

# **DEEPSHIELD SYSTEMS, INC.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**For the Quarter and Year Ended December 31, 2023**

(Unaudited - Expressed in US Dollars)

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## **1. MANAGEMENT STATEMENT OF RESPONSIBILITY**

The accompanying unaudited consolidated financial statements of DeepShield Systems, Inc. ("DeepShield" or the "Company") have been prepared by management in accordance with generally accepted accounting principles in the United States (US GAAP). Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded.

These financial statements have been reviewed by the Company's Audit Committee and approved by the Board of Directors.

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## **2. CONSOLIDATED BALANCE SHEET**

(in thousands of US dollars)

### **ASSETS**

#### **Current Assets**

- Cash and cash equivalents: \$14,275

- Short-term investments: \$8,500
- Accounts receivable, net: \$7,845
- Prepaid expenses: \$1,230
- Other current assets: \$875

**Total Current Assets: \$32,725**

#### **Non-Current Assets**

- Property and equipment, net: \$4,850
- Capitalized software development: \$12,375
- Goodwill: \$5,500
- Other intangible assets: \$3,250
- Long-term investments: \$2,800

**Total Non-Current Assets: \$28,775**

**TOTAL ASSETS: \$61,500**

#### **LIABILITIES AND STOCKHOLDERS' EQUITY**

##### **Current Liabilities**

- Accounts payable: \$3,245
- Accrued expenses: \$2,875
- Deferred revenue: \$5,500
- Current portion of long-term debt: \$1,250

**Total Current Liabilities: \$12,870**

##### **Non-Current Liabilities**

- Long-term debt: \$8,750
- Deferred tax liabilities: \$1,875
- Other long-term liabilities: \$925

**Total Non-Current Liabilities: \$11,550**

##### **Stockholders' Equity**

- Common stock: \$185
- Additional paid-in capital: \$42,500
- Accumulated deficit: (\$5,605)

**Total Stockholders' Equity: \$37,080**

**TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY: \$61,500**

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### **3. CONSOLIDATED STATEMENT OF OPERATIONS**

For the three months and year ended December 31, 2023

(in thousands of US dollars, except per share data)

#### **Revenue**

- Product revenue: \$6,875
- Subscription services: \$4,250
- Professional services: \$1,375

**Total Revenue: \$12,500**

#### **Operating Expenses**

- Cost of revenue: \$3,875
- Research and development: \$2,750
- Sales and marketing: \$2,125
- General and administrative: \$1,875

**Total Operating Expenses: \$10,625**

**Operating Income: \$1,875**

#### **Other Income/(Expense)**

- Interest income: \$175
- Interest expense: (\$225)
- Other income/(expense): \$50

**Total Other Income/(Expense): \$0**

**Income Before Income Taxes: \$1,875**

- Income tax provision: (\$469)

**Net Income: \$1,406**

**Earnings per share:**

- Basic: \$0.15
- Diluted: \$0.14

**Weighted average shares outstanding:**

- Basic: 9,375,000
- Diluted: 10,042,857

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#### **4. CONSOLIDATED STATEMENT OF CASH FLOWS**

For the three months ended December 31, 2023

(in thousands of US dollars)

**Operating Activities**

- Net income: \$1,406
- Depreciation and amortization: \$875
- Stock-based compensation: \$425
- Changes in operating assets and liabilities: (\$750)

**Net cash provided by operating activities: \$1,956**

**Investing Activities**

- Purchase of property and equipment: (\$750)
- Capitalized software development: (\$1,250)
- Purchase of investments: (\$2,500)

**Net cash used in investing activities: (\$4,500)**

**Financing Activities**

- Proceeds from exercise of stock options: \$275
- Repayment of long-term debt: (\$313)

**Net cash used in financing activities: (\$38)**

**Net decrease in cash and cash equivalents: (\$2,582)**

**Cash and cash equivalents, beginning of period: \$16,857**

**Cash and cash equivalents, end of period: \$14,275**

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## **5. NOTES TO FINANCIAL STATEMENTS**

### **Note 1 - Organization and Significant Accounting Policies**

DeepShield Systems, Inc. is a Delaware corporation headquartered in Boston, Massachusetts. The Company provides industrial cybersecurity and critical infrastructure protection solutions through its proprietary deep-layer security architecture platform.

#### **Basis of Presentation**

These unaudited consolidated financial statements have been prepared in accordance with US GAAP and include the accounts of DeepShield Systems, Inc. and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

#### **Revenue Recognition**

The Company recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers. Revenue is recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration expected to be received in exchange for those goods or services.

#### **Software Development Costs**

The Company capitalizes certain software development costs related to its proprietary platform. Capitalized costs include direct labor and related overhead costs. Software development costs are amortized over the estimated useful life of the software, typically 3-5 years.

### **Note 2 - Segment Information**

The Company operates as a single operating segment. The Company's chief operating decision maker (CODM) is its Chief Executive Officer, who reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance.

### **Note 3 - Subsequent Events**

Management has evaluated subsequent events through January 30, 2024, the date these financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment or disclosure in these financial statements.

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*The accompanying notes are an integral part of these consolidated financial statements.*