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DRONESHIELD LLC

**Audited Financial Statements
For Nine Months Ended September 30, 2015
and
Year Ended December 31, 2014
(Expressed in United States Dollars)**

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COHEN & SCHAEFFER

P.C.

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Independent Auditors' Report

Members
DroneShield LLC
Herndon, VA 20170

Report on the Financial Statements

We have audited the accompanying balance sheets of DroneShield LLC as of September 30, 2015 and December 31, 2014 and the related statements of operations, members' equity and cash flows for the periods then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DroneShield LLC, as of September 30, 2015 and December 31, 2014 and the results of its operations and its cash flows for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

Cohen & Schaeff P.C.

New York, New York

November 20, 2015

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DRONESHIELD LLC

Balance Sheets
As of September 30, 2015
and
December 31, 2014
(Expressed in United States Dollars)

	<u>September 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Assets		
Current assets		
Cash	\$ 277,155	\$ 28,314
Accounts receivable	31,029	-
Inventory (Note 5)	20,963	-
Total current assets	<u>329,147</u>	<u>28,314</u>
Equipment, net (Note 6)	<u>9,992</u>	-
Total assets	<u>\$ 339,139</u>	<u>\$ 28,314</u>
Liabilities and Members' Equity		
Current liabilities		
Accounts payable	\$ 63,218	\$ 17,865
Accrued expenses	13,006	1,744
Notes payable - short-term	26,000	-
Total current liabilities	<u>102,224</u>	<u>19,609</u>
Convertible note (Note 4)	221,270	-
Notes payable, net of current portion	<u>70,200</u>	-
Total liabilities	<u>393,694</u>	<u>19,609</u>
Members' equity		
Members' contributions	89,097	60,367
Accumulated loss	<u>(143,652)</u>	<u>(51,662)</u>
Total members' equity (Note 4)	<u>(54,555)</u>	<u>8,705</u>
Total liabilities and members' equity	<u>\$ 339,139</u>	<u>\$ 28,314</u>

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

DRONESHIELD LLC

Statements of Operations
 Nine Months Ended September 30, 2015
 and
 Year Ended December 31, 2014
 (Expressed in United States Dollars)

	<u>September 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Net sales (Notes 2 and 3)	\$ 94,515	\$ 4,590
Cost of sales	<u>62,644</u>	<u>1,593</u>
Gross profit	<u>31,871</u>	<u>2,997</u>
Operating expenses		
General and administrative	53,007	45,712
Selling and marketing	61,213	5,741
Research and development	<u>8,904</u>	<u>3,206</u>
Total operating expenses	<u>123,124</u>	<u>54,659</u>
Operating loss	(91,253)	(51,662)
Other income (expenses)		
Depreciation and amortization (Note 6)	<u>(737)</u>	-
	(737)	-
Net loss	<u>\$ (91,990)</u>	<u>\$ (51,662)</u>

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

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DRONESHIELD LLC

Statements of Operations
 Nine Months Ended September 30, 2015
 and
 Year Ended December 31, 2014
 (Expressed in United States Dollars)

	<u>Members'</u> <u>Contributions</u>	<u>Accumulated</u> <u>Income/(Loss)</u>	<u>Total</u>
Balance at January 1, 2014	\$ -	\$ -	\$ -
Contributions	60,367	-	60,367
Net loss for the year	-	(51,662)	(51,662)
	<hr/>	<hr/>	<hr/>
Balance at December 31, 2014	\$ 60,367	\$ (51,662)	\$ 8,705
Warrant	28,730	-	28,730
Net loss for nine months	-	(91,990)	(91,990)
	<hr/>	<hr/>	<hr/>
Balance at September 30, 2015 (Note 4)	<u>\$ 89,097</u>	<u>\$ (143,652)</u>	<u>\$ (54,555)</u>

The accompanying notes are an integral part of financial statements.

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Statements of Cash Flows
 Nine Months Ended September 30, 2015
 and
 Year Ended December 31, 2014
 (Expressed in United States Dollars)

	<u>September 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Cash flows from operating activities		
Net loss	\$ (91,990)	\$ (51,662)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	737	-
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	(31,029)	-
Inventory, net	(20,963)	-
Increase (decrease) in		
Accounts payable	45,353	17,865
Accrued expenses	11,262	1,744
Net cash used in operating activities	<u>(86,630)</u>	<u>(32,053)</u>
Cash flows from investing activities		
Purchase of equipment	<u>(10,729)</u>	-
Net cash used in investing activities	<u>(10,729)</u>	-
Cash flows from financing activities		
Members' contribution	-	60,367
Convertible note (Note 4)	221,270	-
Warrant	28,730	-
Loans received	96,200	-
Net cash used in financing activities	<u>346,200</u>	<u>60,367</u>
Net increase (decrease) in cash	248,841	28,314
Cash and cash equivalents, beginning of year	<u>28,314</u>	-
Cash and cash equivalents, end of year	<u>\$ 277,155</u>	<u>\$ 28,314</u>

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

DRONESHIELD LLC

**Notes to Financial Statements
September 30, 2015
and
December 31, 2014
(Expressed in United States Dollars)**

Note 1 - Business description

DroneShield LLC (the "Company") was formed as a Delaware limited liability company on January 10, 2014. The Company designs, manufactures, and markets systems to detect small unmanned aerial vehicles (SUAV or "drones").

The major customers are located in North America, Europe and East Asia. These three regions are responsible for 89% of revenue for the nine month period ended September 30, 2015 and the year ended December 31, 2014.

Note 2 - Summary of significant accounting policies

Basis of presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and is stated in U.S. Dollars. These financial statements were approved by management and available for issuance on November 20, 2015.

The significant accounting policies followed in the preparation of the financial statements, on a consistent basis are:

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could vary from those estimates under different conditions or assumptions.

Revenue recognition

The Company's revenue is derived principally from the sale of products to resellers and system integrators. Revenue from product sales is recognized upon shipment. The Company also receives revenue from contracts with the federal government and prime contractors. Revenue from those firm-fixed price contracts is recognized using the percentage-of-completion method.

Cost of sales

Cost of sales includes direct labor, materials, and other direct costs which are expensed as the related revenue is recognized.

Cash and cash equivalents

The Company considers cash and cash equivalents to consist of cash balances and highly liquid money market investments.

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Notes to Financial Statements
September 30, 2015
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Note 2 - Summary of significant accounting policies (continued)

Accounts receivable

The Company grants credit to qualified customers, generally, without requiring deposit or collateral. Payment is due upon receipt, with most payments remitted within 30 days. The Company does not charge interest on past due accounts.

Management uses the specific identification method of recording bad debts and has reviewed all outstanding accounts for collectability. Credit losses have been minimal and have consistently been within management's expectation. No reserves were considered necessary at September 30, 2015 and December 31, 2014.

Inventory

Inventory, which consists principally of electronic components and subassemblies used in producing integrated products, is stated at the lower of cost or market using the average cost method.

Equipment

Equipment is stated at cost. Depreciation of equipment is computed using the straight-line method over the estimated useful lives of three to seven years.

Income taxes

The Company is treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its members on their respective income tax returns. The Company is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Company has no other tax positions which must be disclosed.

Research and development costs

Research and development costs are expensed as incurred. For the nine months ended September 30, 2015 and the year ended December 31, 2014, research and development costs totaled \$8,904 and \$3,206, respectively, and are included in the accompanying statements of operations. The Company's intellectual property was developed by its founders prior to the Company's formation and subsequently assigned by the founders to the Company.

Fair value of financial instruments

The fair value of the Company's cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and notes payable have approximated their carrying amounts due to the relatively short maturity of these items.

The recorded value of the convertible note (see Note 4) has been discounted by \$28,730 to reflect the fair market value of the warrant which was co-issued with the note.

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Notes to Financial Statements
September 30, 2015
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Note 2 - Summary of significant accounting policies (continued)

Shipping costs

The Company has classified shipping costs billed to customers as revenue.

Concentrations of credit risk and major customers

The Company's assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. Accounts receivable consist primarily of amounts due from various resellers, integrators, and prime contractors doing business with the United States federal government. Historically, the Company has not experienced significant losses related to accounts receivable and, therefore, believes that the credit risk related to accounts receivable is minimal. The Company maintains cash and cash equivalents balances that may at times exceed Federal Deposit Insurance Corporation ("FDIC") limits. Cash and cash equivalents balances are maintained at high-quality financial institutions. The Company believes the credit risk related to these cash and cash equivalents balances is minimal.

Note 3 - Net sales

The net sales of the Company may be analyzed as follows:

	2015			2014		
	Revenue	Cost of Sales	Gross Profit	Revenue	Cost of Sales	Gross Profit
Sensors	\$ 55,431	\$ 32,588	\$ 22,843	\$ 4,590	\$ 1,593	\$ 2,997
Services	16,059	13,006	3,053	-	-	-
Other items	23,025	17,050	5,975	-	-	-
	<u>\$ 94,515</u>	<u>\$ 62,644</u>	<u>\$ 31,871</u>	<u>\$ 4,590</u>	<u>\$ 1,593</u>	<u>\$ 2,997</u>

Note 4 - Members' equity

The Company is governed by the terms and conditions of the Second Amended and Restated Limited Liability Company Agreement ("Agreement") dated September 29, 2015. The Company shall have perpetual existence unless dissolved in accordance with the terms of the Agreement or as provided by law, including events of dissolution.

Members

The Company is composed of two members that hold common units ("Common Members" or "Managers") and five members that hold preferred units ("Preferred Members") (together "Company's Members"). In addition to voting rights required by law, the Common Members are entitled to vote on all matters submitted to a vote of the Company's Members. Except as required by law, the Preferred Members are not entitled to vote on any matters submitted to a vote of the Company Members. The overall management and control of the Company is vested in the Managers.

DRONESHIELD LLC

Notes to Financial Statements
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Note 4 - Members' equity (continued)

Convertible note

On September 29, 2015 the Company entered into an agreement for an interest-free Senior Secured Convertible Promissory Note with a face value of \$250,000 (the "Convertible"), with Long Hill Capital, LLC maturing on September 29, 2017 (the "Maturity Date"), if not converted into equity prior to the Maturity Date. The Convertible is convertible into preferred units constituting 20% of the limited liability company interest of the Company, prior to the Maturity Date. The Convertible is recorded at the fair value of \$221,270 as of September 30, 2015 due to the issuance of a warrant (see Warrant below). The terms of the Convertible provide for its mandatory conversion in the event of the Company's initial public offering ("IPO"), prior to the IPO.

Second Convertible note

On September 29, 2015 the Company entered into an agreement for an interest free Senior Secured Convertible Promissory Note with a face value of \$300,000 (the "Second Convertible"), with Long Hill Capital, LLC maturing on the Maturity Date, if not converted into equity prior to the Maturity Date. The Second Convertible is convertible into preferred units constituting 15% of the limited liability company interest in the Company, prior to the Maturity Date. As of September 30, 2015, no funds have been advanced under the Second Convertible. The terms of the Convertible provide for its mandatory conversion in the event of the Company's IPO, prior to the IPO.

Warrant

On September 29, 2015, in connection with the funds that were advanced under the Convertible, the Company granted a warrant to Long Hill Capital, LLC (the "Warrant"). The Warrant is convertible into preferred units equal to 20% of the limited liability interest in the Company at the price of \$400,000. The Warrant will expire on the earlier of the third anniversary of the initial exercise date or the second anniversary of the Company's IPO.

Note 5 - Inventory

Inventory consists of the following at:

	<u>September 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Finished Goods	\$ 10,255	\$ -
Subassemblies	9,239	-
Work-in-process	1,469	-
	<u>\$ 20,963</u>	<u>\$ -</u>

DRONESHIELD LLC

Notes to Financial Statements
September 30, 2015
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Note 6 - Equipment

Equipment consists of the following at:

	<u>September 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Research and development equipment	\$ 8,411	\$ -
Demonstration equipment	2,318	-
	<u>10,729</u>	<u>-</u>
Less: Accumulated depreciation and amortization	<u>(737)</u>	<u>-</u>
	<u>\$ 9,992</u>	<u>\$ -</u>

Depreciation and amortization expense amounted to \$737 for the nine month period ended September 30, 2015.

Notes 7 - Related parties

Notes payable

On March 31, 2015, the Company entered into separate promissory note agreements with two Preferred Members who each provided \$50,000 of working capital. The unsecured notes accrue no interest, have no maturity date, and are to be repaid solely from the revenues collected from the sale of sensors at the rate of \$100 for each sensor sold. As of September 30, 2015 the balance of each note was \$48,100. Subsequent to the period end, additional payments of \$2,200 were made on each note.

Service agreement

During the period ended September 30, 2015 the Company entered into a service agreement costing approximately \$57,000 with one of its Preferred Members. At September 30, 2015 the amount outstanding was \$50,000 due to be payable in installments at \$500 per month until full payment is rendered. However the full payment is due upon IPO.

Note 8 - Subsequent events

As defined in FASB ASC 855-10, "Subsequent Events", subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or available to be issued. The Company evaluated subsequent events through the date the accompanying financial statements were issued which is November 20, 2015. During this period there were no significant events that would have an effect on the financial statements.