------|--------------------|--------------------|
| | £ | £ | £ | £ |
| Assynt report & embedded analysts | 2,006,220 | — | — | 2,006,220 |
| Professional services | 136,247 | 2,647,814 | — | 2,784,061 |
| Monitoring managed services | — | 1,060,894 | — | 1,060,894 |
| Revenues from external customers | 2,142,467 | 3,708,708 | — | 5,851,175 |
| Gross Margin | 804,842 | 1,408,228 | — | 2,213,070 |
| Segment Reported EBITDA | 3,310 | (379,985) | (1,507,360) | (1,884,035) |
| Highlighted costs (Note 5) | 7,397 | (34,235) | 347,011 | 320,173 |
| Segment Adjusted EBITDA | 10,707 | (414,220) | (1,160,349) | (1,563,862) |
| Finance expense-net | 377 | (764) | (23,542) | (23,929) |
| Depreciation and amortisation | (30,723) | (299,623) | (152,329) | (482,675) |
| Impairment of Furnace investment | — | — | (260,000) | (260,000) |
| Share option expense | (38,671) | (45,272) | (144,423) | (228,366) |
| Segment loss before tax for the year | (65,707) | (725,644) | (2,087,654) | (2,879,005) |

Notes to the consolidated financial statements

for the year ended 31 March 2021

4. Segmental reporting continued

Segment assets consist primarily of property, plant and equipment, intangible assets, trade and other receivables and cash and cash equivalents. Unallocated assets comprise deferred tax assets, financial assets held at fair value through profit or loss and derivatives. Segment liabilities comprise operating liabilities; liabilities such as deferred taxation, borrowings and derivatives are not allocated to individual business segments.

Segment assets and liabilities as at 31 March 2021 and capital expenditure for the year then ended are as follows:

| | Intelligence | Cyber | Corporate segment | Total |
|---|--------------|-----------|----------------------|-----------|
| | £ | £ | £ | £ |
| Contract assets | 1,551 | 62,141 | — | 63,692 |
| Other assets | 374,615 | 3,741,016 | 1,526,695 | 5,642,326 |
| Contract liabilities (deferred income) | 643,317 | 465,000 | — | 1,108,317 |
| Other liabilities | 389,175 | 588,087 | 1,029,262 | 2,006,524 |
| Capital expenditure – Tangible | — | 31,007 | 5,154 | 36,161 |
| Capital expenditure – Intangible | — | 157,780 | — | — |

Segment assets and liabilities as at 31 March 2020 and capital expenditure for the year then ended are as follows:

| | Intelligence | Cyber | Corporate segment | Total |
|---|--------------|-----------|----------------------|-----------|
| | £ | £ | £ | £ |
| Contract assets | 14,047 | 13,700 | — | 27,747 |
| Other assets | 1,022,230 | 4,316,992 | 2,883,433 | 8,222,655 |
| Contract liabilities (deferred income) | 807,860 | 429,487 | — | 1,237,347 |
| Other liabilities | 335,031 | 492,944 | 1,215,588 | 2,043,563 |
| Capital expenditure – Tangible | 1,262 | 32,224 | 221,584 | 255,070 |
| Capital expenditure – Intangible | — | 378,484 | — | 378,484 |

Geographical information

The Group's business segments operate in six geographical areas, although all are managed on a worldwide basis from the Group's head office in the United Kingdom. All non-current assets are in the United Kingdom.

A geographical analysis of revenue and non-current assets is given below. Revenue is allocated based on location of customer; non-current assets are allocated based on the physical location of the asset.

| Revenue by geographical location | 2021 | 2020 |
|---|------------------|-------------|
| | £ | £ |
| United Kingdom | 3,917,656 | 4,650,608 |
| Europe | 527,903 | 508,170 |
| The Americas | 455,411 | 329,390 |
| Australasia | 185,900 | 191,249 |
| Middle East and Africa | 157,291 | 171,758 |
| | 5,244,161 | 5,851,175 |

| Non-current assets | 2021 | 2020 |
|---------------------------|------------------|-------------|
| | £ | £ |
| United Kingdom | 4,084,481 | 6,001,485 |
| | 4,084,481 | 6,001,485 |

Major customers

No customer contributed 10% or more to the Group's revenue in 2021 (2020: nil). The highest individual customer contributed 66% of revenues.

Notes to the consolidated financial statements

for the year ended 31 March 2021

4. Segmental reporting continued

Contract Assets (accrued incomes) balances were £63,992 (2020: £27,747). Included in the Contract Liabilities (deferred incomes) at the 31 March 2021 were approximately £80,602 (2020: £40,926) residual balance from prior year. All Contract Assets at the 2021-year end arose towards the end of the period and were billed and collected in the normal course of business in the next financial year.

| | Contract Assets 2021 £ | Contract Assets 2020 £ | Contract Liabilities 2021 £ | Contract Liabilities 2020 £ |
|--|---|---------------------------------|--|--------------------------------------|
| At 1 April | 27,747 | 197,230 | (1,237,347) | (1,109,831) |
| Transfers in the year from contract assets to trade receivables | (27,747) | (197,230) | — | — |
| Transfers from contract liabilities to revenue in the year | — | — | 1,116,019 | 1,022,437 |
| Amount recognised as revenue in the year not yet invoiced | 63,992 | 27,747 | — | — |
| Amount invoiced in advance not recognised as revenue in the year | — | — | (986,989) | (1,149,953) |
| At 31 March | 63,992 | 27,747 | (1,108,317) | (1,237,347) |

5. Highlighted costs and Adjusted EBITDA

Operating loss includes the following items which the Directors consider to be one-off in nature, non-cash expenses or necessary elements of expenditure to derive future benefits for the Group which have not been capitalised on the consolidated statement of financial position.

5.1 Highlighted costs

| | | 2021 £ | 2020 £ |
|----------------------------|----|-------------------|-----------|
| Restructuring costs | a) | (24,668) | 227,535 |
| Infrastructure upgrade | b) | 66,887 | 235,705 |
| Rent | c) | (107,285) | (75,993) |
| Gain on furnace operations | d) | — | (67,074) |
| Closed premises | e) | 141,521 | — |
| Other | f) | 33,899 | — |
| | | 110,354 | 320,173 |

a) Restructuring costs

Cost of corporate development and professional services associated with the restructuring. Prior year cost related to cost of restructuring the key management including severance payment and transition costs for integration of acquired subsidiary (First Base). This did not include any impact of COVID-19.

b) Infrastructure upgrade

Cost of technology, infrastructure, and upgrade of applications for internal use and customer delivery.

c) Rent

Re-instatement of accounting charge in respect of rental payments on the Reading lease not reflected under IFRS 16. The group uses Adjusted EBITDA as a metric for business unit assessment and this reflects the underlying cost of the rental.

d) Gain on furnace operations

Gain on the spin out of furnace IP disposed of in the prior year, as this was spun out in the prior year, the gain on furnace operations is £Nil in the year ended 31 March 2021 and the overall investment in Furnace was fully impaired in the year as per notes 17 & 18 to these accounts

e) Closed premises

Costs including unused rental periods and lease dilapidations related to London and Sussex premises closed during summer 2020.

Notes to the consolidated financial statements

for the year ended 31 March 2021

5. Highlighted costs and Adjusted EBITDA continued

5.2 Adjusted EBITDA

| | 2021 | 2020 |
|--|--------------------|--------------------|
| | £ | £ |
| Operating loss | (3,519,370) | (2,855,076) |
| Depreciation and amortisation | 533,482 | 482,675 |
| Impairment of Furnace equity investment (Note 17) | 340,000 | 260,000 |
| Impairment of loan receivable from Furnace (Note 18) | 1,100,000 | — |
| EBITDA | (1,545,888) | (2,112,401) |
| Share option expense | 175,949 | 228,366 |
| Highlighted costs (note 5.1) | 110,354 | 320,173 |
| Adjusted EBITDA | (1,259,585) | (1,563,862) |

6. Operating loss

Operating loss for the year is stated after charging the following:

| | 2021 | 2020 |
|--|-----------|----------|
| | £ | £ |
| Depreciation of owned property, plant and equipment | 75,753 | 83,654 |
| Amortisation of right of use asset | 108,981 | 77,195 |
| Amortisation and impairment of intangible fixed assets | 378,484 | 318,181 |
| Impairment of investment in Furnace (Note 17) | 340,000 | 260,000 |
| Impairment of Furnace loan receivable (Note 18) | 1,100,000 | — |
| Operating lease rentals – Land & Buildings | 49,036 | 124,461 |
| Share based payment expense | 175,949 | 228,366 |
| Foreign exchange loss | 17,850 | 14,118 |
| R&D tax credit | (19,894) | (74,516) |

7. Auditors' remuneration

During the year the Group obtained the following services from the Company's auditors:

| | 2021 | 2020 |
|--|---------------|---------------|
| | £ | £ |
| Remuneration receivable by the Company's auditors for the audit of consolidated and Company financial statements | 18,000 | 17,500 |
| Remuneration receivable by the Company's auditors and its associates for the supply of other services to the Company and its associates, including remuneration for the audit of the financial statements of the Company's subsidiaries: | | |
| – the audit of the Company's subsidiaries pursuant to legislation | 42,000 | 38,500 |
| – tax services | 6,500 | 6,000 |
| | 66,500 | 62,000 |

8. Employee benefit expense

| | 2021 | 2020 |
|--|------------------|------------------|
| | £ | £ |
| Wages and salaries, including termination benefits | 4,034,312 | 4,047,628 |
| Social security costs | 430,530 | 425,516 |
| Other pension costs | 96,966 | 95,612 |
| Share options granted to employees | 175,949 | 231,325 |
| | 4,737,757 | 4,800,081 |

Notes to the consolidated financial statements

for the year ended 31 March 2021

8. Employee benefit expense continued

The average monthly number of employees, including Directors, employed by the Group during the year was:

| | 2021 | 2020 |
|-------------------------------|-----------|-----------|
| Operations | 55 | 50 |
| Development team | — | 2 |
| Sales and marketing | 11 | 12 |
| Administration and management | 18 | 17 |
| | 84 | 81 |

Directors' emoluments

| | 2021 | 2020 |
|--|----------------|----------------|
| | £ | £ |
| Emoluments, including benefits in kind | 202,010 | 367,209 |
| Pension costs | 1,751 | 2,924 |
| | 203,761 | 370,133 |

The emoluments of the highest paid Director were as follows:

| | 2021 | 2020 |
|--|----------------|----------------|
| | £ | £ |
| Emoluments, including benefits in kind | 111,268 | 125,882 |
| Pension costs | 1,751 | 1,754 |
| | 113,019 | 127,636 |

9. Finance income and expense

| | 2021 | 2020 |
|---|-----------------|-----------------|
| | £ | £ |
| Interest receivable | 4 | 2,100 |
| Interest payable – IFRS 16 | (28,799) | (24,275) |
| Interest payable – other | (3,774) | (1,754) |
| Net finance expense recognised in loss for the year | (32,569) | (23,929) |

10. Income tax expense

| | 2021 | 2020 |
|--|------|-------|
| | £ | £ |
| <i>Current tax</i> | | |
| Current tax on loss for the year | — | — |
| Over provision in prior year | — | 2,323 |
| Total current tax | — | 2,323 |
| <i>Deferred tax</i> | | |
| Deferred tax (credit)/expense for the year | — | — |
| Total deferred tax | — | — |
| Income tax expense | — | 2,323 |

Notes to the consolidated financial statements

for the year ended 31 March 2021

10. Income expense continued

The parent Company is resident in the UK for tax purposes together with certain subsidiaries. Other subsidiaries are resident in foreign tax jurisdictions; however, no group company currently has taxable profits.

Potential deferred tax asset

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. This is based on projected forecasts and budgets which are reviewed by the Directors and judgement is made as to whether the deferred tax asset can be recognised. At 31 March 2021, a deferred tax asset has not been recognised (2020: £nil). Accumulated tax losses (subject to HMRC) agreement stood at approximately £13.9m (2020: £12.9m). No asset in respect of these losses has been recognised.

The tax charge for the year is different from the standard rate of corporation tax in the United Kingdom of 19% (2020: 19%). The difference can be reconciled as follows:

| | 2021 | 2020 |
|--|--------------------|-------------|
| | £ | £ |
| Loss before tax | (3,551,940) | (2,879,005) |
| Tax calculated at the applicable rate based on the loss for the year 19% (2020: 19%) | (674,869) | (547,011) |
| Tax effects of: | | |
| Creation of tax losses | 288,251 | 414,304 |
| Expenses not deductible for tax purposes | 307,030 | 102,584 |
| Non taxable income | (11,043) | (21,975) |
| Deferred tax not recognised | 90,631 | 52,098 |
| Current tax on loss for the year | — | — |

11. Basic and diluted earnings per share

Basic loss 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 year. There are no dilutive share options at present as these would currently increase the loss per share.

| | 2021 | 2020 |
|---|--------------------|-------------|
| Loss from continuing operations attributable to equity holders of the Company | (3,551,940) | (2,881,328) |
| Total basic and diluted loss per share (pence per share) | (0.77) | (0.72) |

Weighted average number of shares used as the denominator

| | 2021 | 2020 |
|--|--------------------|-------------|
| Weighted average number of ordinary shares used as the denominator in the calculating basic earnings per share | 462,675,158 | 400,401,185 |

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume the conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares arise from warrants and share options. In respect of the warrants, a calculation is performed to determine the number of shares that could have been acquired at fair value, based upon the monetary value of the subscription rights attached to the outstanding warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the warrants.

At 31 March 2021, the potentially dilutive ordinary shares were anti-dilutive because the Group was loss-making. The basic and diluted earnings per share as presented on the face of the income statement are therefore identical. All earnings per share figures presented above arise from continuing and total operations and, therefore, no earnings per share for discontinued operations is presented.

Notes to the consolidated financial statements

for the year ended 31 March 2021

12. Share based payment

The Company operates share-based payment arrangements to remunerate Directors and key employees in the form of a share option scheme. Vesting of the options is conditional on the completion of three years service from the date of grant of the options (the vesting period) as well as share price performance. Most options vest on change of control such as an acquisition of the Company. The exercise price of the option is normally equal to the market price of an ordinary share in the Company at the date of grant. The options may be exercised over periods ranging from one to ten years from the date of grant and lapse if not exercised by that date

| | 2021 | | 2020 | |
|--------------------|--------------------------------|-------------------|--------------------------------|-------------------|
| | Average exercise price (pence) | Options | Average exercise price (pence) | Options |
| At 1 April | 4.55 | 73,486,399 | 6.13 | 48,954,766 |
| Granted | 1.00 | 33,259,596 | 1.925 | 30,000,000 |
| Granted | 1.15 | 1,250,000 | — | — |
| Waived | 44.5 | (112,360) | 7.38 | (50,000) |
| Waived | 14.5 | (100,000) | 5.00 | (2,918,367) |
| Waived | 6.50 | (500,000) | 3.50 | (2,500,000) |
| Waived | 6.13 | (1,000,000) | — | — |
| Waived | 5.875 | (850,000) | — | — |
| Waived | 5.00 | (16,200,000) | — | — |
| Waived | 4.00 | (50,000) | — | — |
| Waived | 3.50 | (6,850,000) | — | — |
| Expired | 7.125 | (2,000,000) | — | — |
| Expired | 5.875 | (500,000) | — | — |
| Expired | 5.00 | (4,500,000) | — | — |
| Expired | 3.50 | (2,000,000) | — | — |
| At 31 March | 2.68 | 73,333,635 | 4.55 | 73,486,399 |

Share options outstanding at the end of the year have the following expiry date and exercise prices:

| Expiry date | Exercise price (pence) | Shares | |
|-------------------|------------------------|-------------------|-------------------|
| | | 2021 | 2020 |
| 28 July 2024 | 44.5 | 1,587,080 | 1,699,440 |
| 2 June 2025 | 14.5 | — | 100,000 |
| 16 May 2026 | 4.13 | 605,326 | 605,326 |
| 30 September 2026 | 4.00 | 216,667 | 266,667 |
| 7 October 2026 | 5.00 | 1,000,000 | 1,000,000 |
| 24 January 2027 | 5.875 | 583,334 | 1,933,334 |
| 3 July 2027 | 7.125 | — | 2,000,000 |
| 17 July 2027 | 6.50 | — | 500,000 |
| 22 August 2027 | 6.13 | — | 1,000,000 |
| 19 September 2027 | 7.38 | 150,000 | 150,000 |
| 20 November 2027 | 5.13 | 200,000 | 200,000 |
| 14 March 2028 | 5.00 | 950,000 | 21,650,000 |
| 17 July 2028 | 5.00 | 1,331,632 | 1,331,632 |
| 7 January 2029 | 3.50 | 2,200,000 | 11,050,000 |
| 24 September 2029 | 1.925 | 28,500,000 | 28,500,000 |
| 1 November 2029 | 1.925 | 1,500,000 | 1,500,000 |
| 20 April 2030 | 1.00 | 33,259,596 | — |
| 20 April 2030 | 1.15 | 1,250,000 | — |
| | | 73,333,635 | 73,486,399 |

Notes to the consolidated financial statements

for the year ended 31 March 2021

12. Share based payment continued

At the balance sheet date, the average life outstanding on options was 8.5 years (2020: 7.57 years). All options had a 10-year life from date of grant. All options outstanding at the relevant period ends had price-based vesting criteria which had not been achieved and were therefore unvested.

During the year 34,509,596 share options were granted. They were mainly granted under the rules of the EMI scheme, and where an individual grant does not fall within HMRC EMI rules they are granted as an unapproved option which will typically be subject to PAYE and NI.

33,259,596 share options and warrants were granted at 1p and 1,250,000 options were granted at 1.15p. All are exercisable between 1 October 2020 and 20 April 2030. These options and warrants were granted on 21 April 2020 as part of the COVID-19 salary sacrifice programme with a price of 1p were exercisable from 1 October 2020 and have a life of 10 years. Alongside this approximately 25.7m options were voluntarily waived by staff and directors. The options with a price of 1.15p have vest in three tranches: the first tranche exercisable when the share price exceeds 1.92p, the second tranche when the share price exceeds 2.89p 1 month and the third tranche when the share price exceeds 3.85p for 1 month, save for the event of a change of control in the Company, in which case they will vest in full.

The weighted average fair value of the 34,509,596 (2020: 30,000,000) options granted during the year was determined using the Black Scholes option pricing model, given there were no performance conditions attached. This resulted in a cost of c0.7 pence per option. The significant inputs to the model were exercise price as shown above, an expected option of 10 years, expected volatility of 70% and a risk-free rate of return of 0.4%. The volatility is based on analysis of the volatility of the company's historical share price. At the balance sheet date all apart from 1.25m of these options were exercisable. The prior year options were determined using Monte Carlo option pricing model, as there were performance conditions attached, with a cost of 1.75 pence per option and £1.70 pence per options for the options granted in September 2019 and November 2019 respectively. The significant inputs to the model were exercise price as shown above, an expected option life between 2.25 years and 3.08 years, expected volatility of 63% and a risk-free rate of return estimated between 0.68 % and 0.86%. The volatility is based on analysis of the volatility of the company's historical share price. At 31 March 2020 10,000,000 of the 1.925p options were vested but not were exercisable.

The total share-based payment expense recognised in the income statement in respect of employee share options granted to Directors and employees is £175,949 (2020: £228,366).

Notes to the consolidated financial statements

for the year ended 31 March 2021

13. Property, plant and equipment

| | Leasehold Improvements £ | Fixtures and fittings £ | Computer equipment £ | Total £ |
|-------------------------|--------------------------------|-------------------------------|----------------------------|----------------|
| Cost | | | | |
| At 1 April 2020 | 143,823 | 32,115 | 121,244 | 297,182 |
| Additions | — | — | 36,161 | 36,161 |
| At 31 March 2021 | 143,823 | 32,115 | 157,405 | 333,343 |
| Depreciation | | | | |
| At 1 April 2020 | 16,779 | 14,211 | 70,769 | 101,759 |
| Charge for the year | 28,765 | 6,056 | 40,932 | 75,753 |
| At 31 March 2021 | 45,544 | 20,267 | 111,701 | 177,512 |
| Net book value | | | | |
| At 31 March 2021 | 98,279 | 11,848 | 45,704 | 155,831 |
| Cost | | | | |
| At 1 April 2019 | — | 66,401 | 257,158 | 323,559 |
| Additions | 143,823 | 9,631 | 25,683 | 179,137 |
| Disposals | — | (43,917) | (161,597) | (205,514) |
| At 31 March 2020 | 143,823 | 32,115 | 121,244 | 297,182 |
| Depreciation | | | | |
| At 1 April 2019 | — | 45,199 | 166,508 | 211,707 |
| Charge for the year | 16,779 | 12,929 | 57,592 | 87,300 |
| Released on disposal | — | (43,917) | (153,331) | (197,248) |
| At 31 March 2020 | 16,779 | 14,211 | 70,769 | 101,759 |
| Net book value | | | | |
| At 31 March 2020 | 127,044 | 17,904 | 50,475 | 195,423 |

Notes to the consolidated financial statements

for the year ended 31 March 2021

14. Intangible assets

| | Goodwill £ | Software and brand licences £ | Website costs £ | Development costs £ | Customer relationships £ | Total £ |
|------------------------------------|------------------|-------------------------------------|-----------------------|---------------------------|--------------------------------|------------------|
| Cost | | | | | | |
| At 1 April 2020 | 1,904,172 | 916,301 | 112,935 | — | 2,613,308 | 5,546,716 |
| Additions | — | — | — | 157,779 | — | 157,779 |
| At 31 March 2021 | 1,904,172 | 916,301 | 112,935 | 157,779 | 2,613,308 | 5,704,495 |
| Amortisation and impairment | | | | | | |
| At 1 April 2020 | 53,438 | 916,301 | 36,773 | — | 646,395 | 1,652,907 |
| Amortisation charge for year | — | — | 37,641 | 20,318 | 290,789 | 348,748 |
| At 31 March 2021 | 53,438 | 916,301 | 74,414 | 20,318 | 937,184 | 2,001,655 |
| Net book value | | | | | | |
| At 31 March 2021 | 1,850,734 | — | 38,521 | 137,461 | 1,676,124 | 3,702,840 |
| At 31 March 2020 | | | | | | |
| At 1 April 2019 | 2,078,538 | 916,301 | 83,599 | 1,029,554 | 2,613,308 | 6,721,300 |
| Additions | — | — | 29,336 | 349,148 | — | 378,484 |
| Disposals | (174,366) | — | — | (1,378,702) | — | (1,553,068) |
| At 31 March 2020 | 1,904,172 | 916,301 | 112,935 | — | 2,613,308 | 5,546,716 |
| Amortisation and impairment | | | | | | |
| At 1 April 2019 | 53,438 | 916,301 | 9,382 | — | 355,606 | 1,334,727 |
| Amortisation charge for year | — | — | 27,391 | — | 290,789 | 318,180 |
| At 31 March 2020 | 53,438 | 916,301 | 36,773 | — | 646,395 | 1,652,907 |
| Net book value at 31 March 2020 | 1,850,734 | — | 76,162 | — | 1,966,913 | 3,893,809 |

14.1 Goodwill

As detailed in note 2.8 to the consolidated financial statements, the Directors test goodwill annually for impairment by calculating the value in use of each cash generating unit using discounted cash flow techniques and comparing it to the carrying amount of goodwill.

The Directors have undertaken an impairment review of the goodwill at the reporting date relating to the acquisition of Falanx Cyber Defence Limited, the trade and assets of First Base Technologies LLP and Securestorm Limited, all of which were amalgamated into Falanx Cyber Defence Limited in the prior year in order to streamline operations.

Analysis of goodwill allocated to the Cyber segment:

| | 2021 £ | 2020 £ |
|---|-----------|-----------|
| Goodwill arising from acquisition of cyber security organisations | 1,850,734 | 1,850,734 |
| Total | 1,850,734 | 1,850,734 |

The recoverable amount of the CGU is based on fair value less costs of disposal estimated using discontinued cash flows. The measurement was categorised as Level 3 on the inputs used in the valuation technique.

The cash generating unit's value in use has been assessed using the following assumptions:

| | | |
|---|-----|-----|
| Discount rate | 15% | 15% |
| Average forecast EBITDA growth next 5 years | 7% | 7% |
| Growth rate 5-10 years | 10% | 10% |
| Perpetuity thereafter | 10% | 10% |

Notes to the consolidated financial statements

for the year ended 31 March 2021

14. Intangible assets continued

In determining value in use, the Directors have prepared financial and business forecasts. These forecasts indicate growth rates that increase by various rates throughout the 10-year forecast period (excluding any periods beyond this). The discount rate applied is an estimate based on industry weighted average cost of capital.

Goodwill of First Base has been evaluated by reviewing similar inputs save for growth scenario reflecting current growth rates of 10% over the 10-year horizon to reflect overall growth in the asset from new customers, and then comparing the excess of the NPV of future cash flows to the overall intangible including the customer relationships asset. This testing indicates that NPV will be less than carrying value if a discount rate in excess of 24% is used.

The estimated recoverable amount of the CGU exceeded its carrying amount (including developments costs and customer relationship intangibles) by £7.5m (2020: £2.4m)

Following the impairment review the Directors do not consider that the carrying value of goodwill detailed above is impaired at the reporting date.

14.2 Customer relationships

The customer relationships intangible assets arise on the acquisition of subsidiaries when accounted for as a business combination and relate to the expected value to be derived from contracted and non-contractual relationships. These customer assets are valued on a value in use basis. The value placed on the contractual customer relationships, as per the third-party valuation carried out, is based on the expected cash revenue inflows over the estimated remaining life of each existing contract. The value placed on the non-contractual customer relationships is based on past revenue performance by virtue of the customer relationships; but using the 0.82% average annual attrition rate since acquisition in March 2018. Associated cash outflows have been based on historically achieved margins. The net cash flows are discounted at a rate of 15% which the Directors consider is commensurate with the risks associated with capturing returns from customer relationships and reflects the group's WACC including the impact of the loan drawn down in August 2021. This is further described in note 3 to these accounts.

The Directors consider that the period expected to benefit in respect of the customer relationships acquired with the trade and assets of First Base Technologies LLP is ten years. The Directors consider that the period expected to benefit in respect of the customer relationships acquired with Securestorm Limited is three years as it is a smaller and newer business than First Base and has a significant level of customer concentration.

Whilst certain sales orders received by the business fell in the first few months of the financial year ended 31 March 2021 this is due to the ongoing COVID-19 situation. Orders fell between March 2020 and July 2020 but have since recovered strongly (with orders from new and existing customers) and are now ahead of the levels pre COVID-19. This growth has been reflected in the overall assessment of the intangibles (both goodwill and customer list) and more than supports their carrying values against a range of sensitivity tests carried out around expected growth rates and discount rates. The following other sensitivities have been applied to the determination of the value of the customer base. This was carried out by a multi period excess earnings model and was based on a 10-year horizon. This assumes that post the COVID-19 scenario Cyber revenues return to their previous growth rate of c15%.

| | |
|--|----------------------------------|
| Growth rate (long term economic average) | 1.5% (achieved growth rate c15%) |
| EBITDA Margin | 24.0 - 35.0% |
| Return on Workforce | 1.81% |
| Tax Rate | 17-19% |

A similar analysis has been carried out on the intangibles arising from the purchase of Securestorm Limited in July 2018. This has generated a customer intangible of £0.16m and a goodwill balance of £0.1m. The customer base will be amortised on a straight-line basis over a period of 3 years due to high customer concentration (although the main customer is under a multi-year contract which has recently renewed in July 2021) and relatively short existence (founded 2014).

Similar tests to those performed on the First Base intangibles have been applied to the intangibles arising from this transaction and no impairment of goodwill has been identified. An analysis has been conducted which shows that the NPV of the customer bases commences to fall below the carrying value when a discount rate of 24% is used.

Notes to the consolidated financial statements

for the year ended 31 March 2021

15. Right of use assets

| | 2021 | 2020 |
|------------------------------------|----------------|----------------|
| | £ | £ |
| Cost | | |
| At 1 April | 549,448 | — |
| Additions | — | 549,448 |
| At 31 March | 549,448 | 549,448 |
| Amortisation and impairment | | |
| At 1 April | 77,195 | — |
| Amortisation charge for year | 108,981 | 77,195 |
| At 31 March | 186,176 | 77,195 |
| Net book value | | |
| At 31 March | 363,272 | 472,253 |

This asset relates to the Reading office lease, refer to note 26.

16. Disposal of IP

| | | 2021 | 2020 |
|---|------|------|-------------|
| | Note | £ | £ |
| Consideration received or receivable | | | |
| Loan Receivable | 17 | — | 1,100,000 |
| 20% Share Capital in Furnace Technologies Limited | 18 | — | 600,000 |
| Total disposal consideration | | — | 1,700,000 |
| Carrying amount of net assets sold | | — | (1,641,334) |
| Gain on sale before income tax | | — | 58,666 |
| Income tax expense on gain | | — | - |
| Gain on sale after income tax | | — | 58,666 |

17. Investments with fair value through profit and loss

| | 2021 | 2020 |
|--------------------|------------------|----------------|
| | £ | £ |
| At 1 April | 340,000 | — |
| Additions | — | 600,000 |
| Impairment | (340,000) | (260,000) |
| At 31 March | — | 340,000 |

On 19 December 2019, the Group disposed of the business and assets of Furnace. The total consideration received was £1,700,000, which included the issue and allotment of 20% of the share capital in Furnace Technologies, the buyer's company. The equity value at completion was £600,000. In April 2020 Furnace Technologies received an external equity investment of £30,000 at the same valuation.

The Group are satisfied that it does not have a significant influence over Furnace Technologies and have recognised the shareholding as a financial asset. At the reporting date, the Group continued to hold 20% in Furnace Technologies. Due to the early-stage nature and lack of external investment to Furnace it has not been possible to form an objective view as to the carrying value of this investment due to uncertainty as to its ability to make repayment without external investment and revenue growth having been achieved. The equity which was previously recorded at £0.34m has therefore been fully provided for in the year ended 31 March 2021. The Company will continue to review this assets performance and may increase its carrying value at a point when Furnace has either commenced significant revenue generation or has received external investment.

Notes to the consolidated financial statements

for the year ended 31 March 2021

18. Loan Receivable

| | 2021 | 2020 |
|---|------|-----------|
| | £ | £ |
| Loan receivable from Furnace Technologies Ltd | — | 1,100,000 |
| | — | 1,100,000 |

On 19 December 2019, the Board disposed of the business and assets of Furnace. The total consideration received was £1,700,000, partly funded by the way of an unsecured loan note for £1,100,000 to Furnace Technologies Ltd, the buyer. As referenced in note 17 above, it has not been possible to form an objective view as to the carrying value of this asset due to uncertainty as to its ability to make repayment without external investment and revenue growth having been achieved. The loan note has therefore been fully provided for. The Company will continue to review this assets performance and may increase its carrying value at a point when Furnace has either commenced significant revenue generation or has received external investment.

19. Trade and other receivables

| | 2021 | 2020 |
|-----------------------------|-----------|-----------|
| | £ | £ |
| Trade receivables - gross | 682,000 | 1,536,775 |
| Allowance for credit losses | — | (2,800) |
| Trade receivables | 682,000 | 1,533,975 |
| Contract assets | 63,692 | 27,747 |
| Other receivables | 111,280 | 331,897 |
| Prepayments | 219,244 | 276,016 |
| | 1,076,216 | 2,169,635 |

Trade and other receivables are stated at amortised cost.

20. Cash and cash equivalents

| | 2021 | 2020 |
|--|---------|--------|
| | £ | £ |
| Cash and cash equivalents in statement of cash flows | 545,321 | 79,282 |

Notes to the consolidated financial statements

for the year ended 31 March 2021

21. Share capital

| | 2021 | | 2020 | |
|---|--------------------|---------------|--------------------|---------------|
| | Number of shares | Nil par value | Number of shares | Nil par value |
| Allotted, called up and fully paid at 1 April | 400,401,185 | — | 400,401,185 | — |
| New shares issued | 125,000,000 | — | — | — |
| Allotted, called up and fully paid at 31 March | 525,401,185 | — | 400,401,185 | — |

On 29 September 2020, the Company announced the successful placing and subscription of 125,000,000 new ordinary shares of nil par value at a price of 1 pence each raising gross proceeds of £1.25m.

At 31 March 2021 a total of 10,583,334 (2020: 14,780,001) warrants issued to various shareholders remained outstanding. No residual value has been allocated to the warrants as the issue price of the subscribed shares equated to their fair values. Of the total amount, 4,583,334 warrants had a 5-year time to expiry condition at the time of issue and the remaining 6,000,000 had an exercise period ending 36 months after each vesting period at the time of issue.

| Expiry | Exercise price (pence) | Warrants | |
|-----------------|------------------------|-------------------|-------------------|
| | | 2021 | 2020 |
| 15 January 2021 | 10.0 | — | 250,000 |
| 15 January 2021 | 15.0 | — | 250,000 |
| 15 January 2021 | 20.0 | — | 250,000 |
| 6 March 2021 | 4.50 | — | 2,646,667 |
| 23 March 2021 | 4.50 | — | 800,000 |
| 5 May 2021 | 6.0 | 4,583,334 | 4,583,334 |
| | | 4,583,334 | 8,780,001 |
| M D Read* | | 6,000,000 | 6,000,000 |
| | | 10,583,334 | 14,780,001 |

* The 6,000,000 warrants have an exercise period ending 36 months after each vesting period. Vesting is conditional on the share price being equal to or greater than the relevant minimum share price during each corresponding vesting period. The warrants shall vest in 4 tranches as set out below:

| Vesting period | Proportion of warrant shares | Minimum share price |
|--|--|---------------------|
| The first period of 6 months commencing on 22 August 2016 ("First Vesting Period") | 25% (equivalent to 1,500,000 warrant shares) | 4 pence |
| A second period of 6 months immediately following the expiry of the First Vesting Period ("Second Vesting Period") | 25% (equivalent to 1,500,000 warrant shares) | 10 pence |
| A third period of 6 months immediately following the expiry of the Second Vesting Period ("Third Vesting Period") | 25% (equivalent to 1,500,000 warrant shares) | 15 pence |
| A fourth period of 6 months immediately following the expiry of the Third Vesting Period ("Fourth Vesting Period") | 25% (equivalent to 1,500,000 warrant shares) | 20 pence |

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for the year ended 31 March 2021

22. Reconciliation of share capital

| | 2021 | 2020 |
|---|------------------|-------------------|
| | £ | £ |
| At 1 April | 17,903,427 | 17,903,427 |
| Premium on issue of nil par value ordinary shares | 1,247,600 | — |
| Costs of share issues | (117,866) | — |
| Capital reconstruction | (15,000,000) | — |
| At 31 March | 4,033,161 | 17,903,427 |

23. Accumulated losses

| | 2021 | 2020 |
|---|--------------------|---------------------|
| | £ | £ |
| At 1 April | (13,408,080) | (10,526,752) |
| Loss for the year | (3,551,940) | (2,881,328) |
| Capital reconstruction | 14,000,000 | — |
| Forfeited share options reversed through reserves | 16,031 | — |
| At 31 March | (2,943,989) | (13,408,080) |

24. Deferred taxation

| | 2021 | 2020 |
|--------------------------------------|---------|---------|
| | £ | £ |
| Group | | |
| Balance at 1 April | (9,529) | (7,593) |
| (Expense)/Credit to income statement | — | (1,936) |
| Balance at 31 March | (9,529) | (9,529) |

The deferred tax liability represents:

| | 2021 | 2020 |
|--------------------------------|---------|---------|
| | £ | £ |
| Accelerated capital allowances | (9,529) | (9,529) |

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax law) that have been enacted or substantively enacted by the reporting date.

The above deferred tax liability was calculated based on the expected UK corporation tax rate of 19% (2020: 19%), being the rate, which is expected to apply in the future when the liability is settled. The Group has losses of c£13.9m (subject to HMRC agreement), available to offset against future taxable profits. A deferred tax asset has not been recognised on these losses due to the uncertainty of sufficient future taxable profits against which the losses can be utilised. The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from 1 April 2023. This rate has not been substantively enacted at the balance sheet date, as a result the deferred tax liability as at 31 March 2021 continues to be measured at 19%. If all of the deferred tax liability was to reverse at the amended rate the impact to the closing deferred tax position would be to increase the deferred tax asset by £3,009.

25. Trade and other payables

| | 2021 | 2020 |
|---|------------------|------------------|
| | £ | £ |
| Trade payables | 539,068 | 781,168 |
| Other payables within one year | 38,383 | 53,500 |
| Other payables after more than one year | 5,409 | — |
| Taxation and social security | 838,636 | 499,246 |
| Accruals | 176,628 | 261,936 |
| | 1,598,124 | 1,595,850 |

Notes to the consolidated financial statements

for the year ended 31 March 2021

26. Lease liability

Nature of leasing activities

The Group at the date of this report only has one property lease and this is for the Reading office which is now the Group's registered office.

Lease terms are negotiated on an individual basis and contains separate terms and conditions.

| | 2021 | 2020 |
|-------------------------|------|------|
| Number of active leases | 1 | 1 |

Lease liability at year end

| | 2021 £ | 2020 £ |
|------------------------------|----------------|-----------|
| Non-current | | |
| Lease liability | 252,874 | 348,872 |
| | 252,874 | 348,872 |
| Current | | |
| Lease liability | 95,997 | 89,312 |
| | 95,997 | 89,312 |
| Total Lease liability | 378,871 | 438,184 |

Analysis of lease liability

| | | |
|------------------|-----------|----------|
| At 1 April | 438,184 | — |
| Additions | — | 438,516 |
| Interest expense | 28,799 | 24,275 |
| Lease payments | (118,112) | (24,607) |
| At 31 March | 348,871 | 438,184 |

Analysis of gross value of lease liabilities

| Maturity of the lease liabilities is analysed as follows: | 2021 | 2020 |
|---|---------|---------|
| Within 1 year | 95,997 | 89,937 |
| Later than 1 year and less than 5 years | 252,874 | 348,872 |
| At 31 March | 348,871 | 438,809 |

Notes to the consolidated financial statements

for the year ended 31 March 2021

27. Borrowings

Falanx Cyber Defence Ltd, a wholly owned subsidiary took out a £50,000 Coronavirus Business Interruption Loan (CBIL) with HSBC. The loan is repayable in 5 years from June 2021. The loans attract an interest rate of 2.5%. No arrangement fees were applied by the lender.

| | 2021 | 2020 |
|---|---------------|----------|
| | £ | £ |
| Non-current | | |
| Bank loan | 42,129 | — |
| | 42,129 | — |
| Current | | |
| Bank loan | 7,871 | — |
| | 7,871 | — |
| Total Loan liability | 50,000 | — |
| Analysis of loan liability | | |
| At 1 April | — | — |
| Additions | 50,000 | — |
| At 31 March | 50,000 | — |
| Analysis of gross value of bank loan | | |
| Maturity of the bank loan is analysed as follows: | 2021 | 2020 |
| Within 1 year | 7,871 | — |
| Later than 1 year and less than 5 years | 42,129 | — |
| At 31 March | 50,000 | — |

Notes to the consolidated financial statements

for the year ended 31 March 2021

28. Subsidiaries

The Company holds more than 50% of the share capital of the following companies:

| Name | Country of incorporation | Nature of business | Proportion of shares Shares held by parent |
|--|--------------------------|--|---|
| Falanx Cyber Defence Limited | England and Wales | Cyber defence solution | 100% |
| Falanx Cyber Holdings Limited | England and Wales | Cyber defence solution, becoming dormant with all assets liabilities and trade being transferred to Falanx Cyber Defence Limited | 100% |
| First Base Technologies (London) Limited | England and Wales | Cyber defence solution, becoming dormant with all assets and liabilities and trade being transferred to Falanx Cyber Defence Limited | 100% |
| Securestorm Limited | England and Wales | Cyber security consultancy, becoming dormant with all assets liabilities and trade being transferred to Falanx Cyber Defence Limited | 100% |
| Falanx Cyber Technologies Limited | England and Wales | Research and development | 100% |
| Cloudified Limited | England and Wales | Software development in telecommunications, security and data analytics, becoming dormant | 100% |
| Falanx Assynt Limited | England and Wales | Business intelligence consultancy | 100% |
| Falanx Group US LLC | United States of America | Business intelligence consultancy | 100% |
| FG Consulting Services DMCC | United Arab Emirates | Management consultancy | 100% |
| Stirling Risk (Asia) Limited | Hong Kong | Business intelligence consultancy | 100% |
| Falanx Assynt Ireland Limited | Ireland | Business intelligence consultancy | 100% |
| Falanx Protection Limited | British Virgin Islands | Dormant | 100% |
| Penetration Testing Ltd | England and Wales | Dormant | 100% |

Notes to the consolidated financial statements

for the year ended 31 March 2021

29. Financial instruments

The Group is exposed through its operations to one or more of the following financial risks that arise from its use of financial instruments. A risk management programme has been established to protect the Group against the potential adverse effects of these financial risks.

Market risk

The main risks arising from the Group's financial instruments are liquidity risk, credit risk and foreign currency risk. The Directors regularly review and agree policies for managing each of these risks and are set out in the subsections below. The totals for each category of financial instruments and the carrying amounts, measured in accordance with IFRS 9 as detailed in the policies, are as follows:

Financial assets

| | 2021 | 2020 |
|-----------------------------|------------------|------------------|
| | £ | £ |
| Loan Receivable | — | 1,100,000 |
| Trade and other receivables | 793,280 | 1,865,872 |
| Cash and cash equivalents | 545,321 | 79,282 |
| | 1,338,601 | 3,045,154 |

Financial liabilities

| | 2021 | 2020 |
|--------------------------|------------------|------------------|
| | £ | £ |
| Trade and other payables | 582,860 | 834,668 |
| Lease liability | 348,872 | 438,184 |
| Borrowings | 50,000 | — |
| Accruals | 176,627 | 261,936 |
| | 1,158,359 | 1,534,788 |

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting these obligations associated with financial liabilities.

The responsibility for liquidity risks management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short term and long-term funding and liquidity requirements.

The Group manages liquidity risks by maintaining adequate reserves by continuously monitoring monthly expected forecasts and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The trade and other payables, and lease liability maturity profile, based on contractual undiscounted cash flows, of the Group is as follows:

| | 2021 | 2020 |
|----------------------------------|----------------|------------------|
| | £ | £ |
| Trade and other payables due in: | | |
| Less than one month | 507,988 | 612,305 |
| One month to six months | 92,714 | 101,577 |
| Six months to one year | 80,618 | 210,098 |
| Greater than one year | 300,412 | 348,872 |
| Total | 981,732 | 1,272,852 |

Notes to the consolidated financial statements

for the year ended 31 March 2021

29. Financial instruments continued

The borrowings maturity profile, based on contractual undiscounted cash flows, of the Group is as follows:

| | 2021 | 2020 |
|----------------------------------|---------------|----------|
| | £ | £ |
| Trade and other payables due in: | | |
| Less than one month | — | — |
| One month to six months | 3,148 | — |
| Six months to one year | 4,723 | — |
| Greater than one year | 42,129 | — |
| Total | 50,000 | — |

The Company has sufficient working capital to meet these liabilities as they fall due.

Credit risk

Credit risk is the risk that a counterparty will cause a financial loss to the Group by failing to discharge its obligation to the Group.

The Group manages its exposure to this risk by applying Board approved limits to the amount of credit exposure to anyone counterparty and employs strict minimum credit worthiness criteria as to the choice of counter-party thereby ensuring that there are no significant concentrations of credit risk. The average credit period is 30 days from date of invoice, but non-standard terms may be agreed with certain larger or strategic customers. The bulk of the Group's cash assets were held with HSBC and the Board has considered the associated risk as minimal. On average 50% of the Cyber business is billed in advance of the service and circa 70% of the Assynt business is billed in advance. This significantly reduces our credit risk.

The carrying amount of financial assets represents the maximum credit exposure; therefore, the maximum exposure to credit risk at the statement of financial position date was £1,338,601 (2020: £3,045,154). The amount represents the total of the carrying amount of current assets.

The maximum amount exposure to credit risk for trade receivables at the statement of financial position date was £682,000 (2020: £1,536,775). All amounts at the balance sheet date have since been collected. As at the date of signing these financial statements, the Group does not expect to incur material credit losses of its financial assets or other financial instruments and therefore credit exposure is considered minimal.

As at 31 March 2021, trade receivables past due for the Group totalled £145,810 (2020: £345,800) of which £nil (2020: £2,800) have been impaired. As at 31 March 2021, trade receivables past due but not impaired are as follows:

| | 2021 | 2020 |
|--|---------|---------|
| | £ | £ |
| Up to 3 months | 132,795 | 330,300 |
| 3 months to 6 months | 11,799 | 12,700 |
| 6 months to 12 months | — | — |
| Over 12 months | 1,216 | — |
| Expected credit loss provision at 31 March | 145,810 | 343,000 |

All of these amounts have been collected in full since 1 April 2021.

Credit quality of financial assets

The Group's credit risk is mainly attributable to trade receivables. The Group's customers are spread across a wide range of industries and service sectors and consequently the Group is not exposed to material concentrations of credit risk on trade receivables with there being a preponderance of blue-chip companies.

The credit quality of financial assets is assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

The Group applies IFRS 9 simplified approach to measure expected losses using a lifetime expected credit loss provision for trade receivables and contract assets. The expected loss rates are based on a view of forward-looking information as well as the Group's historical credit losses experienced in a two-year period.

Notes to the consolidated financial statements

for the year ended 31 March 2021

29. Financial instruments continued

The Furnace loan of £1.1m was fully provided for in the year ended 31 March 2021.

A reconciliation of the movement in the impairment allowance for trade receivables is shown below:

| | 2021 | 2020 |
|---|---------|-------|
| | £ | £ |
| Provision for bad and doubtful debts at 1 April | 2,800 | 2,800 |
| Amount released | (2,800) | — |
| Amount provided | — | — |
| Expected credit loss provision at 31 March | — | 2,800 |

Foreign currency risk

The Group has limited exposure to foreign currency risk. More than 92% of revenue and associated activity is generated and settled in the functional (and presentational) currency of the respective group entities. More than 80% of Group revenue is earned from the UK market in sterling with the balance earned in USD, Euro, Hong Kong dollars and Emirati Dirham. The Group's investment in foreign operations exposes it to foreign currency risk on the net assets of subsidiaries denominated in these currencies. However, the risk is currently low because the underlying net assets held in the non-UK parts of the Group are low. Natural hedging is used wherever possible.

A ten percent weakening of sterling against the relevant currencies for example, would decrease the loss by £7,037 (2020: £2,215) in the coming year and would decrease equity by £6,627 (2020: £15,902).

The Group currently does not utilise swaps or forward contracts to manage its currency exposures, although such facilities are considered and may be used where appropriate in the future.

30. Capital risk management

Total capital managed in the Group is the shareholders' funds as shown in the statement of financial position.

The Group aims to manage its overall capital to ensure that it continues to operate as a going concern, whilst providing an adequate return to its shareholders.

The Group set the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The Group is not subject to any externally imposed capital requirements.

Other risks management

The Group operations expose it to a variety of financial risks that include the effects of changes in interest rates, liquidity risk and credit risk. Given the size of the Group, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the Group's finance department.

31. Pension

The Group operates a defined contribution pension scheme in accordance with the Government Directive on Work Place Pensions. The total contributions for the year were £97,383 (2020: £95,612).

32. Capital and Financial commitment

The Group had no capital or financial commitments in any of the periods presented.

33. Control

No ultimate party controls Falanx Group Limited.

Notes to the consolidated financial statements

for the year ended 31 March 2021

34. Related party transactions

Falanx Group Limited provided head office and management services to subsidiary companies and supported them with working capital during the year ended 31 March 2021 and in total advanced £Nil (2020: £0.6m) to its subsidiaries, all of which are wholly owned.

On 30 October 2020, following the release of the annual report for 31 March 2020, and as part of the placing announced on 29 September 2020 certain members of the Board of Directors and senior management subscribed for a total of £75,000 resulting in the issue of 7,500,000 new ordinary shares in the Company. This intention was announced on 29 September 2020, and they all participated on the same terms as other shareholders who invested at this point.

Director subscriptions

The following members of the Board of Directors and senior management subscribed for shares in the Company in the amounts set out in the table below:

| Director | Current Holding | % of Existing Ordinary Shares | Number of Subscription Shares | Holding post Fundraise | % of Enlarged Share Capital |
|--------------------------------------|-------------------|-------------------------------|-------------------------------|------------------------|-----------------------------|
| Michael David Read (CEO) | 11,813,940 | 2.28% | 3,500,000 | 15,313,940 | 2.91% |
| Alex Hambro (Non-Executive Chairman) | 1,250,000 | 0.24% | 1,500,000 | 2,750,000 | 0.52% |
| Ian Selby (CFO) | 1,069,348 | 0.21% | 1,000,000 | 2,069,348 | 0.39% |
| Emma Shaw (NED) | 866,666 | 0.17% | 500,000 | 1,366,666 | 0.26% |
| Rick Flood (MD of Cyber, PDMR) | 499,702 | 0.10% | 1,000,000 | 1,499,702 | 0.29% |
| Total | 15,499,656 | 2.99% | 7,500,000 | 22,999,656 | 4.38% |

The participation by Michael Read, Alex Hambro, Ian Selby, Emma Shaw and Rick Flood in the Fundraising constituted a related party transaction for the purposes of the AIM Rules. In the absence of any independent director, the Company's nominated adviser, Stifel, considered that the terms of the related party transaction were fair and reasonable insofar as shareholders are concerned.

35. Events after the reporting period

- On 29 April 2021, the Group announced changes to certain outstanding share options to reduce potential tax charges for both the option holder and the Company. This involved the cancellation of 29,119,200 unapproved share options with exercise prices between 1p and 1.92p, and their immediate reissue under identical terms under the Group's EMI approved scheme.
- On 18 August 2021, the Group announced a five-year Growth Loan facility with BOOST&Co of which the key terms are:
 - Initial £1m loan secured over the Group's assets, expected to increase to £2.5m to fund acquisitions & investment programmes
 - Annual interest of 11%, and straight-line amortisation of the loan commencing after 12 months
The loan carries a 3% early prepayment fee on the then amount outstanding

The proceeds of this will enable the Group to make earnings enhancing acquisitions to strengthen its core Cyber division, as well as supporting the Group's overall organic growth plans.

- On 18 August 2021, the Group announced that options over a total of 7,000,000 Ordinary Shares of nil par value each were granted to 7 employees.

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