December 20, 2021

Red Cat Holdings Reports Financial Results from Fiscal Second Quarter 2022 and Provides Corporate Update

HUMACAO, Puerto Rico, Dec. 20, 2021 /PRNewswire/ -- Red Cat Holdings, Inc. (Nasdaq: RCAT) ("Red Cat" or "Company"), a hardware-enabled software provider to the drone industry, reports its financial results for the fiscal quarter ended October 31, 2021 and provides a business update.

RED CAT HOLDINGS
Investing in the future of drones

Second Quarter 2022 Financial Highlights:

- Revenues for the fiscal quarter ended October 31, 2021 were approximately $1.9 million, compared to approximately $428,000 for the same period in 2020, representing an increase of more than 300%
- Adjusted Net loss for the quarter ended October 31, 2021, which excludes non-cash expenses, primarily related to stock-based compensation, was approximately $3 million, as compared to an adjusted net loss of approximately $640,000 for the fiscal quarter ended October 31, 2020
- Cash and investments were approximately $60 million as of October 31, 2021

Recent Corporate Highlights:

- Closed the acquisitions of Teal Drones
- Passage of Infrastructure Bill Should Benefit Drone Industry
- Teal Opens new Manufacturing Facility in Salt Lake City, Utah
- Skypersonic awarded contract with NASA (National Aeronautics and Space Administration)

"We made significant corporate progress on several fronts in our fiscal second quarter and saw record revenue that grew 336% year-over-year and 33% quarter-over-quarter. Closing the acquisition of Teal Drones was a critical milestone for the Company and allows for expansion into the military segment," commented Red Cat CEO Jeff Thompson. "The successful integration of Teal Drones and its recent move into a larger manufacturing facility will be instrumental in our success going forward and allow us to execute on a number of larger Department of Defense contracts we are pursuing in our expanding sales funnel.

Moreover, beginning in January, we expect to generate at least $1 million in monthly revenue from drone production at Teal to satisfy existing orders and envision revenue growth accelerating in the first half of calendar 2022 based on our current contracts alone. Any additionally announced contracts would be additive to our current outlook.

"We believe the recently passed federal infrastructure bill, which has $280 billion in earmarked funds to provide inspection services on railways, roads, bridges, and electrical grid maintenance will also provide opportunities for U.S.-based drone manufacturers like Red Cat. Our Skypersonic segment is well-positioned to provide efficient and reliable inspection and surveillance services that are needed in identifying weak links in our country's infrastructure," added Mr. Thompson.

"The second quarter represents our sixth consecutive quarter of revenue growth and we are confident in our ability to continue that trend going forward," stated Joseph Hernon, Chief Financial Officer. "Our increased cash burn during the second quarter primarily related to investments in inventory and manufacturing capacity at Teal Drones which we expect to drive revenue growth during calendar year 2022."

Conference Call Today

Jeff Thompson, CEO and Joseph Hernon, CFO will also host a conference call at 5:00 p.m. ET on Monday, December 20 to review financial results and provide an update on corporate developments. Following management's formal remarks, there will be a question-and-answer session.

To listen to the conference call, interested parties within the U.S. should dial 1-866-777-2509 (domestic) or 1-412-317-5413 (international). All callers should dial in approximately 10 minutes prior to the scheduled start time and ask to be joined into the Red Cat Holdings, Inc. conference call. Participants can also pre-register for this event using the following link: https://dpregister.com/sreg/10162620/f045cd851c

The conference call will also be available through a live webcast that can be accessed at https://dpregister.com/sreg/10162620/f045cd851c.

The webcast replay will be available until March 20, 2022 and can be accessed through the above link or on the Company's website. A telephonic replay will be available until January 3, 2022, by calling 1-877-344-7529 (domestic) or 1-412-317-0088 (international) and using access code 2436462.

About Red Cat Holdings, Inc.

Red Cat provides drone-based products, services, and solutions through its five subsidiaries and services the enterprise, military, and consumer markets. Teal Drones is a leader in unmanned aircraft systems (UAS), and its Golden Eagle is one of only five drones approved by the Department of Defense for reconnaissance, public safety, and inspection applications. Skypersonic's technology enables drones to complete inspection services in locations where GPS is not available, yet still record and transmit data even while being operated from thousands of miles away. Fat Shark is a leading provider of First Person View (FPV) video goggles. Rotor Riot, LLC is a reseller of FPV drones and equipment, primarily to the consumer marketplace. Red Cat Propware is developing a Software-as-a-Solution ("SaaS") platform to provide drone flight data analytics and storage, as well as diagnostic products and services. Learn more at https://www.redcatholdings.com/.

Forward Looking Statements

This press release contains "forward-looking statements" that are subject to substantial risks and uncertainties. All statements, other than statements of historical fact, contained in this press release are forward-looking statements. Forward-looking statements contained in this press release may be identified by the use of words such as "anticipate," "believe," "contemplate," "could," "estimate," "expect," "intend," "seek," "may," "might," "plan," "potential," "predict," "project," "target," "aim," "should," "will" "would," or the negative of these words or other similar expressions, although not all forward-looking statements contain these words. Forward-looking statements are based on Red Cat Holdings, Inc.'s current expectations and are subject to inherent uncertainties, risks and assumptions that are difficult to predict. Further, certain forward-looking statements are based on assumptions as to future events that may not prove to be accurate. These and other risks and uncertainties are described more fully in the section titled "Risk Factors" in the final prospectus related to the public offering filed with the Securities and Exchange Commission. Forward-looking statements contained in this announcement are made as of this date, and Red Cat Holdings, Inc. undertakes no duty to update such information except as required under applicable law.

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RED CAT HOLDINGS
Consolidated Balance Sheets
(Unaudited)

	October 31, 2021	April 30, 2021
ASSETS		
Cash and cash equivalents	$ 11,559,758	$ 277,347
Investments	48,122,657	-
Inventory, including deposits	3,817,913	841,011
Intangible assets, including goodwill	28,029,268	10,049,502
Operating lease right-of-use assets	548,641	-
Other	1,295,904	525,505
TOTAL ASSETS	**93,374,141**	**11,693,365**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	1,989,080	1,202,049
Debt obligations	2,769,769	269,045
Due to related party	144,628	2,143,209
Operating lease liabilities	559,528	-
Warrant derivative liability	2,376,565	2,812,767
Total Liabilities	7,839,570	6,427,070
Stockholders' Equity		
Stockholders' capital	105,641,281	21,076,223
Accumulated deficit	(20,106,710)	(15,809,928)
Total Stockholders' Equity	85,534,571	5,266,295
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 93,374,141**	**$ 11,693,365**

RED CAT HOLDINGS
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended October 31,		Six months ended October 31,	
	2021	**2020**	**2021**	**2020**
Revenues	$ 1,863,239	$ 427,807	$ 3,259,990	$ 976,089
Cost of goods sold	1,710,657	328,756	3,005,004	774,888
Gross Margin	152,582	99,051	254,986	201,201
Operating Expenses				
Operations	283,249	120,210	460,112	206,756
Research and development	493,441	86,614	737,695	173,924
Sales and marketing	185,385	24,679	286,018	48,815
General and administrative	1,050,708	250,378	1,926,888	430,719
Stock based compensation	899,937	107,061	1,284,023	214,122
Total operating expenses	2,912,720	588,942	4,694,736	1,074,336
Operating loss	(2,760,138)	(489,891)	(4,439,750)	(873,135)
Other Expense (Income)	(19,537)	232,390	(141,377)	232,390
Net loss	**($2,740,601)**	**($722,281)**	**($4,298,373)**	**($1,105,525)**
Loss per share - basic and diluted	**$ (0.05)**	**$ (0.04)**	**$ (0.10)**	**$ (0.05)**
Weighted average shares outstanding - basic and diluted	**52,147,541**	**20,241,390**	**43,110,884**	**20,126,241**

RED CAT HOLDINGS
Condensed Consolidated Cash Flows Statements
(Unaudited)

	Six months ended October 31,	
	2021	**2020**
Cash Flows from Operating Activities		
Net loss	**$ (4,298,373)**	**$ (1,105,525)**
Non-cash expenses	**1,299,468**	**464,913**
Changes in operating assets and liabilities	**(5,570,193)**	**72,160**
Net cash used in operating activities	**(8,569,098)**	**(568,452)**
Net cash provided by investing activities	**24,866**	**-**
Cash Flows from Financing Activities		
Purchases of investments, net	**(48,122,657)**	**-**
Purchases of property and equipment	**(30,147)**	**-**
(Payments) proceeds of debt obligations	**(2,187,346)**	**231,849**
Proceeds from convertible debentures	**-**	**580,000**
Proceeds from issuance of common stock, net	**70,165,202**	**-**
Net cash provided by financing activities	**19,825,052**	**811,849**
Effect of foreign exchange rate changes on cash	**1,591**	**-**
Net increase in cash and cash equivalents	**11,282,411**	**243,397**
Cash and cash equivalents, beginning of period	**277,347**	**236,668**
Cash and cash equivalents, end of period	**11,559,758**	**480,065**
Investments	**48,122,657**	**-**
Total cash and investments	**$ 59,682,415**	**$ 480,065**

Non-GAAP Financial Measures

We have presented a supplemental non-GAAP financial measure in this earnings release. We believe that this supplemental information is useful to investors because it allows for an evaluation of the company with a focus on the performance of its core operations, including

more meaningful comparisons of financial results to historical periods. Adjusted Net Loss is a non-GAAP financial measure which excludes non-cash expenses, primarily related to derivatives and stock-based compensation. Our executive management team uses these same non-GAAP measures internally to assess the ongoing performance of the company.

Below is a reconciliation of Adjusted Net Loss to GAAP net loss for the 6 months ended October 31, 2021 and 2020:

RED CAT HOLDINGS
Reconciliation of Adjusted Net Loss
(Unaudited)

	Six months ended October 31,	
	2021	2020
Net loss	$ (4,298,373)	$ (1,105,525)
Adjustments for non-cash expenses:		
Stock based compensation	1,284,023	214,122
Common stock issued for services	250,400	-
Amortization of intangible assets	32,651	-
Depreciation	5,455	-
Change in fair value of derivative liability	(273,061)	83,803
Amortization of debt discount	-	18,401
Derivative expense	-	148,587
Adjusted Net loss	$ (2,998,905)	$ (640,612)

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