

Paladin Power Inc.

(a Nevada Corporation)

Audited Consolidated Financial Statements
As of December 31, 2023

Audited by:



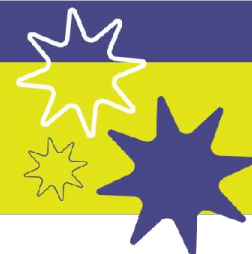
Alice.CPA LLC
A New Jersey CPA Company

Consolidated Financial Statements

Paladin Power Inc.

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Independent Auditor's Report

September 20, 2024
 To: Management of Paladin Power Inc.
 Attn: Ted Thomas, CEO
 Re: 2023 Financial Statement Audit – Paladin Power Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Paladin Power Inc. and its underlying subsidiary (see Note 1), which comprise the consolidated balance sheets as of December 31, 2023, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Paladin Power 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Paladin Power Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Paladin Power Inc.'s ability to continue as a going concern.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Paladin Power Inc.'s internal control. Accordingly, no such opinion is expressed.



- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Paladin Power Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Sincerely,

Alice.CPA LLC

Alice.CPA LLC
Robbinsville, New Jersey
September 20, 2024



PALADIN POWER, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

December 31, 2023

(Audited)

	<u>2023</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 45,150
Accounts receivable, net	133,515
Prepaid expenses	19,092
Inventory	<u>581,891</u>
Total Current Assets	<u>779,648</u>
Property and Equipment	
Machinery and equipment	95,151
Accumulated Depreciation	<u>(20,630)</u>
Net Property and Equipment	<u>74,521</u>
Other Assets	
Prepaid executive bonuses	204,522
Intangibles, net	1,658,726
Right-of-Use assets	291,763
Other assets	<u>1,000</u>
Total Other Assets	<u>2,156,011</u>
Total Assets	<u><u>3,010,180</u></u>

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

PALADIN POWER, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET (CONTINUED)

December 31, 2023

(Audited)

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities

Accounts payable and accrued expenses	\$ 315,589
Royalties payable	7,808
Deferred revenue	530,590
Lease liabilities, current portion	117,213
Total Current Liabilities	<u>971,200</u>

Long-Term Liabilities

Lease liabilities, net of current portion	<u>174,550</u>
Total Long-Term Liabilities	<u>174,550</u>

Total Liabilities	<u>1,145,750</u>
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Stockholders' equity

Preferred stock	
Series A Preferred Stock, \$0.001 par value; 10,000,000 shares authorized and 0 shares issued and outstanding	-
Common stock, Class A, \$0.001 par value; 70,000,000 shares authorized, and 60,000,000 shares issued and outstanding	60,000
Common stock, Class B, \$0.001 par value; 420,000,000 shares authorized, and 42,830,329 shares issued and outstanding	42,830
Subscription receivable	(4,000)
Additional paid-in capital	9,916,492
Accumulated deficit	<u>(8,150,892)</u>
Total Stockholders' Equity	<u>1,864,430</u>

Total Liabilities and Stockholders' Equity	<u><u>\$ 3,010,180</u></u>
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The accompanying footnotes are an integral part of these financial statements.

PALADIN POWER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended December 31, 2023
(Audited)

Revenues	\$ 941,645
Cost of Goods Sold	<u>586,787</u>
Gross Profit	<u>354,858</u>
Operating Expenses	
Advertising and marketing	508,997
Bad debt expense	21,065
General and administrative	328,905
Salaries and wages	3,190,461
Rent	162,082
Research and development	1,561,264
Professional fees	366,452
Depreciation and amortization	<u>141,055</u>
Total Operating Expenses	<u>6,280,281</u>
Other Income	
Other income	21,512
Loss on asset disposal	<u>(7,569)</u>
Total Other income (expense)	<u>13,943</u>
Net Income (Loss)	<u><u>\$ (5,911,480)</u></u>

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

PALADIN POWER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Year Ended December 31, 2023
(Audited)

	Series A Preferred Stock		Common Stock - Class A		Common Stock - Class B		Stock Subscription Receivable	Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Value (\$ par)	Shares	Value (\$ par)	Shares	Value (\$ par)				
Balance as of December 31, 2022	10,000,000	\$ 10,000	87,488,948	\$ 87,489	-	-	\$ (123,753)	\$ 5,936,816	\$ (2,239,412)	\$ 3,671,140
Conversion of preferred stock to common stock	(10,000,000)	(10,000)	10,000,000	10,000	-	-	-	-	-	-
Shareholder stock exchange	-	-	(38,888,874)	(38,889)	38,888,874	38,889	-	-	-	-
Receipt of stock subscription receivable	-	-	-	-	-	-	119,753	-	-	119,753
Sale of Common Stock, net of costs	-	-	1,399,926	1,400	3,941,455	3,941	-	2,290,230	-	2,295,571
Vested options	-	-	-	-	-	-	-	1,689,446	-	1,689,446
Net loss	-	-	-	-	-	-	-	-	(5,911,480)	(5,911,480)
Balance as of December 31, 2023	-	\$ -	60,000,000	\$ 60,000	42,830,329	\$ 42,830	\$ (4,000)	\$ 9,916,492	\$ (8,150,892)	\$ 1,864,430

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

PALADIN POWER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2023
(Audited)

Cash Flows from Operating Activities	
Net Income (Loss)	\$ (5,911,480)
Adjustments to reconcile net income (loss) to net cash provided by operations:	
Depreciation and amortization	141,055
Loss on asset disposal	7,569
Stock based compensation	1,689,446
Changes in operating assets and liabilities:	
Accounts receivable	(133,515)
Prepays	90,523
Vendor deposits	502,124
Inventory	(567,315)
Other receivables	119,892
Other assets	(1,000)
Accounts payable and accrued expenses	(11,503)
Royalties payable	7,808
Deferred revenue	405,770
Net cash provided by (used in) operating activities	<u>(3,660,626)</u>
Cash Flows from Investing Activities	
Purchase of machinery and equipment	(7,038)
Purchase of software	(4,519)
Net cash used in investing activities	<u>(11,557)</u>
Cash Flows from Financing Activities	
Receipt of stock subscription receivable	119,753
Proceeds from sale of common stock	2,295,571
Net cash used in financing activities	<u>2,415,324</u>
Net change in cash and cash equivalents	(1,256,859)
Cash and cash equivalents at beginning of period	<u>1,302,009</u>
Cash and cash equivalents at end of period	<u>\$ 45,150</u>
Supplemental information	
Interest paid	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>

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

Paladin Power, Inc. and Subsidiary
Notes to the Consolidated Financial Statements
December 31, 2023
(Audited)

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Paladin Power Inc. ("Company") was incorporated in the State of Nevada on April 21, 2022. The Company's principal activity is to produce and sell its battery backup power products. The Company intends to market and sell its battery backup power products through third party installers who are licensed and qualified to install battery backup systems for residential and small commercial applications.

On June 26, 2023, the Company acquired 100% of the shares of Power Now Electric, Inc. Power Now Electric, Inc. operates as a customer financing entity.

All significant intercompany accounts and transactions have been eliminated.

The Company is subject to risks common to early stage and rapidly growing companies, including dependence on key personnel, the need to secure additional funding to operationalize the Company's current technology, and successfully marketing its products. The Company has experienced recurring losses and has an accumulated deficit of approximately \$8,000,000 as of December 31, 2023. These factors are integral to the Company's ability to continue as a going concern.

During the next twelve months, the Company intends to fund its operations with funding from additional capital raises, and funds from revenue producing activities. Management has evaluated these conditions and concluded that substantial doubt about the Company's ability to continue as a going concern has been alleviated through September 20, 2025, and no adjustments have been made to the financial statements. These financial statements and related notes thereto do not include any adjustments that might result from these uncertainties.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation**

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("US GAAP"). Any reference in these notes to applicable guidance is meant to refer to U.S. GAAP as found in the Accounting Standards Codification ("ASC") and Accounting Standards Updates ("ASU") of the Financial Accounting Standards Board ("FASB").

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could materially differ from these estimates. It is reasonably possible that changes in estimates will occur in the near term.

Significant estimates used in the preparation of the accompanying financial statements include recording of depreciation and amortization and the collectible valuation of deferred tax assets.

Risks and Uncertainties

The Company has a limited operating history. The Company's business and operations are sensitive to general business and economic conditions in the United States. A host of factors beyond the Company's control could cause fluctuations in these conditions. Adverse conditions may include recession, downturn or otherwise, local competition or changes in consumer taste. These adverse conditions could affect the Company's financial condition and the results of its operations.

Paladin Power, Inc. and Subsidiary
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Concentration of Credit Risk

The Company maintains its cash with a major financial institution located in the United States of America, which it believes to be credit worthy. The Federal Deposit Insurance Corporation insures balances up to \$250,000. At times, the Company may maintain balances in excess of the federally insured limits. The Company has not experienced any losses as a result of cash in excess of federally insured limits.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and other short-term investments with a maturity date of three months or less, when purchased, to be cash equivalents.

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect from outstanding balances. Differences between the amount due and the amount management expects to collect are reported in the results of operations of the year in which those differences are determined, with an offsetting entry to a valuation allowance for accounts receivable. As of December 31, 2023, the allowance for doubtful accounts was \$21,065. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Prepaid Expenses

The Company capitalizes payments for future goods or services to be expensed over the course of their usefulness. Such assets are expected to be recognized in the next twelve months and thus included in current assets on the balance sheets.

Inventory

Inventories are stated at the lower of cost or market value. Cost is determined by the first-in, first out method.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in the statement of operations.

Depreciation is provided using the straight-line method, based on useful lives of the assets which is five years. Depreciation expense for the year ended December 31, 2023 was \$18,151.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers* (Topic 606). Revenue is recognized when a customer obtains control of promised goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amount of revenue that is recorded reflects the consideration that the company expects to receive in exchange for those goods or services.

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The Company applies the following five-step model in order to determine this amount:

- i. Identification of the promised goods in the contract;
- ii. Determination of whether the promised goods are performance obligations, including whether they are distinct in the context of the contract;
- iii. Measurement of the transaction price, including the constraint of variable consideration;
- iv. Allocation of the transaction price of the performance obligations; and
- v. Recognition of revenue when (or as) the Company satisfies each performance obligation.

The Company only applies the five-step model to contracts when it is probable the entity will collect the consideration it is entitled to in exchange for the goods and services it transfers to the customer. Once a contract is determined to be within the scope of Topic 606 at contract inception, the Company reviews the contract to determine which performance obligations the Company must deliver and which of these performance obligations are distinct. The Company recognizes as revenues the amount of the transaction price that is allocated to the respective performance obligation when the performance obligation is satisfied or as it is satisfied. The Company primarily produces and sells its battery backup power products to its customers. The Company's performance obligation is satisfied when the goods have been delivered, which is at a point in time.

Deferred revenue relates to product sales paid, partially or in full, prior to delivery to customers. Deferred revenues are expected to be earned within the next 12 months and therefore recorded as a current liability on the accompanying balance sheet.

Intangible Assets

Intangible Assets consist of intellectual property purchased by the Company (see Note 4).

Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. The Company periodically evaluates whether events and circumstances have occurred that indicate possible impairment. When impairment indicators exist, the Company uses market quotes, if available, or an estimate of the future undiscounted net cash flows of the related asset or asset group over the remaining life in measuring whether or not the asset values are recoverable. The Company did not recognize impairment on its long-lived assets during the year ended December 31, 2023. Identified intangible assets are reviewed for impairment at least annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Research and Development Costs

Research and development costs are charged to expense when incurred as alternative future uses are not considered.

Organizational Costs

In accordance with FASB ASC 720, organizational costs, including accounting fees, legal fee, and costs of incorporation, are expensed as incurred.

Advertising

The Company expenses advertising costs as they are incurred.

Paladin Power, Inc. and Subsidiary
Notes to the Consolidated Financial Statements
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(Audited)

Stock Based Compensation

The Company accounts for stock options issued to employees under ASC 718, *Stock Compensation*. Under ASC 718, share-based compensation cost to employees is measured at the grant date, based on the estimated fair value of the award, and is recognized as an item of expense ratably over the employee's requisite vesting period. The Company has elected measurement of stock options at their intrinsic value, instead of their fair value. An option's intrinsic value is defined as the amount by which the fair value of the underlying stock exceeds the exercise price of an option. In certain cases, this means that option compensation granted by the Company may have an intrinsic value of \$0.

The Company measures compensation expense for its non-employee stock-based compensation under ASC 505, *Equity*. The fair value of the option issued or committed to be issued is used to measure the transaction, as this is more reliable than the fair value of the services received. The fair value is measured at the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete. The fair value of the equity instrument is charged directly to expense and credited to additional paid-in capital.

There is not a viable market for the Company's common stock to determine its fair value, therefore management is required to estimate the fair value to be utilized in determining the stock-based compensation costs. In estimating the fair value, management considers recent sales of its common stock to independent qualified investors, placement agents' assessments of the underlying common shares relating to our sale of preferred stock and validation by independent fair value experts. Considerable management judgment is necessary to estimate the fair value. Accordingly, actual results could vary significantly from management's estimates.

Compensated Absences

The Company's policy is to recognize costs for sick time and personal time off when paid. As of December 31, 2023, no accrual has been deemed necessary to expense related costs in the accompanying financial statements.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss, capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits as a component of general and administrative expenses. Our federal tax return and any state tax returns are not currently under examination.

The Company has adopted ASC 740, Accounting for Income Taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax

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assets and liabilities are computed annually from differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Fair Value Measurement

US GAAP defines fair value as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price) and such principles also establish a fair value hierarchy that prioritizes the inputs used to measure fair value using the following definitions (from highest to lowest priority):

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.
- Level 3 – Prices or valuation techniques requiring inputs that are both significant to the fair value measurement and unobservable.

There were no assets or liabilities requiring fair value measurement as of December 31, 2023.

NOTE 3 – EXECUTIVE BONUSES

During 2022 the Company advanced funds to its CEO as an executive bonus totaling \$204,522. The funds are approved as a prepaid bonus that shall fully vest on September 30, 2025. As of December 31, 2023, the funds are classified as a non-current asset on the accompanying balance sheet.

NOTE 4 – INTANGIBLE ASSETS

On April 21, 2022, the Company's CEO and majority controlling shareholder assigned patent applications owned by him in exchange for 50,000,000 common shares valued at par value of \$0.001 per share. The intangible asset of \$50,000 was recorded with a useful life of 15 years.

On June 20, 2022, the Company purchased intellectual property rights which included a patent application and some salvaged inventory from an unrelated party. The purchase price was 4,000,000 common shares valued at \$0.25 per share. The intangible asset of \$1,000,000 was recorded with a useful life of 15 years. The salvaged inventory was given no value and was primarily acquired to preserve the ability to destroy components that may contain intellectual property. If any salvaged inventory is utilized the value is also considered zero due to the transportation and testing costs required would equal or exceed the value. In addition to the common shares, the Company will pay a self-terminating royalty in the amount of \$122 for each of the first 6,000 inverters sold utilizing the intellectual property purchased. During 2023, 64 inverters were sold resulting in \$7,080 of royalty expense included in general and administrative expenses on the statement of operations.

On September 5, 2022, the Company purchased intellectual property held by Paladin Power Inc, a California corporation for \$780,000. The intellectual property consisted of the trademark "StacBatt" At the time of the purchase, Paladin Power Inc. (California) was a company majority owned by the Company's CEO. The trademark purchase was the only transaction between the entities and no

Paladin Power, Inc. and Subsidiary
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other agreements exist. The Company considers the IP purchase to be a related-party transaction. The intangible asset was recorded with a useful life of 15 years.

On July 26, 2023 the Company purchased software totaling \$4,519. The software has an estimated useful life of 5 years.

The Company's management regularly reviews the carrying value of these assets for impairment and decline in value. Management believes that no impairment exists with respect to these assets as of December 31, 2023.

Amortization expense for the year ended December 31, 2023, was \$122,904. Future annual amortization expense is as follows:

Years Ending December 31,

2024	\$ 122,904
2025	122,904
2026	122,904
2027	122,904
2028	122,000
Thereafter	<u>1,045,111</u>
Total future amortization	<u>\$ 1,658,726</u>

NOTE 5 – EQUITY

Share Authorization

On March 21, 2023 the Company amended the total number of shares of all classes of stock which the Corporation shall have authority to issue consisting of (i) 490,000,000 shares of Common Stock, \$0.001 par value per share, of which, 70,000,000 shares shall be designated "*Class A Common Stock*," \$0.001 par value per share, and 420,000,000 shares shall be designated as "*Class B Common Stock*," \$0.001 par value per share; and (ii) 10,000,000 shares of Preferred Stock, \$0.001 par value per share.

Stock Conversion

On March 17, 2023, the Company entered into an exchange agreement with a stockholder. The Company and Stockholder desired to cancel the Stockholder's 10,000,000 shares of Class A Preferred Stock and 50,000,000 shares of Common Stock, in exchange for the issuance to the Stockholder of 60,000,000 shares of Class A Common Stock upon the filing of an amendment to the Articles of Incorporation of the Company creating a dual structure of the Company's stock consisting of Class A Common Stock and Class B Common Stock.

Common Stock

Class A Common Stock

During 2023 the Company issued 1,399,926 shares of Class A Common Stock at the conclusion of its 2022 stock offering. In April 2023 38,888,874 shares of Class A Common Stock were exchanged for 38,888,874 shares of Class B Common stock, leaving 60,000,000 shares of Class A Common Stock issued and outstanding as of December 31, 2023.

Class B Common Stock

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In addition to the aforementioned exchange of common stock, during 2023, the Company offered its class B Common Stock for sale. In 2023 the Company sold 3,941,455 shares of Class B Common Stock for net proceeds of \$2,295,572. As of December 31, 2023 the Company had 42,830,329 shares of Class B Common Stock issued and outstanding.

Voting

Class A Common Stock shall be entitled to ten votes for each share held on all voting matters. Class B Common Stock shall be entitled to one vote for each share held on all voting matters.

NOTE 6 – STOCK-BASED COMPENSATION

On October 31, 2022, the Company established an Equity Incentive Plan (EIP) that will allow the Company to grant, from time to time, equity incentives in the form options, stock, restricted stock and other forms of compensation to employees, managers, and consultants of the Company. The Company's Board of Directors approved up to 16,000,000 shares to be granted under the EIP.

Forfeitures of stock options are recognized when occurred. New shares are issued upon option exercises.

The following is an analysis of options to purchase shares of the Company's stock issued and outstanding as of December 31, 2023:

	Options	Weighted Average Exercise Price
Option outstanding, beginning of year	7,560,000	\$ 0.30
Granted	1,870,000	\$ 0.60
Exercised	(0)	\$ 0.00
Expired	(1,000,000)	\$ 0.60
Options outstanding, end of year	8,430,000	\$ 0.31

These options expire 10 years after the grant date. The shares vest ratably over a period between 24 to 36 months. The shares will be issued when exercised from a pool of reserved shares.

	Total Options	Weighted Average Calculated Value
Nonvested options		
Total non-vested options outstanding, beginning of year	6,999,833	\$ 0.30
Granted	1,870,000	\$ 0.60
Vested	(2,862,083)	\$ 0.30
Forfeited	(1,000,000)	\$ 0.60
Total non-vested options outstanding, end of year	5,003,750	\$ 0.31
Options exercisable, end of year	5,003,750	\$ 0.31

The total calculated value of stock options granted as of December 31, 2023, was \$4,978,424, of which \$1,689,446 was included in stock option compensation expense for the year then ended. The stock option compensation expense is recognized ratably over the period as the stock options vest. The aggregate fair value amount of unvested compensation was \$2,952,812 as of December 31, 2023.

Paladin Power, Inc. and Subsidiary
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(Audited)

NOTE 7 – DEFINED CONTRIBUTION PLAN

During 2022 the Company adopted a defined contribution profit sharing and Safe Harbor 401(k) plan covering all employees except those employees covered under a collectively bargaining agreement and nonresident aliens with no US source income. Eligible employees over the age of 21 with 90 days of service may enroll in the plan. For the year ended December 31, 2023, total employer contributions, including safe harbor match totaled \$49,023.

NOTE 8 – LEASE COMMITMENT

Leases with an initial term of 12 months or less are not recorded in the consolidated balance sheets and we recognize lease expense for these leases on a straight-line basis over the lease term.

In February 2023 the Company signed a new lease agreement for office space. The lease has a term of 39 months. Future payment obligations with respect to the Company's operating lease, which were existing at December 31, 2023, by year and in the aggregate, are as follows:

Year Ending December 31,	Amount
2024	\$ 130,488
2025	130,488
2026	54,370
2027	<u>0</u>
Total future payments	315,346
Less interest	<u>(23,583)</u>
Present value of lease liabilities	<u>\$ 291,763</u>
Months remaining on lease agreements:	29
Interest rate used:	4.55%

NOTE 9 – INCOME TAXES

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The cumulative tax effect at the expected rate of 21 % of significant items comprising the net deferred tax amount is as follows:

Deferred tax assets:	
Net operating loss and tax credit carryforward	\$ 1,513,153
Deferred tax liabilities:	
Depreciation and amortization	(15,649)

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Less: Valuation allowance	<u>(1,497,504)</u>
Deferred tax assets, net	<u>\$ -</u>

ASC 740 provides guidance on the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC 740 requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements.

The Company includes interest and penalties arising from the underpayment of income taxes in the consolidated statements of operations in the provision for income taxes. As of December 31, 2023, the Company had no accrued interest or penalties related to uncertain tax positions.

NOTE 10 - RELATED PARTY TRANSACTIONS

The majority shareholder/CEO received advance bonuses totaling \$204,522 (see Note 3 for additional information).

In November 2022 the majority shareholder/CEO was awarded 6,000,000 options with an exercise price of \$0.25/share. The options vest equally over 12 quarters. During 2023, 2,000,000 options vested, resulting in a total of 2,500,000 vested as of December 31, 2023.

CEO Demand Note

In March 2023 the Company entered into a promissory note with its CEO and majority shareholder. The note has a principal sum equal to the lesser of Five Million Dollars (\$5,000,000) or the aggregate amount of all personal guarantees made by the CEO for the benefit of the Company that CEO is required to pay under the existing personal guarantees, and all future guarantees. As of the date of management's evaluation below, no funds have been advanced from the CEO to the Company.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

During the normal course of business, the Company may be exposed to litigation. When the Company becomes aware of potential litigation, it evaluates the merits of the case in accordance with ASC 450, *Contingencies*. The Company evaluates its exposure to the matter, possible legal or settlement strategies and the likelihood of an unfavorable outcome. If the Company determines that an unfavorable outcome is probable and can be reasonably estimated, it establishes the necessary accruals. As of December 31, 2023 the Company is not aware of any contingent liabilities that should be reflected in the financial statements.

NOTE 12 - SUBSEQUENT EVENTS

Stock Offering

The Company is offering Class B Common stock for \$0.60 per share. As of the date of Management's review the Company has received approximately \$351,000 from the stock offering. Upon completion of the offering, the total shares issued will be determined.

Stock Option Awards

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In August and September 2024, the Company signed 4 sales reps with quarterly stock option awards based on qualified quarterly sales. All stock awards are under the Company's EIP terms and authorizations. The maximum aggregated stock option eligible to be awarded per quarter for all sales reps equals 140,000 shares.

Management's Evaluation

The Company has evaluated subsequent events for recognition and disclosure through September 20, 2024, which is the date the financial statements were available to be issued.