

Q4 2023 Financial Compliance Report

DeepShield Systems, Inc.

For the Quarter Ended December 31, 2023

1. Executive Summary

This Financial Compliance Report ("Report") has been prepared by the Finance and Compliance departments of DeepShield Systems, Inc. ("Company") for the quarter ended December 31, 2023. This Report addresses compliance with financial covenants, regulatory requirements, and internal control frameworks applicable to the Company's operations.

2. Compliance Overview

1 Financial Covenant Compliance

- Debt Service Coverage Ratio: 2.4x (Required: 1.5x)
- Working Capital Ratio: 2.1x (Required: 1.25x)
- Leverage Ratio: 2.8x (Required: 3.5x)

All financial covenants under the Series C financing agreements remain in compliance.

2 Regulatory Compliance Status

- SEC Reporting Requirements: Compliant
- SOX 404 Controls: Effective
- CFIUS Requirements: Compliant
- Export Control Regulations: Compliant

3. Financial Performance Metrics

1 Revenue Recognition

- Q4 2023 Revenue: \$9.2M
- YTD Revenue: \$32.5M
- Revenue recognition practices comply with ASC 606
- No material changes to revenue recognition policies

2 Cash Management

- Operating Cash: \$18.4M
- Restricted Cash: \$2.1M
- Cash Management Controls: Effective
- Treasury Policy Compliance: Maintained

4. Internal Control Assessment

1 Control Environment

- No material weaknesses identified
- Three (3) significant deficiencies noted and remediated
- Internal audit recommendations implemented
- Updated control documentation completed

2 Risk Assessment

- Quarterly risk assessment completed
- New risks identified in maritime cybersecurity operations
- Risk mitigation strategies implemented
- Control testing schedule maintained

5. Compliance Program Updates

1 Policy Updates

- Updated Anti-Corruption Policy (December 1, 2023)
- Revised Export Control Procedures (November 15, 2023)
- New Cybersecurity Compliance Guidelines (October 8, 2023)

2 Training and Education

- Q4 Compliance Training Completion Rate: 98%
- New hire compliance orientation: 100% completion
- Specialized ITAR training completed for engineering team
- Annual compliance certification process completed

6. Material Transactions and Disclosures

1 Related Party Transactions

- No material related party transactions in Q4 2023
- All existing arrangements reviewed and documented
- Disclosure controls deemed effective

2 Material Contracts

- New maritime security contracts: 3
- Contract compliance review completed
- No material defaults or breaches identified

7. Regulatory Filings and Communications

1 Required Filings

- All SEC filings completed timely
- State regulatory filings current
- Export control documentation maintained
- CFIUS compliance certifications current

2 Regulatory Communications

- No material regulatory inquiries received
- Routine information requests addressed
- No pending regulatory investigations

8. Risk Management

1 Enterprise Risk Management

- Quarterly risk assessment completed
- Risk register updated
- New controls implemented for identified risks
- Risk monitoring protocols enhanced

2 Insurance Coverage

- All required coverage maintained
- Claims history reviewed
- Coverage limits adequate

- No material claims pending

9. Recommendations and Action Items

1 Immediate Actions Required

- Update vendor compliance documentation
- Enhance maritime security compliance protocols
- Complete Q1 2024 risk assessment planning

2 Long-term Improvements

- Implement enhanced monitoring systems
- Develop additional compliance training modules
- Strengthen third-party due diligence processes

10. Certification

The undersigned hereby certify that this Report fairly presents, in all material respects, the compliance status of DeepShield Systems, Inc. for the quarter ended December 31, 2023.

Dated: January 15, 2024

/s/ Robert Kessler

Robert Kessler

Chief Financial Officer

/s/ Jennifer Martinez

Jennifer Martinez

Chief Compliance Officer

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