

ANNUAL AUDIT REPORT

DeepShield Systems, Inc.

Fiscal Year Ended December 31, 2023

PREPARED BY:

PricewaterhouseStanley LLP

Independent Registered Public Accounting Firm

License #CA-847392

1. INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of DeepShield Systems, Inc.

We have audited the accompanying financial statements of DeepShield Systems, Inc. (the "Company"), which comprise the balance sheet as of December 31, 2023, and the related statements of operations, stockholders' equity, and cash flows for the year then ended, including the related notes to the financial statements.

1.1 Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP); this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

1.2 Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

2. FINANCIAL HIGHLIGHTS

2.1 Revenue and Growth

- Total Revenue: \$32,500,000

- Year-over-Year Growth: 42.3%
- Recurring Revenue: \$24,375,000 (75% of total revenue)
- Non-Recurring Revenue: \$8,125,000 (25% of total revenue)

2.2 Profitability Metrics

- Gross Profit: \$23,725,000
- Gross Margin: 73%
- Operating Income: \$4,875,000
- Operating Margin: 15%
- EBITDA: \$6,500,000
- Net Income: \$3,250,000

3. BALANCE SHEET ANALYSIS

3.1 Assets

Total Assets: \$48,750,000

- Current Assets: \$22,375,000
- Cash and Cash Equivalents: \$12,500,000
- Accounts Receivable: \$6,500,000
- Prepaid Expenses: \$3,375,000
- Non-Current Assets: \$26,375,000
- Property and Equipment: \$4,875,000
- Intangible Assets: \$18,500,000
- Other Long-term Assets: \$3,000,000

3.2 Liabilities and Equity

Total Liabilities and Equity: \$48,750,000

- Current Liabilities: \$8,750,000
- Accounts Payable: \$3,250,000
- Accrued Expenses: \$2,875,000
- Deferred Revenue: \$2,625,000
- Long-term Liabilities: \$12,500,000
- Long-term Debt: \$10,000,000

- Other Long-term Liabilities: \$2,500,000
- Stockholders' Equity: \$27,500,000

4. OPERATIONAL PERFORMANCE

4.1 Key Performance Indicators

- Customer Acquisition Cost (CAC): \$45,000
- Lifetime Value (LTV): \$425,000
- LTV/CAC Ratio: 9.4
- Net Revenue Retention: 118%
- Customer Churn Rate: 4.2%

4.2 Segment Analysis

- Maritime Security Solutions: 45% of revenue
- Industrial Control Systems: 35% of revenue
- Critical Infrastructure Protection: 20% of revenue

5. RISK ASSESSMENT

5.1 Financial Risks

- Currency Exchange Risk: Low
- Credit Risk: Moderate
- Liquidity Risk: Low
- Interest Rate Risk: Low

5.2 Operational Risks

- Cybersecurity Risk: Managed through comprehensive internal controls
- Supply Chain Risk: Moderate
- Technology Obsolescence Risk: Low
- Regulatory Compliance Risk: Moderate

6. INTERNAL CONTROLS

6.1 Control Environment

We have evaluated the Company's internal control over financial reporting as of December 31, 2023,

based on criteria established in Internal Control--Integrated Framework (2013) issued by COSO. No material weaknesses were identified.

6.2 Control Activities

Key control activities include:

- Segregation of duties
- Authorization protocols
- Reconciliation procedures
- IT system controls
- Documentation standards

7. COMPLIANCE AND REGULATORY

7.1 Regulatory Compliance

The Company maintains compliance with:

- SOX 404 requirements
- GDPR and CCPA data protection standards
- ISO 27001 certification
- NIST Cybersecurity Framework

7.2 Legal Matters

No material litigation or regulatory proceedings are currently pending.

8. GOING CONCERN AND OUTLOOK

Based on our audit procedures and current financial position, we have concluded that there is no substantial doubt about the Company's ability to continue as a going concern for the foreseeable future.

9. AUDIT OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DeepShield Systems, Inc. as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

10. SIGNATURES AND CERTIFICATION

PricewaterhouseStanley LLP

San Francisco, California

March 15, 2024

/s/ James Wilson, CPA

Lead Engagement Partner

License #CPA-938271

/s/ Maria Garcia, CPA

Quality Review Partner

License #CPA-847362

This report is confidential and intended solely for the information and use of the Board of Directors, management, and other authorized parties of DeepShield Systems, Inc. It may not be used by or distributed to any other parties without our prior written consent.