

As filed with the Securities and Exchange Commission on December 4, 2020

Registration No. 333-249776

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1 TO FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933



RED CAT HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction
of incorporation or organization)

7372

(Primary Standard Industrial
Classification Code Number)

86-0490034

(I.R.S. Employer
Identification Number)

**370 Harbour Drive
Palmas del Mar
Humacao, PR 00791
(833) 373-3228**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Jeffrey Thompson
Chief Executive Officer
Red Cat Holdings, Inc.
370 Harbour Drive
Palmas del Mar
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(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

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Approximate date of commencement of proposed sale to the public:

From time to time after the effectiveness of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered ⁽¹⁾	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common stock, par value \$0.001 per share	3,692,779	\$5,539,169 ⁽²⁾	
Common stock, par value \$0.001 per share, underlying Series B Convertible Preferred Stock	1,426,872	\$2,140,308 ⁽²⁾	\$247.47
Total	5,119,651	\$7,679,477 ⁽²⁾	

- (1) Pursuant to Rule 416 under the Securities Act, the securities being registered hereunder include such indeterminate number of additional shares of common stock as may be issued after the date hereof as a result of stock splits, stock dividends or similar transactions.
- (2) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, using \$1.50 per share the fixed offering price per share for the Pink Open Market.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

5,119,651 Shares of Common Stock

We are registering an aggregate of 5,119,651 shares (the "Resale Shares") of common stock, par value \$0.001 per share, of Red Cat Holdings, Inc. (referred to herein as "we", "us", "our", "Red Cat", "Registrant", or the "Company") for resale by certain of our stockholders identified in this prospectus (the "Selling Stockholders"), which consists of (i) 3,692,779 shares of common stock and (ii) 1,426,872 shares of common stock issuable upon conversion of Series B Convertible Preferred Stock (the "Series B Preferred Stock").

Our common stock is currently quoted on the OTC Markets, Pink Open Market, under the symbol "RCAT". The price of \$1.50 is a fixed price at which the Selling Stockholders may sell their Resale Shares until our common stock is quoted on the OTCQB, OTCQX or other established public trading market, at which time the Resale Shares covered by this prospectus may be sold at prevailing market prices or privately negotiated prices, and will pay all brokerage commissions and discounts attributable to the sale of such shares. On December 3, 2020 we were notified by OTC Markets that additional steps were required to complete our OTCQB application and we are in the process of completing those actions in order to finalize our OTCQB application. Once approved, our common stock will continue to trade under the symbol "RCAT". We will not receive any proceeds from the sale of the shares of common stock offered hereby the Selling Stockholders will receive all of the net proceeds from the offering of their shares.

We do not know when or in what amounts the Selling Stockholders may offer the Resale Shares of common stock for sale. The Selling Stockholders may sell any, all or none of the shares of common stock offered by this prospectus.

The Resale Shares may be sold by the Selling Stockholders to or through underwriters or dealers, directly to purchasers or through agents designated from time to time. For additional information regarding the methods of sale you should refer to the section entitled "Plan of Distribution" in this Prospectus.

On December 3, 2020, the closing bid price of our common stock was \$0.90 per share.

Our business and an investment in our securities involve a high degree of risk. See "Risk Factors" beginning on page 7 of this prospectus for a discussion of information that you should consider before investing in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is December 4, 2020

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You should rely only on the information contained in this prospectus. Neither the Company nor the Selling Stockholders have authorized anyone else to provide you with different information. The shares of common stock offered by this prospectus are being offered only in jurisdictions where the offer is permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of each document. Our business, financial condition, results of operations and prospects may have changed since that date.

RED CAT HOLDINGS, INC. HAS NOT REGISTERED THE SHARES OF COMMON STOCK THAT MAY BE SOLD BY THE SELLING STOCKHOLDERS UNDER THE SECURITIES LAWS OF ANY STATE. SELLING STOCKHOLDERS, AND ANY BROKERS OR DEALERS, EFFECTING TRANSACTIONS IN THE SHARES SHOULD CONFIRM THAT THE SHARES HAVE BEEN REGISTERED UNDER THE SECURITIES LAWS OF THE STATE OR STATES IN WHICH SALES OF THE SHARES OCCUR AS OF THE TIME OF SUCH SALES, OR THAT THERE IS AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES LAWS OF SUCH STATES.

THIS PROSPECTUS IS NOT AN OFFER TO SELL ANY SECURITIES OTHER THAN THE SHARES OF COMMON STOCK FOR SALE BY THE SELLING STOCKHOLDERS. THIS PROSPECTUS IS NOT AN OFFER TO SELL SECURITIES IN ANY CIRCUMSTANCES IN WHICH SUCH AN OFFER IS UNLAWFUL.

PROSPECTUS SUMMARY

This summary highlights certain information contained elsewhere in this prospectus. This summary is not intended to be complete and does not contain all of the information that you should consider in making your investment decision. You should carefully read this entire prospectus, including our consolidated financial statements and the related notes and the information set forth under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in this prospectus before making an investment decision.

Unless the context otherwise requires, references to “we,” “our,” “us,” or the “Company” in this prospectus mean Red Cat Holdings, Inc. on a consolidated basis with its wholly-owned subsidiaries, Red Cat Propware, Inc., Rotor Riot, LLC, and FS Acquisition Corp. as applicable.

FORWARD-LOOKING STATEMENTS

Except for historical information, this prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such forward-looking statements include, among others, those statements including the words "believes", "anticipates", "expects", "intends", "estimates", "plans" and words of similar import. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Forward-looking statements are based on our current expectations and assumptions regarding our business, potential target businesses, the economy, and other future conditions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you therefore that you should not rely on any of these forward-looking statements as statements of historical fact or as guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements include our ability to raise capital when needed and on acceptable terms; our ability to make acquisitions and integrate acquired businesses into our company; our ability to attract and retain management; the intensity of competition; changes in the political and regulatory environment and in business and economic conditions in the United States and globally; and the continuing effect of the Covid-19 pandemic. These risks and others described under the section "Risk Factors" below are not exhaustive.

Given these uncertainties, readers of this prospectus are cautioned not to place undue reliance on such forward-looking statements. We disclaim any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Company Background

We are a Nevada corporation, originally incorporated in 1984 under the name Oravest International, Inc. in the state of Colorado and subsequently renamed TimefireVR, Inc in November 2016 and thereafter renamed Red Cat Holdings, Inc. in July 2019. Our principal corporate office is located at 370 Harbour Drive, Palmas del Mar, Humacao, PR 00791 and our telephone number is (833) 373-3228. On May 15, 2019 we acquired Red Cat Propware, Inc. in a share exchange. On January 23, 2020 we acquired Rotor Riot, LLC, in a merger in which our subsidiary Rotor Riot Acquisition Corp. merged with and into Rotor Riot, LLC (“Rotor Riot”) with Rotor Riot surviving as our wholly owned subsidiary. On November 2, 2020 we acquired Fat Shark Holdings, Ltd. through a share purchase agreement with our wholly-owned subsidiary FS Acquisition Corp. Our internet address is www.redcatholdings.com. Information on our website is not incorporated into this prospectus.

Business Overview

The Company's business is to provide products, services and solutions to the drone industry.

We design, develop, market, and sell drone products. We design and develop drone software and are developing a blockchain-based black box to enhance reliability and reporting of drone performance and operations as software as a service ("SAAS").

Our business emphasis focusses on drones piloted with wearable display devices. These are head mounted displays ("HMDs") for pilots. HMDs give pilots "first person view" ("FPV") perspective to control their drone in flight. This is a unique experience where the pilot is interacting with an aircraft through visual immersion. In this augmented virtual reality, the pilot sees only what the drone sees, as if sitting in the pilot seat. This experience is accomplished by live streaming footage from a camera mounted on the nose of the drone directly into specially-designed goggles worn by the pilot. The image is transmitted via radio (traditionally analog but increasingly digital) to the pilot. The drone remote control unit, the drone device, and the FPV goggles are all inter-connected via radio. This effect requires sophisticated electronics that transmits visual information with sufficient speed and reliability to allow pilot control over the drone in real-time. Pilots routinely achieve speeds of over 90 mph in racing and other mission critical applications. An FPV pilot must experience a near complete transfer of their visual consciousness into the body of their piloted device.

There are three common categories of FPV flight – freestyle flight, racing and aerial photography. In freestyle the pilot navigates around obstacles, focused on acrobatics and exploring the environment around the aircraft through the HMD. This type of flight includes remote utility and crop inspection with onboard navigation and special equipment, such as moisture or heat sensors, and package delivery. FPV racing describes a growing spectator sport where pilots fly their drones in competitions through a series of obstacles, flags, and gates in a racetrack. Aerial photography is the process of viewing and recording a subject matter from the air from the viewpoint of the pilot.

We sell flight design cameras, video transmitters, goggles, as well as the mounts, airframes and accessories to build or operate drone aircraft. We design, develop, assemble and sell each of these FPV components individually and in packages. We believe that our products have become favorites in FPV racing and we sponsor several racing teams and pilots. We purchase and resell drones and components from leading manufacturers, including the industry leader Da Jiang Innovations ("DJI") and custom design and build our own line of branded products. Approximately 50% of our revenue has historically been generated as a reseller and the balance from sale of branded products prior to our recent acquisition of Fat Shark Holdings, Ltd. ("Fat Shark").

We market through social media and attract buyers to our ecommerce platforms. We maintain a robust presence on Facebook and YouTube where we sponsor competitions and provide education. Sports networks, and sponsors such as NBC, Sky, Liberty Media, Fox Sports, MGM, Hearst, Twitter, ProSieben, Groupe AB and Weibo broadcast and sponsor global events where professional pilots and amateurs compete for prizes and sponsorships. Drone racing is a global sport with chapters, leagues, and pilots and established guidelines, rules and regulations for participation adopted by organizations such as MultiGP, Drone Racing League ("DRL"), IUDRO, DR1 Racing, Rotomatch League, FPVR, and Freespace Drone Racing. Pilots specially design their custom built aircraft, selecting and customizing frames, motors, propellers and controllers for speed and maneuverability from Rotor Riot. Rotor Riot sponsors a team of six of the leading pilots on the competitive FPV racing circuit, including the 2019 and 2018 Drone Racing League champion. Drone pilots and spectators alike experience real-time flight through their own HMD. In 2015 Fat Shark sponsored the first annual US National Drone Racing Championships held at the California State Fair with a prize of \$25,000. Subsequent events featured prizes of up to \$1 million.

On November 2, 2020 we acquired Fat Shark Holdings, Ltd., a Cayman Islands Exempted Company. The Company believes Fat Shark and its subsidiaries are leaders in the design, development, marketing and sale of HMDs for pilots.

The operations of Fat Shark are expected to constitute a significant majority of our revenue and results of operations and will position us to become a fully-integrated drone business with a strong supply chain while we continue to develop and promote industry standards through our blockchain-based distributed network that provides secure data storage, operational analytics, reporting, and SaaS solutions for the drone industry. We are also developing the means to accurately track, report and review flight data, which we believe will be the mainstay of future regulatory specifications and insurability. We maintain a commitment to deliver unparalleled innovation to make drones, pilots, and products accountable and the sky a safer place.

Terms of the Fat Shark Acquisition

On September 30, 2020, the Company and FS Acquisition, Inc., a Nevada corporation, entered into a share purchase agreement with Gregory French, founder, sole shareholder and Chief Technology Officer to acquire all of the issued and outstanding share capital of Fat Shark, including its subsidiaries, for an aggregate purchase price of \$7,000,000. The purchase price consisted of 5,227,273 shares of our common stock, a senior secured note obligation of Fat Shark in the amount of \$1,500,000, subject to a floating charge under Cayman Island law on all of the assets of Fat Shark and its subsidiaries plus \$250,000 in cash paid by the Company. Fifteen percent of the common stock was deposited in escrow for 18 months as security for indemnification obligations of Fat Shark and Mr. French and purchase price adjustments for any working capital deficiencies and certain other claims and expenses. The indemnification obligations are subject to certain limitations and survive for two years following closing and require \$25,000 in claims before any claim can be asserted. The agreement provides that for two years following closing, neither Mr. French nor any affiliate may engage in a business competing with our drone or FPV goggle business, or solicit any of our customers or suppliers.

We agreed to register the shares issuable in the transaction under the Securities Act of 1933, as amended (the “Act”) under certain circumstances. At any time following a “Qualified Financing”, defined as a private placement or public offering of debt, equity, or convertible securities in one or more transaction whereby on a cumulative basis on or prior to the three year anniversary of closing, a minimum of \$6 million of gross proceeds has been raised by us for our own account (during which offerings Mr. French also has the right to sell up to \$1,000,000 of the shares received), Mr. French has the right to a single demand registration under the Act of all or a portion of the shares, unless our aggregate public offering price (before deducting discounts and commissions) is less than \$25,000,000. None of the shares of common stock issued in the Fat Shark acquisition are being offered by this prospectus.

Mr. French has agreed to certain restrictions on the disposition of the shares received during for a period of two years following closing (the “Lock-Up Agreement”). Under the Lock-Up Agreement, a limit of up to the greater of 20% or \$1,000,000 of the shares received may be sold prior to the 12 month anniversary of the closing in privately negotiated transactions (provided the purchaser enters into a joinder agreement and agrees to be subject to the same restrictions on such shares). Following the first year after closing, up to 10% of the average daily volume of the common stock during the prior 10 trading days may be sold. The Agreement also requires Mr. French sell a pro-rata amount of his common stock and provides for mandatory participation in certain sales by our large shareholders.

On October 5, 2020, we closed on a private offering of convertible promissory notes in the aggregate principal amount of \$600,000 and issued five-year warrants to purchase an aggregate of 399,996 shares of common stock. The notes accrue interest at the rate of 12% percent per annum and are payable two years from the date of issuance. The notes are convertible into common stock at a conversion price of \$1.00 per share or, upon the consummation of a Qualified Offering (as defined in the note) at a price equal to 75% of the price of the securities sold in such offering. The notes also contain protection from dilution in the event of a lower priced issuance. A portion of the proceeds of the offering were applied to the cash purchase price and expenses of the Fat Shark transaction.

Summary of the Offering

<i>Resale Shares</i>	(i) 3,692,779 issued and outstanding shares of common stock and (ii) 1,512,206 shares of common stock issuable upon conversion of Series B Preferred Stock
<i>Common Stock Outstanding Before this Offering</i>	26,698,508
<i>Common Stock Outstanding After this Offering</i>	29,552,252
<i>Use of Proceeds</i>	The Company will not receive any proceeds of the offering.
<i>Risk factors</i>	See “Risk Factors” beginning on page 7 of this prospectus for a discussion of factors you should carefully consider before investing in our securities.
<i>Trading symbol</i>	Our common stock is quoted on the OTC Marketplace under the symbol “RCAT”.

The number of shares of common stock shown above to be outstanding before this offering is based on 26,698,508 shares outstanding as of December 3, 2020 and excludes as of that date:

- 1,597,475 shares of common stock issuable upon exercise of outstanding options under our equity incentive plans at a weighted-average exercise price of \$1.10 per share;
- 405,552 shares of common stock issuable upon exercise of outstanding warrants with a weighted-average exercise price of \$2.30 per share (of which 399,996 were sold in October 2020 in connection with our sale of 12% convertible notes (“12% Convertible Notes”) and are exercisable at a conversion price of \$1.00 per share, or at a 25% discount to the price per share of our securities sold in a Qualified Offering as defined in the 12% Convertible Notes);
- 1,738,504 shares of common stock issuable upon conversion of outstanding shares of our Series A Preferred Stock and 3,055,748 shares of our common stock issuable upon conversion of outstanding shares of our Series B Preferred Stock;
- 7,152,525 shares of common stock that are reserved for equity awards that may be granted under our equity incentive plans; and
- 41,667 shares of common stock issuable in May 2021 in connection with a fully vested restricted stock unit grant.
- 600,000 shares of common stock issuable upon conversion of the 12% Convertible Notes sold October 2020 at a conversion price of \$1.00 per share, or 75% of the price of securities sold in a Qualified Offering, if lower, as defined in the 12% Convertible Notes.

Unless otherwise indicated, the information in this prospectus gives effect to the 1 for 1,200 reverse split of our common stock effected on August 1, 2019.

RISK FACTORS

Any investment in our securities involves a high degree of risk. Investors should carefully consider the risks described below and all of the information contained in this prospectus before deciding whether to purchase our securities. Our business, financial condition and results of operations could be materially adversely affected by these risks if any of them actually occur. This prospectus also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere in this prospectus.

Risks Related To Our Common Stock

Our management has voting control of the Company.

Jeffrey Thompson, our Chairman and CEO owns approximately 46% and our current officers and directors currently own approximately 52% of our total issued and outstanding common stock. In addition, the founder of Fat Shark owns approximately 20% of our issued and outstanding common stock. If they act together, they will be able to influence the outcome of all corporate actions requiring approval of our shareholders, including the election of directors and approval of significant corporate transactions, which may result in corporate action with which other stockholders do not agree. This concentration of ownership may have the effect of delaying or preventing a change in control and may adversely affect the market price of our common stock.

Our failure to maintain effective internal controls over financial reporting could have an adverse impact on us .

We are required to establish and maintain appropriate internal controls over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely impact our public disclosures regarding our business, financial condition or results of operations. In addition, management's assessment of internal controls over financial reporting may identify weaknesses and conditions that need to be addressed in our internal controls over financial reporting or other matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in our internal control over financial reporting, disclosure of management's assessment of our internal controls over financial reporting or disclosure of our public accounting firm's attestation to or report on management's assessment of our internal controls over financial reporting may have an adverse impact on the price of our Common Stock.

We have never paid dividends and we do not expect to pay dividends for the foreseeable future

We intend to retain earnings, if any, to finance the growth and development of our business and do not intend to pay cash dividends on shares of our common stock in the foreseeable future. The payment of future cash dividends, if any, depend upon, among other things, conditions then existing including earnings, financial condition and capital requirements, restrictions in financing agreements, business opportunities and other factors. As a result, capital appreciation, if any, of our common stock, will be your sole source of gain for the foreseeable future.

We are traded on the Pink Open Market. An active, liquid trading market for our common stock may not develop or be sustained. If and when an active market develops the price of our common stock may be volatile.

Presently, our common stock is traded on the Pink Open Market, the lowest and most speculative tier of the three marketplaces for the trading of over the counter stocks established by OTC Markets which does not establish financial standards or disclosure requirements for trading. As a result, Pink Open Markets trading is often avoided by investors or disallowed for traders and fund managers. Although we presently are fully-reporting and current in our SEC filings and reports, prior to 2012 our predecessor also failed to maintain current reporting with the SEC. We are in our early stages, an investment in our company will require a long-term commitment, with no certainty of return. Presently there is limited trading in our stock and in the absence of an active trading market investors may have difficulty buying and selling or obtaining market quotations, market visibility for shares of our common stock may be limited, and a lack of visibility for shares of our common stock may have a depressive effect on the market price for shares of our common stock.

The lack of an active market impairs your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. An inactive market may also impair our ability to raise capital to continue to fund operations by selling shares.

Trading in stocks quoted on the Pink Open Market is often thin and characterized by wide fluctuations in trading prices, due to many factors that may have little to do with our operations or business prospects. The securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of shares of our common stock. Moreover, the Pink Open Market is not a stock exchange, and trading of securities is often more sporadic than the trading of securities on the OTCQB or OTCQX or national stock exchanges like NASDAQ or the NYSE. Accordingly, stockholders may have difficulty reselling any shares of common stock.

A limited public trading market may cause volatility in the price of our common stock.

Our common stock is expected to become available for quotation on the OTCQB marketplace. The quotation of our common stock on the OTCQB marketplace does not assure that a meaningful, consistent and liquid trading market exists or will come into existence, and in recent years such market has experienced extreme price and volume fluctuations that have particularly affected the market prices of many smaller companies like us. Our common stock is subject to this volatility. Sales of substantial amounts of common stock, or the perception that such sales might occur, could adversely affect prevailing market prices of our common stock and our stock price may decline substantially in a short time and our stockholders could suffer losses or be unable to liquidate their holdings. Because our common stock does not trade on a national securities exchange, our common stock is subject to the securities laws of the various states and jurisdictions of the United States in addition to federal securities law. While we may register our common stock or qualify for exemptions for our common stock in one of more states, if we fail to do so the investors in those states where we have not taken such steps may not be allowed to purchase our stock or those who presently hold our stock may not be able to resell their shares without substantial effort and expense. These restrictions and potential costs could be significant burdens on our stockholders.

Our Board of Directors may authorize and issue shares of new classes of stock that could be superior to or adversely affect current holders of our common stock.

Our board of directors has the power to authorize and issue shares of classes of stock, including preferred stock that have voting powers, designations, preferences, limitations and special rights, including preferred distribution rights, conversion rights, redemption rights and liquidation rights without further shareholder approval which could adversely affect the rights of the holders of our common stock. In addition, our board could authorize the issuance of a series of preferred stock that has greater voting power than our common stock or that is convertible into our common stock, which could decrease the relative voting power of our common stock or result in dilution to our existing common stockholders.

Any of these actions could significantly adversely affect the investment made by holders of our common stock. Holders of common stock could potentially not receive dividends that they might otherwise have received. In addition, holders of our common stock could receive less proceeds in connection with any future sale of the Company, in liquidation or on any other basis.

Our shares will be subordinate to all of our debts and liabilities, which increases the risk that you could lose your entire investment.

Our shares of common stock are equity interests that will be subordinate to all of our current and future indebtedness with respect to claims on our assets. In any liquidation, all of our debts and liabilities must be paid before any payment is made to our shareholders.

The market price of our shares of common stock is subject to fluctuation.

The market prices of our shares may fluctuate significantly in response to factors, some of which are beyond our control, including:

- The announcement of new products by our competitors
- The release of new products by our competitors
- Developments in our industry or target markets
- General market conditions including factors unrelated to our operating performance

Recently, the stock market, in general, has experienced extreme price and volume fluctuations. Continued market fluctuations could result in extreme market volatility in the price of our shares of common stock which could cause a decline in the value of our shares.

Our common stock may be deemed a “penny stock” which may reduce the value of an investment in the stock.

Rule 15g-9 under the Exchange Act establishes the definition of a “penny stock,” for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require: (a) that a broker or dealer approve a person’s account for transactions in penny stocks; and (b) the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person’s account for transactions in penny stocks, the broker or dealer must: (a) obtain financial information and investment experience objectives of the person and (b) make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form: (a) sets forth the basis on which the broker or dealer made the suitability determination; and (b) confirms that the broker or dealer received a signed, written agreement from the investor prior to the transaction. Generally, brokers may be less willing to execute transactions in securities subject to the “penny stock” rules. If our Common Stock is or becomes subject to the “penny stock” rules, it may be more difficult for investors to dispose of our common stock and cause a decline in the market value of our common stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about commissions payable to both the broker or dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Future capital raises may dilute our existing stockholders’ ownership and/or have other adverse effects on our operations.

If we raise additional capital by issuing equity securities, our existing stockholders’ percentage ownership may decrease, and these stockholders may experience substantial dilution. If we raise additional funds by issuing debt instruments, these debt instruments could impose significant restrictions on our operations, including liens on our assets. If we raise additional funds through collaborations and licensing arrangements, we may be required to relinquish some rights to our technologies or products, or to grant licenses on terms that are not favorable to us or could diminish the rights of our stockholders.

Risks Related to our Business

The COVID-19 pandemic has adversely impacted, and poses risks to, our business, results of operations and financial condition, the nature and extent of which are highly uncertain and unpredictable.

The global spread of COVID-19 is having, and will continue to have, an adverse impact on our operations, sales and delivery and supply chains. Many countries including the United States have implemented measures such as quarantine, shelter-in-place, curfew, travel restrictions and similar isolation measures, including government orders and other restrictions on the conduct of business operations. It remains uncertain what impact the pandemic will have on our ability to generate sales and customer interest even once conditions begin to improve. The COVID-19 pandemic has also impacted our supply chain as we have experienced disruptions or delays in shipments of certain materials or components of our products. Prices of our supplies have also increased as a result of the pandemic. Accordingly, COVID-19 has negatively affected our business. Given the rapid and evolving nature of the virus, it is uncertain how materially COVID-19 will affect our operations generally if these impacts persist, worsen or re-emerge over an extended period of time.

Additionally, the COVID-19 pandemic caused significant volatility and uncertainty in U.S. and international markets, which may result in a prolonged economic downturn. A disruption of financial markets may reduce our ability to access capital and increase the cost of doing so. There are no assurances that the credit markets or the capital markets will be available to us in the future or that financing will be available.

We cannot reasonably estimate the length or severity of the COVID-19 pandemic or the related response, or the extent to which the disruption may continue to impact our business, financial position, results of operations and cash flows. Ultimately, the COVID-19 pandemic could have a material adverse impact on our business, financial position, results of operations and cash flows.

We may not be able to continue operating as a going concern.

We have experienced losses from operations since inception and have never generated positive cash flow. The success of our business plan during the next 12 months and beyond will be contingent upon generating sufficient revenue to cover our operating costs and obtaining additional financing. The reports from our independent registered public accounting firm for the fiscal year ended April 30, 2020 and prior years include an explanatory paragraph stating the Company has recurring net losses from operations, negative operating cash flows, does not yet generate revenue from operations and will need additional working capital for ongoing operations. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. If we are unable to obtain sufficient funding, our business, prospects, financial condition and results of operations will be materially and adversely affected and we may be unable to continue as a going concern.

We have incurred net losses since inception.

We have accumulated net losses of approximately \$3.0 million as of July 31, 2020. These losses have had an adverse effect on our financial condition, stockholders' equity, net current assets, and working capital. We will need to generate higher revenues and control operating costs in order to attain profitability. There can be no assurances that we will be able to do so or to reach profitability.

We will need additional capital to fund our expanding operations, and if we are not able to obtain sufficient capital, we may be forced to limit the scope of our operations.

We expect that our expansion of business activities will require additional working capital. Fat Shark's level of sales far exceeds our historic sales and will require additional working capital to continue which we may not be able to secure. Rotor Riot's e-commerce platform business operating at www.rotorriot.com has not attained profitability. The planned release of our first software product, DroneBox, will require working capital to finish product development, support its market release, and provide technical customer support upon its commercial release. We plan to offer DroneBox under a software-as-a-service ("SAAS") platform which may require a higher number of customers in order to reach profitability. There can be no assurance that either or both of our operating businesses will reach profitability.

If adequate additional debt and/or equity financing is not available on reasonable terms or at all, then we may not be able to continue to develop our business activities, and we will have to modify our business plan. These factors could have a material adverse effect on our future operating results and our financial condition.

If we are unable to raise needed additional funds to continue as a going concern, we could be forced to cease our business activities and dissolve. In such an event, we may incur additional financial obligations, including the accelerated maturity of debt obligations, lease termination fees, employee severance payments, and other creditor and dissolution-related obligations.

Our ability to raise financing through sales of equity securities depends on general market conditions and the demand for our common stock. We may be unable to raise adequate capital through sales of equity securities, and if our stock has a low market price at the time of such sales, our existing stockholders could experience substantial dilution. If adequate financing is not available or unavailable on acceptable terms, we may find we are unable to fund expansion, continue offering products and services, take advantage of acquisition opportunities, develop or enhance services or products, or to respond to competitive pressures in the industry which may jeopardize our ability to continue operations.

We operate in an emerging and rapidly growing industry which makes it difficult to evaluate our business and future prospects.

The drone industry is relatively new and is growing rapidly. As a result, it is difficult to evaluate our business and future prospects. We cannot accurately predict whether, and even when, demand for our products will increase, if at all. The risks, uncertainties and challenges encountered by companies operating in emerging and rapidly growing industries include:

- Generating sufficient revenue to cover operating costs and sustain operations;
- Acquiring and maintaining market share;
- Attracting and retaining qualified personnel, especially engineers with the requisite technical skills;
- Successfully developing and commercially marketing new products;
- Accessing the capital markets to raise additional capital, on reasonable terms, if and when required to sustain operations or to grow the business.

The drone industry is subject to various laws and government regulations which could complicate and delay our ability to introduce products, maintain compliance, and avoid violations, which could lead to increased costs or the interruption of normal business operations that could negatively impact our financial condition and results of operations.

We operate in the drone industry which is a highly regulated environment in the US and international markets. Federal, state and local governmental entities and foreign governments may regulate aspects of the industry, including the production or distribution of our products, software or services. These regulations may include accounting standards, taxation requirements (including changes in applicable income tax rates, new tax laws and revised tax law interpretations), product safety and other safety standards, trade restrictions, regulations regarding financial matters, environmental regulations, products directed toward children or hobbyists, and other administrative and regulatory restrictions. While we endeavor to take all the steps necessary to comply with these laws and regulations, there can be no assurance that we can maintain compliance on a continuing basis. Failure to comply could result in monetary liabilities and other sanctions which could increase our costs or decrease our revenue resulting in a negative impact on our business, financial condition and results of operations.

Our business and products are subject to government regulation and may incur additional compliance costs or, if we fail to comply with applicable regulations, may incur fines or be forced to suspend or cease operations.

In our current business and as we expand into new markets and product categories, we must comply with a wide variety of laws, regulations, standards and other requirements governing, among other things, electrical safety, wireless emissions, health and safety, e-commerce, consumer protection, export and import requirements, hazardous materials usage, product-related energy consumption, packaging, recycling and environmental matters. Compliance with these laws, regulations, standards, and other requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction (including from country to country), further increasing the cost of compliance and doing business. Our products may require regulatory approvals or satisfaction of other regulatory concerns in the various jurisdictions in which they are manufactured, sold or both. These requirements create procurement and design challenges that require us to incur additional costs identifying suppliers and manufacturers who can obtain and produce compliant materials, parts and products. Failure to comply with such requirements can subject us to liability, additional costs, and reputational harm and, in extreme cases, force us to recall products or prevent us from selling our products in certain jurisdictions. If there is a new regulation, or change to an existing regulation, that significantly increases our costs of manufacturing or causes us to significantly alter the way that we manufacture our products, this would have a material adverse effect on our business, financial condition and results of operations. Additionally, while we have implemented policies and procedures designed to ensure compliance with applicable laws and regulations, there can be no assurance that our employees, contractors, and agents will not violate such laws and regulations or our policies and procedures.

Our products must comply with certain requirements of the U.S. Federal Communications Commission (“FCC”) regulating electromagnetic radiation in order to be sold in the United States and with comparable requirements of the regulatory authorities of the European Union (“EU”), Japan, China and other jurisdictions in order to be sold in those jurisdictions. Our FPV products include wireless radios and receivers which require additional emission testing. We are also subject to various environmental laws and governmental regulations related to toxic, volatile, and other hazardous chemicals used in the third-party components incorporated into our products, including the Restriction of Certain Hazardous Substances Directive (the “RoHS”) and the EU Waste Electrical and Electronic Equipment Directive (the “WEEE Directive”), as well as the implementing legislation of the EU member states. This directive restricts the distribution of products within the EU that exceed very low maximum concentration amounts of certain substances, including lead. Similar laws and regulations have been passed or are pending in China, Japan, and numerous countries around the world and may be enacted in other regions, including in the United States, and we are, or may in the future be, subject to these laws and regulations.

From time to time, our products are subject to new domestic and international requirements. Compliance with regulations enacted in the future could substantially increase our cost of doing business or otherwise have a material adverse effect on our results of operations and our business. Any inability by us to comply with regulations in the future could result in the imposition of fines or in the suspension or cessation of our operations or sales in the applicable jurisdictions. Any such inability by us to comply with regulations may also result in our not being permitted, or limit our ability, to ship our products which would adversely affect our revenue and ability to achieve or maintain profitability.

Although we encourage our contract manufacturers and major component suppliers to comply with the supply chain transparency requirements, such as the RoHS Directive, we cannot provide assurance that our manufacturers and suppliers consistently comply with these requirements. In addition, if there are changes to these or other laws (or their interpretation) or if new related laws are passed in other jurisdictions, we may be required to re-engineer our products to use components compatible with these regulations. This re-engineering and component substitution could result in additional costs to us or disrupt our operations or logistics.

The WEEE Directive requires electronic goods producers to be responsible for the collection, recycling and treatment of such products. Changes in interpretation of the directive may cause us to incur costs or have additional regulatory requirements to meet in the future in order to comply with this directive, or with any similar laws adopted in other jurisdictions. Our failure to comply with past, present, and future similar laws could result in reduced sales of our products, substantial product inventory write-offs, reputational damage, penalties and other sanctions, which could harm our business and financial condition. We also expect that our products will be affected by new environmental laws and regulations on an ongoing basis. To date, our expenditures for environmental compliance have not had a material impact on our results of operations or cash flows and, although we cannot predict the future impact of such laws or regulations, they will likely result in additional costs and may increase penalties associated with violations or require us to change the content of our products or how they are manufactured, which could have a material adverse effect on our business and financial condition.

We face competition from larger companies that have substantially greater resources which challenges our ability to establish market share, grow the business, and reach profitability.

The drone industry is attracting a wide range of significantly larger companies which have substantially greater financial, management, research and marketing resources than we have. These competitors include transportation companies like United Parcel Service, Federal Express and Amazon, as well as defense companies such as Lockheed Martin Corporation and Northrop Grumman Corporation. Our competitors may be able to provide customers with different or greater capabilities than we can provide, including technical qualifications, pricing, and key technical support. Many of our competitors may utilize their greater resources to develop competing products and technologies, leverage their financial strength to utilize economies of scale and offer lower pricing, and hire more qualified personnel by offering more generous compensation packages. In order to secure contracts, we may have to offer comparable products and services at lower pricing which could adversely affect our operating margins. Our inability to compete effectively against these larger companies could have a material adverse effect on our business, financial condition and operating results.

Fat Shark operates in a highly competitive market and the size, resources and brand name of some of its competitors may allow them to compete more effectively than Fat Shark can, which could result in a loss of market share and a decrease in revenue and profitability.

The market for head-worn display devices, including FPV HMDs, is highly competitive. Further, we expect competition to intensify in the future as existing competitors introduce new and more competitive offerings alongside their existing products, and as new market entrants introduce new products into our markets. We compete against established, well-known diversified consumer electronics manufacturers such as Samsung Electronics Co., Sony Corporation, LG Electronics (LGE), HTC, Lenovo, and large software and other products companies such as Alphabet Inc. (Google), Microsoft Corporation, Facebook and Snap. In the FPV drone market we compete with additional established, well-known manufacturers such as Epson, Yuneec, Boscama, Eachine, Walkera, SkyZone, MicroLED and DJI. Many of our current competitors have substantial market share, diversified product lines, well-established supply and distribution systems, strong worldwide brand recognition and greater financial, marketing, research and development and other resources than we do. In addition, many of our existing and potential competitors enjoy substantial competitive advantages, such as:

- longer operating histories;
- the capacity to leverage their sales efforts and marketing expenditures across a broader portfolio of products;
- broader distribution and established relationships with channel partners;
- access to larger established customer bases and known branding;
- greater resources to fund research and development and to make acquisitions;
- larger intellectual property portfolios; and
- the ability to bundle competitive offerings with other products and services.

Moreover, smartphones, tablets, and new wearable devices with ever growing larger video display screens and computing power have significantly improved the mobile personal computing experience. In the future, the manufacturers of these devices, such as Apple Inc., Samsung, LGE, Lenovo, Google/Fitbit, Snap, Garmin, Facebook, Microsoft and others may design or develop products similar to ours. In addition to competition or potential competition from large, established companies, new companies may emerge and offer competitive products. Increased competition may result in pricing pressures and reduced profit margins and may impede our ability to increase the sales of our products, any of which could substantially harm our business and results of operations.

We may not be able to keep pace with technological advances; we depend on advances in technology by other companies.

The drone industry in general, and the software and hardware industries in particular, continue to undergo significant changes, primarily due to technological developments. Because of the rapid growth of technology, shifting consumer tastes and the popularity and availability of other forms of activities, it is impossible to predict the overall effect these factors could have on potential revenue from, and profitability of, software and hardware or training directed to the drone industry. It is impossible to predict the overall effect these factors could have on our ability to compete effectively in a changing market, and if we are not able to keep pace with these technological advances, then our revenues, profitability and results from operations may be materially adversely affected.

We rely on and will continue to rely on components of our products (including micro-display panels organic light-emitting diode (“OLED”) and liquid crystal (“LC”) displays for our goggle displays, transmitters and cameras) that are developed and produced by other companies. The commercial success of certain of our planned future products will depend in part on advances in these and other technologies by other companies. We may, from time to time, contract with and support companies developing key technologies in order to accelerate the development of such products for our specific uses. Such activities might not result in useful technologies or components for us.

We may not be able to successfully launch, compete and sell our DroneBox software.

Our first software product, DroneBox, is presently in beta testing in order to identify operating issues and to secure user feedback on its features, including both those presently part of the software and those that might be added to enhance the product. To date, the FAA has not issued any formal rules and regulations regarding software applications used by drones. However, it could decide to issue formal rules and regulations which could delay the release of DroneBox or cause us to withdraw it from the market. It is possible that we may not be able to comply with any rules and regulations issued by the FAA.

DroneBox will compete against software solutions which are already available in the marketplace. These include competing products offered by Airdata, a small company, and Skyward which is owned by Verizon. We plan to include features in DroneBox that we believe will provide a competitive advantage. These include (i) flight analyzation and replay, (ii) an embedded, encrypted ticket system, and (iii) live support assistance. However, users may not perceive our enhancements as providing added value and may determine not to migrate to DroneBox. In addition, Verizon could provide sales and marketing support to Skyward that could distract users and cause them not to focus on the enhanced features provided by DroneBox. These risks could adversely impact the number of users that subscribe to DroneBox and have a material adverse impact on our operating results.

If Fat Shark fails to keep pace with changing consumer preferences or technologies our business and results of operations may be materially adversely affected.

Rapidly changing customer requirements, evolving technologies and industry standards characterize the consumer electronics, wearables, and display industries. To achieve these goals, we seek to enhance existing products and develop and market new products that keep pace with continuing changes in industry standards, requirements, and customer preferences.

Our success depends on our ability to originate new products and to identify trends as well as to anticipate and react to changing customer demands in a timely manner. If are unable to introduce new products or novel technologies in a timely manner or new products or technologies are not accepted by customers, our competitors may introduce more attractive products, which could hurt our competitive position. New products might not receive customer acceptance if customer preferences shift to other products, and future success depends in part on the ability to anticipate and respond to these changes. Failure to anticipate and respond in a timely manner to changing customer preferences could lead to, among other things, lost business, lower revenue and excess inventory levels.

If critical components used to assemble our products become scarce or unavailable, then we may incur delays in fulfilling sales orders which could adversely impact our business.

We obtain components for our drones from a limited number of suppliers. Most of these components are sourced from China which has been engaged in a trade war with the United States over the past few years. We do not have a long term agreement with these suppliers that obligates them to sell components to us. Our reliance on these suppliers entails significant risks and uncertainties, including whether these suppliers will provide an adequate quantity of components, at a reasonable price, and on a timely basis. While there are options to purchase certain components from suppliers based in the United States, we would be forced to pay higher prices which would adversely impact our gross margin and operating results. Our operating results could be materially, adversely impacted if our suppliers do not provide the critical components used to assemble our products on a timely basis, at a reasonable price, and in sufficient quantities.

Lack of long-term purchase orders and commitments from customers may lead to a rapid decline in sales.

All customers issue purchase orders solely at their own discretion, often shortly before the requested date of shipment. Customers are generally able to cancel orders (without penalty) or delay the delivery of products on relatively short notice. In addition, current customers may decide not to purchase products for any reason. If those customers do not continue to purchase products, sales volume could decline rapidly with little or no warning.

We cannot rely on long-term purchase orders or commitments to protect from the negative financial effects of a decline in demand for products and typically plans production and inventory levels based on internal forecasts of customer demand, which are highly unpredictable and can fluctuate substantially. Customers give rolling forecasts and issue purchase orders but they have options to reschedule or pay cancellation fees. The uncertainty of product orders makes it difficult to forecast sales and allocate resources in a manner consistent with actual sales. Moreover, expense levels and the amounts invested in capital equipment and new product development costs are based in part on expectations of future sales and, if expectations regarding future sales are inaccurate, we may be unable to reduce costs in a timely manner to adjust for sales shortfalls. Similar factors apply to the lead times for our software and SAAS products. As a result of lack of long-term purchase orders and purchase commitments, and long software development lead times, we may experience a rapid decline in sales.

As a result of these and other factors, investors should not rely on revenues and operating results for any one quarter or year as an indication of future revenues or operating results. If quarterly revenues or results of operations fall below expectations of investors or public market analysts, the price of the common stock could fall substantially.

If we do not effectively maintain and further develop sales channels for products, including developing and supporting retail sales channel, value added resellers (VARs) and distributors, our business could be harmed.

We depend upon effective sales channels in reaching the customers who are the ultimate purchasers of HMD products and primarily sell products either from in-house sales teams directly to retail outlets such as hobby shops or through websites and VARs.

Distributors, third-party online resellers and VARs generally offer products from several different manufacturers. Accordingly, we are at risk that these distributors, resellers and VARs may give higher priority to selling other companies' products. If we were to lose the services of a distributor, online reseller, or VAR, they might need to find another in that area, and there can be no assurance of the ability to do so in a timely manner or on favorable terms. Further, resellers and distributors can at times build inventories in anticipation of future sales, and if such sales do not occur as rapidly as they anticipate, resellers and distributors will decrease the size of their future product orders. We are also subject to the risks of distributors, resellers and VARs encountering financial difficulties, which could impede their effectiveness and also expose us to financial risk, for example if they are unable to pay for the products they purchase or ongoing disruptions in business, for example from natural disasters or the effects of COVID-19. Any reduction in sales by current distributors or VARs, loss of key distributors and VARs or decrease in revenue from distributors and VARs could adversely affect our revenue, operating results, and financial condition.

Future growth and profitability may be adversely affected if marketing initiatives are not effective in generating sufficient levels of brand awareness.

Our future growth and profitability will depend in large part upon the effectiveness and efficiency of our marketing efforts, including our ability to:

- create awareness of brands and products;
- convert consumer awareness into actual product purchases;
- effectively manage marketing costs (including creative and media) in order to maintain acceptable operating margins and return on marketing investment; and
- successfully offer to sell products or license technology to third-party companies for sale.

Planned marketing expenditures are unknown and may not result in increased total sales or generate sufficient levels of product and brand name awareness. We may not be able to manage marketing expenditures on a cost-effective basis.

Our products require ongoing research and development and may experience technical problems or delays, which could lead the business to fail.

Our research and development efforts remain subject to all of the risks associated with the development of new products based on emerging and innovative technologies, including, for example, unexpected technical problems or the possible insufficiency of funds for completing development of these products. If technical problems or delays arise, further improvements in products and the introduction of future products could be adversely impacted, and we could incur significant additional expenses and the business may fail.

If HMD's and pilot gear do not gain greater acceptance in the marketplace, the business strategy may fail.

The acquisition of Fat Shark was based upon the acceptance of HMD wearables for FPV control of drones and the continuation of the attractiveness of that method for piloting drones. Fat Shark has experienced declining revenues over the past several years and such trend may continue or accelerate. Advances in other technologies may overcome their current market limitations and permit them to remain or become more attractive technologies for FPV applications, which could limit the potential market for our products and cause our business strategy to fail. If end-users fail to accept HMDs in the numbers we anticipate or as soon as we anticipate, the sales of our FPV products and our results of operations would be adversely affected and our business strategy may fail.

There are a number of competing providers of micro-display-based personal display technology, including HMDs, and we may fail to capture a substantial portion of the FPV personal wearable display market.

In addition to competing with other HMD manufacturers and distributors for FPV displays, we also compete with micro-display-based personal display technologies that have been developed by other companies. Numerous start-up companies have announced their intentions to offer HMD products and developer kits in the near future. Further, industry blogs have speculated that companies such as Apple may offer HMDs in the near future.

Most of our competitors have greater financial, marketing, distribution, and technical resources than we do. Moreover, our competitors may succeed in developing new micro-display-based personal display technologies and products that are more affordable or have more desirable features than our technology. If our products are unable to capture a reasonable portion of the HMD market, our business strategy may fail.

The nature of our business involves significant risks and uncertainties that may not be covered by insurance or indemnity.

We develop and sell products where insurance or indemnification may not be available, including:

- Designing and developing products using advanced and unproven technologies and drones; and
- Designing and developing products to collect, distribute and analyze various types of information.

Failure of certain of our products could result in loss of life or property damage. Certain products may raise questions with respect to issues of civil liberties, intellectual property, trespass, conversion and similar concepts, which may raise new legal issues. Indemnification to cover potential claims or liabilities resulting from a failure of technologies developed or deployed may be available in certain circumstances, but not in others. We do not and are not able to maintain insurance to protect against our risks and uncertainties. Substantial claims resulting from an accident, failure of our product, or liability arising from our products in excess of any indemnity or insurance coverage (or for which indemnity or insurance is not available or was not obtained) could harm our financial condition, cash flows, and operating results. Any accident, even if fully covered or insured, could negatively affect our reputation among our customers and the public, and make it more difficult for us to compete effectively.

Product quality issues and a higher-than-expected number of warranty claims or returns could harm our business and operating results.

The products that we sell could contain defects in design or manufacture. Defects could also occur in the products or components that are supplied to us. There can be no assurance we will be able to detect and remedy all defects in the hardware and software we sell, which could result in product recalls, product redesign efforts, loss of revenue, reputational damage and significant warranty and other remediation expenses. Similar to other mobile and consumer electronics, our products have a risk of overheating in the course of usage or upon malfunction. Any such defect could result in harm to property or in personal injury. If we determine that a product does not meet product quality standards or may contain a defect, the launch of such product could be delayed until we remedy the quality issue or defect. The costs associated with any protracted delay necessary to remedy a quality issue or defect in a new product could be substantial.

We generally provide a one-year warranty on all of our products, except in certain European countries where it can be two years for some consumer-focused products. The occurrence of any material defects in our products could expose us to liability for damages and warranty claims in excess of our current reserves, and we could incur significant costs to correct any defects, warranty claims or other problems. In addition, if any of our product designs are defective or are alleged to be defective, we may be required to participate in a recall campaign. In part due to the terms of our warranty policy, any failure rate of our products that exceeds our expectations may result in unanticipated losses. Any negative publicity related to the perceived quality of our products could affect our brand image and decrease retailer, distributor and consumer confidence and demand, which could adversely affect our operating results and financial condition. Further, accidental damage coverage and extended warranties are regulated in the United States at the state level and are treated differently within each state. Additionally, outside of the United States, regulations for extended warranties and accidental damage vary from country to country. Changes in interpretation of the regulations concerning extended warranties and accidental damage coverage on a federal, state, local or international level may cause us to incur costs or have additional regulatory requirements to meet in the future in order to continue to offer our support services. Our failure to comply with past, present and future similar laws could result in reduced sales of our products, reputational damage, penalties and other sanctions, which could harm our business and financial condition.

Our products will likely experience declining unit prices and we may not be able to offset that decline with production cost decreases or higher unit sales.

In the markets in which we compete, prices of established consumer electronics, displays, personal computers, and mobile products tend to decline significantly over time or as new enhanced versions are introduced, frequently every 12 to 24 months. In order to maintain adequate product profit margins over the long term, we believe that we will need to continuously develop product enhancements and new technologies that will either slow price declines of our products or reduce the cost of producing and delivering our products. While we anticipate many opportunities to reduce production costs over time, we may not be able to reduce our component costs. We expect to attempt to offset the anticipated decrease in our average selling price by introducing new products, increasing our sales volumes or adjusting our product mix. If we fail to do so, our results of operations will be materially and adversely affected.

Our products could infringe on the intellectual property rights of others.

Companies in the consumer electronics, wireless communications, semiconductor, IT, and display industries steadfastly pursue and protect intellectual property rights, often times resulting in considerable and costly litigation to determine the validity of patents and claims by third parties of infringement of patents or other intellectual property rights. Our products could be found to infringe on the intellectual property rights of others. Other companies may hold or obtain patents or inventions or other proprietary rights in technology necessary for our business. Periodically, other companies inquire about our products and technology in their attempts to assess whether we violate their intellectual property rights. If we are forced to defend against infringement claims, we may face costly litigation, diversion of technical and management personnel, and product shipment delays, even if the allegations of infringement are unwarranted. If there is a successful claim of infringement against us and we are unable to develop non-infringing technology or license the infringed or similar technology on a timely basis, or if we are required to cease using one or more of our business or product names due to a successful trademark infringement claim against us, it could adversely affect our business.

Our intellectual property rights and proprietary rights may not adequately protect our products.

Our commercial success will depend substantially on the ability to obtain patents and other intellectual property rights and maintain adequate legal protection for products in the United States and other countries. We will be able to protect our intellectual property from unauthorized use by third parties only to the extent that these assets are covered by valid and enforceable patents, trademarks, copyrights or other intellectual property rights, or are effectively maintained as trade secrets. As of the date of this filing, we have 10 issued and 6 pending U.S. and foreign patent applications. We apply for patents covering our products, services, technologies, and designs, as we deem appropriate. We may fail to apply for patents on important products, services, technologies or designs in a timely fashion, or at all. We do not know whether any of our patent applications will result in the issuance of any patents. Even if patents are issued, they may not be sufficient to protect our products, services, technologies, or designs. Our existing and future patents may not be sufficiently broad to prevent others from developing competing products, services technologies, or designs. Intellectual property protection and patent rights outside of the United States are even less predictable. As a result, the validity and enforceability of patents cannot be predicted with certainty. Moreover, we cannot be certain whether:

- we were the first to conceive, reduce to practice, invent, or file the inventions covered by each of our issued patents and pending patent applications;
- others will independently develop similar or alternative products, technologies, services or designs or duplicate any of our products, technologies, services or designs;
- any patents issued to us will provide us with any competitive advantages, or will be challenged by third parties;
- we will develop additional proprietary products, services, technologies or designs that are patentable; or
- the patents of others will have an adverse effect on our business.

The patents we own or license and those that may be issued to us in the future may be challenged, invalidated, rendered unenforceable or circumvented, and the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages. Moreover, third parties could practice our inventions in territories where we do not have patent protection or in territories where they could obtain a compulsory license to our technology where patented. Such third parties may then try to import products made using our inventions into the United States or other territories. We cannot ensure that any of our pending patent applications will result in issued patents, or even if issued, predict the breadth, validity and enforceability of the claims upheld in our and other companies' patents.

Unauthorized parties may attempt to copy or otherwise use aspects of our processes and products that we regard as proprietary. Policing unauthorized use of our proprietary information and technology is difficult and can be costly, and our efforts to do so may not prevent misappropriation of our technologies. We may become engaged in litigation to protect or enforce our patent and other intellectual property rights or in International Trade Commission proceedings to abate the importation of goods that would compete unfairly with our products and, if unsuccessful, these actions could result in the loss of patent or other intellectual property rights protection for the key technologies on which our business strategy depends.

We rely in part on unpatented proprietary technology, and others may independently develop the same or similar technology or otherwise obtain access to our unpatented technology. We require employees, contractors, consultants, financial advisors, suppliers, and strategic partners to enter into confidentiality and intellectual property assignment agreements (as appropriate), but these agreements may not provide sufficient protection for our trade secrets, know-how or other proprietary information.

The laws of certain countries do not protect intellectual property and proprietary rights to the same extent as the laws of the United States and, therefore, in certain jurisdictions, we may be unable to protect our products, services, technologies and designs adequately against unauthorized third-party copying, infringement or use, which could adversely affect our competitive position. To protect or enforce our intellectual property rights, we may initiate proceedings or litigation against third parties. Such proceedings or litigation may be necessary to protect our trade secrets or know-how, products, technologies, designs, brands, reputation, likeness, authorship works or other intellectual property rights. Such proceedings or litigation also may be necessary to determine the enforceability, scope and validity of the proprietary rights of others. Any proceedings or lawsuits that we initiate could be expensive, take significant time and divert management's attention from other business concerns. Additionally, we may provoke third parties to assert claims against us, which could invalidate or narrow the scope of our own intellectual property rights. We may not prevail in any proceedings or lawsuits that we initiate and the damages or other remedies awarded, if any, may be commercially valuable. The occurrence of any of these events may adversely affect our business, financial condition and operating results.

We have registered and applied to register certain of our trademarks in several jurisdictions worldwide. In some jurisdictions where we have applied to register our trademarks, other applications or registrations exist for the same, similar, or otherwise related products or services. If we are not successful in arguing that there is no likelihood of confusion between our marks and the marks that are the subject of the other applications or registrations owned by third parties, our applications may be denied, preventing us from obtaining trademark registrations and adequate protection for our marks in the relevant jurisdictions, which could impact our ability to build our brand identity and market our products and services in those jurisdictions. Whether or not our application is denied, third parties may claim that our trademarks infringe their rights. As a result, we could be forced to pay significant settlement costs or cease the use of these trademarks and associated elements of our brand in the United States or other jurisdictions.

Even in those jurisdictions where we are able to register our trademarks, competitors may adopt or apply to register similar trademarks to ours, may register domain names that mimic ours or incorporate our trademarks, or may purchase keywords that are identical or confusingly similar to our brand names as terms in Internet search engine advertising programs, which could impede our ability to build our brand identity and lead to confusion among potential customers of our products and services. If we are not successful in proving that we have prior rights in our marks and arguing that there is a likelihood of confusion between our marks and the marks of these third parties, our inability to prevent these third parties from using may negatively impact the strength, value and effectiveness of our brand names and our ability to market our products and prevent consumer confusion.

If we lose our rights under our third-party technology licenses, our operations could be adversely affected .

Our business depends in part on technology rights and software licensed from third parties. We could lose our exclusivity or other rights to use the technology under our licenses if we fail to comply with the terms and performance requirements of the licenses. In addition, certain licensors may terminate a license upon our breach and have the right to consent to sublicense arrangements. If we were to lose our rights under any of these licenses, or if we were unable to obtain required consents to future sublicenses, we could lose a competitive advantage in the market, and may even lose the ability to commercialize certain products or technologies completely. Either of these results could substantially decrease our revenues.

Our business depends in part on access to third-party platforms or technologies, and if the access is withdrawn, denied, or is not available on terms acceptable, or if the platforms or technologies change without notice, business and operating results could be adversely affected.

With the growth of mobile devices and personal voice assistants, cloud services and artificial intelligence (“AI”), the number of supporting platforms has grown, and with it the complexity and increased need for us to have business and contractual relationships with the platform owners in order to produce products compatible with these platforms and enable access to and use of these platforms with our products. Our product strategy includes current and future products designed for use with third-party platforms or software, such as iPhone, Android phones, Google Assistant and Amazon Alexa, as well as gaming platforms. Our business in these categories relies on our access to the platforms of third parties, some of whom are our competitors. Platform owners that are competitors may limit or decline access to their platforms, and in any case have a competitive advantage in designing products for their own platforms and may produce products that work better, or are perceived to work better, than our products in connection with those platforms. As we expand the number of platforms and software applications with which our products are compatible, we may not be successful in launching products for those platforms or software applications and/or we may not be successful in establishing strong relationships with the new platform or software owners, which could negatively impact our ability to develop and produce high-quality products on a timely basis for those platforms and software applications. We may otherwise fail to navigate various new relationships, which could adversely affect our relationships with existing platform or software owners.

Our access to third-party platforms may also require paying a royalty or licensing fee, which lowers our product margins or may otherwise be on terms that are not acceptable to us. In addition, the third-party platforms or technologies used to interact with our product portfolio can be delayed in production or can change without prior notice to us, which can result in our having excess inventory, lower margins, or customer support issues.

If we are unable to access third-party platforms or technologies, or if our access is withdrawn, denied, or is not available on terms acceptable to us, or if the platforms or technologies are delayed or change without notice to us, our business and operating results could be adversely affected.

If our customers are not satisfied with our technical support, firmware or software updates on some products, they may choose not to purchase our products, which would adversely impact business and operating results.

Our business relies, in part, on our customers' satisfaction with the technical support, firmware, software and security updates we provide to support our products. If we fail to provide technical support services and necessary updates that are responsive, satisfy our customers' expectations and resolve issues that they encounter with our products, customers may choose not to purchase additional products and we may face brand and reputational harm, which could adversely affect our operating results.

Our use of open source software could negatively affect our ability to sell our products and could subject us to possible litigation.

We incorporate open source software into our products. Open source software is generally licensed by its authors or other third parties under open source licenses. Some of these licenses contain requirements that we make available source code for modifications or derivative works we create based upon the open source software, and that we license such modifications or derivative works under the terms of a particular open source license or other license granting third parties certain rights of further use. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose any of our source code that incorporates or is a modification of our licensed software. If an author or other third-party that distributes open source software that we use or license were to allege that we had not complied with the conditions of the applicable license, we could be required to incur significant legal expenses defending against those allegations and could be subject to significant damages, enjoined from offering or selling our products that contained the open source software and be required to comply with the foregoing conditions. Any of the foregoing could disrupt and harm our business and financial condition.

Our dependence on sales to VARs, resellers, and distributors increases the risks of managing our supply chain and may result in excess inventory or inventory shortages.

The majority of our various reseller relationships for our HMD products and their accessories could involve them taking inventory positions and reselling to multiple customers. Under some typical distributor relationships, we would not recognize revenue until the distributors sell the product to their end user customers and receive payment thereon; however, at this time we do not currently enter into these types of arrangements. Our distributor and VAR relationships may reduce our ability to forecast sales and increase risks to our business. Since our distributors and VARs would act as intermediaries between us and the end user customers or resellers, we would be required to rely on our distributors to accurately report inventory levels and production forecasts. This may require us to manage a more complex supply chain and monitor the financial condition and credit worthiness of our distributors and VARs and their major end user customers. Our failure to manage one or more of these risks could result in excess inventory or shortages that could adversely impact our operating results and financial condition.

Our operating results may be adversely impacted by worldwide political, economic and public health uncertainties and specific conditions in the markets we address.

Any worsening of global economic, financial, or public health conditions, including global pandemics, could materially adversely affect (i) our ability to raise, or the terms of needed capital; (ii) demand for our current and future products; and (iii) the supply of components for our products. We cannot predict the timing, strength, or duration of any economic slowdown or subsequent economic recovery, worldwide, or in the display industry.

Our results of operations may suffer if we are not able to successfully manage our increasing exposure to foreign exchange rate risks.

A substantial majority of our sales and cost of components are denominated in U.S. dollars. As our business grows, both our sales and production costs may increasingly be denominated in other currencies. Where such sales or production costs are denominated in other currencies, they are converted to U.S. dollars for the purpose of calculating any sales or costs to us. Our sales may decrease as a result of any appreciation of the U.S. dollar against these other currencies.

The majority of our current expenditures are incurred in U.S. dollars and many of our components come from countries that currently peg their currency against the U.S. dollar. If the pegged exchange rates change adversely or are allowed to float up, additional U.S. dollars will be required to fund our purchases of these components.

Although we do not currently enter into currency option contracts or engage in other hedging activities, we may do so in the future. There is no assurance that we will undertake any such hedging activities or that, if we do so, they will be successful in reducing the risks to us of our exposure to foreign currency fluctuations.

Due to our significant level of international operations, including the use of foreign contract manufacturers, we are subject to international operational, financial, legal, political and public health risks which could harm our operating results.

A substantial part of our operations, including manufacturing of certain components used in our products, are outside of the United States and many of our customers and suppliers have some or all of their operations in countries other than the United States. Risks associated with our doing business outside of the United States include:

- compliance burdens and costs with a wide variety of foreign laws and regulations, particularly labor, environmental and other laws and regulations that govern our operations in those countries;
- legal uncertainties regarding foreign taxes, tariffs, border taxes, quotas, export controls,
- export licenses, import controls and other trade barriers;
- economic instability and high levels of inflation in the countries of our suppliers and customers, particularly in the Asia-Pacific region, causing delays or reductions in orders for their products and therefore our sales;
- political or public health instability, including global pandemics, in the countries in which our suppliers operate;
- changes or volatility in currency exchange rates;
- difficulties in collecting accounts receivable and longer accounts receivable payment cycles; and
- Any of these factors could harm our own, our suppliers' and our customers' international operations and businesses and impair our and/or their ability to continue expanding into international markets.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act or similar anti-bribery laws in other jurisdictions in which we operate.

The global nature of our business and the significance of our international revenue create various domestic and local regulatory challenges and subject us to risks associated with our international operations. We operate in areas of the world that experience corruption by government officials to some degree and, in certain circumstances, compliance with anti-bribery and anticorruption laws may conflict with local customs and practices. Our global operations require us to import and export to and from several countries, which geographically expands our compliance obligations. In addition, changes in such laws could result in increased regulatory requirements and compliance costs which could adversely affect our business, financial condition, and results of operations.

The U.S. Foreign Corrupt Practices Act (FCPA), the U.K. Bribery Act 2010 (U.K. Bribery Act), and similar anti-bribery and anticorruption laws in other jurisdictions generally prohibit U.S.-based companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business, directing business to another, or securing an advantage. In addition, U.S. public companies are required to maintain records that accurately and fairly represent their transactions and have an adequate system of internal accounting controls. Under the FCPA, U.S. companies may be held liable for the corrupt actions taken by directors, officers, employees, agents, or other strategic or local partners or representatives. As such, if we or our intermediaries fail to comply with the requirements of the FCPA or similar legislation, governmental authorities in the United States and elsewhere could seek to impose substantial civil and/or criminal fines and penalties which could have a material adverse effect on our business, reputation, operating results and financial condition.

We are subject to governmental export and import controls and economic sanctions laws that could subject us to liability and impair our ability to compete in international markets.

The U.S. and various foreign governments have imposed controls, export license requirements and restrictions on the import or export of some technologies. Our products are subject to U.S. export controls, including the Commerce Department's Export Administration Regulations and various economic and trade sanctions regulations established by the Treasury Department's Office of Foreign Assets Controls, and exports of our products must be made in compliance with these laws. Furthermore, U.S. export control laws and economic sanctions prohibit the provision of products and services to countries, governments, and persons targeted by U.S. sanctions. Even though we take precautions to prevent our products from being provided to targets of U.S. sanctions, our products, including our firmware updates, could be provided to those targets or provided by our customers despite such precautions. Any such provision could have negative consequences, including government investigations, penalties, and reputational harm. Our failure to obtain required import or export approval for our products could harm our international and domestic sales and adversely affect our revenue.

If significant tariffs or other restrictions are placed and maintained on Chinese imports or any related counter-measures are taken by China, our revenue and results of operations may be materially harmed.

If significant tariffs or other restrictions are placed on Chinese imports or any related counter-measures are taken by China, our revenue and results of operations may be materially harmed. In July 2018, the Trump Administration introduced a list of thousands of categories of goods that begun facing tariffs of 10%, which may be increased to 25% in 2019 if a new trade deal with China is not concluded. These tariffs currently affect some of our products and we may be required to raise our prices on those products due to the tariffs, which may result in a loss of customers and harm our operating performance. If the existing tariffs are expanded or interpreted by a court or governmental agency to apply to any of our other products, we may be required to raise our prices on those products, which may further result in a loss of customers and harm our operating performance. It is possible further tariffs will be imposed on imports of our products, or that our business will be impacted by retaliatory trade measures taken by China or other countries in response to existing or future tariffs, causing us to raise prices or make changes to our operations, any of which could materially harm our revenue or operating results.

Changes in trade policy in the United States and other countries, including changes in trade agreements and the imposition of tariffs and the resulting consequences, may have adverse impacts on our business, results of operations and financial condition.

The U.S. government has indicated and demonstrated its intent to alter its approach to international trade policy through the renegotiation, and potential termination, of certain existing bilateral or multilateral trade agreements and treaties with, and the imposition of tariffs on a wide range of products and other goods from, China, countries in EMEA and other countries. Given our manufacturing in those countries, and our lack of manufacturing elsewhere, policy changes in the United States or other countries, such as the tariffs already proposed, implemented, and threatened, present particular risks for us. Tariffs already announced and implemented are having an adverse effect on certain of our products, tariffs announced but not yet implemented may have an adverse effect on many of our products, and threatened tariffs could adversely affect more or all of our products. There are also risks associated with retaliatory tariffs and resulting trade wars. We cannot predict future trade policy, the terms of any renegotiated trade agreements or treaties, or tariffs and their impact on our business. A trade war could have a significant adverse effect on world trade and the world economy. To the extent that trade tariffs and other restrictions imposed by the United States or other countries increase the price of, or limit the amount of, our products or components or materials used in our products imported into the United States or other countries, or create adverse tax consequences, the sales, cost or gross margin of our products may be adversely affected and the demand from our customers for products and services may be diminished. Uncertainty surrounding international trade policy and disputes and protectionist measures could also have an adverse effect on consumer confidence and spending. If we deem it necessary to alter all or a portion of our activities or operations in response to such policies, agreements or tariffs, our capital and operating costs may increase. Our ongoing efforts to address these risks may not be effective and may have long-term adverse effects on our operations and operating results that we may not be able to reverse. Such efforts may also take time to implement or to have an effect, and may result in adverse quarterly financial results or fluctuations in our quarterly financial results. As a result, changes in international trade policy, changes in trade agreements and tariffs could adversely affect our business, results of operations and financial condition.

Any significant disruption to ecommerce business could result in lost sales.

Our sales through ecommerce channels have been growing. Sales through rotorriot.com, and in the future, fatshark.com and our related web stores generally have higher profit margins than sales through resellers, and distributors. Online sales are subject to a number of risks. System interruptions or delays could cause potential customers to fail to purchase our products and could harm our brand. The operation of our direct to consumer ecommerce business depends on our ability to maintain the efficient and uninterrupted operation of online order-taking and fulfillment operations. Our ecommerce operations subject us to certain risks that could have an adverse effect on our operating results, including risks related to the computer systems that operate our website and related support systems, such as system failures, viruses, denial of services attacks, computer hackers and similar disruptions. If we are unable to continually add software and hardware, effectively upgrade our systems and network infrastructure and take other steps to improve the efficiency of our systems, system interruptions or delays could occur that would adversely affect our operating results.

We utilize third-party vendors for our customer-facing ecommerce technology, portions of our order management system and fulfillment internationally. We depend on our technology vendors to manage “up-time” of the front-end ecommerce store, manage the intake of our orders, and export orders for fulfillment. Any failure on the part of our third-party ecommerce vendors or in our ability to transition third-party services effectively could result in lost sales and harm our business.

We may collect, store, process and use our customers' personally identifiable information and other data, which subjects us to governmental regulation and other legal obligations related to privacy, information security and data protection. Any cybersecurity breaches or our actual or perceived failure to comply with such legal obligations by us, or by our third-party service providers or partners, could harm our business.

We may collect, store, process and use our customers' personally identifiable information and other data in our transactions with them, and we rely on third parties that are not directly under our control to do so as well. While we take reasonable measures intended to protect the security, integrity and confidentiality of the personal information and other sensitive information we collect, store or transmit, we cannot guarantee that inadvertent or unauthorized use or disclosure will not occur, or that third parties will not gain unauthorized access to this information. While our privacy policies currently prohibit such activities, our third-party service providers or partners may engage in such activity without our knowledge or consent. If we or our third-party service providers were to experience a breach, disruption or failure of systems compromising our customers' data, or if one of our third-party service providers or partners were to access our customers' personal data without our authorization, our brand and reputation could be adversely affected, use of our products could decrease and we could be exposed to a risk of loss, litigation and regulatory proceedings.

Regulatory scrutiny of privacy, data collection, use of data and data protection is intensifying globally, and the personal information and other data we collect, store, process and use is increasingly subject to legislation and regulations in numerous jurisdictions around the world, especially in Europe. These laws often develop in ways we cannot predict and may materially increase our cost of doing business, particularly as we expand the nature and types of products we offer. For example, the General Data Protection Regulation (the "GDPR"), which came into effect in the EU in May 2018 and superseded prior EU data protection legislation, imposes more stringent data protection requirements and provides for greater penalties for noncompliance.

Further, data protection legislation is also becoming increasingly common in the United States at both the federal and state level. For example, in June 2018, the State of California enacted the California Consumer Privacy Act of 2018 (the "CCPA"), which went into effect on January 1, 2020. The CCPA requires companies that process information on California residents to make new disclosures to consumers about their data collection, use and sharing practices, allows consumers to opt out of certain data sharing with third parties and provides a new cause of action for data breaches. Additionally, the Federal Trade Commission and many state attorneys general are interpreting federal and state consumer protection laws to impose standards for the online collection, use, dissemination and security of data. The burdens imposed by the CCPA and other similar laws that may be enacted at the federal and state level may require us to modify our data processing practices and policies and/or to incur substantial expenditures in order to comply.

Cybersecurity risks could adversely affect our business and disrupt our operations.

The threats to network and data security are increasingly diverse and sophisticated. Despite our efforts and processes to prevent breaches, our devices, as well as our servers, computer systems, and those of third parties that we use in our operations are vulnerable to cybersecurity risks, including cyber-attacks such as viruses and worms, phishing attacks, denial-of-service attacks, physical or electronic break-ins, employee theft or misuse, and similar disruptions from unauthorized tampering with our servers and computer systems or those of third parties that we use in our operations, which could lead to interruptions, delays, loss of critical data, unauthorized access to user data, and loss of consumer confidence. In addition, we may be the target of email scams that attempt to acquire personal information or company assets. Despite our efforts to create security barriers to such threats, we may not be able to entirely mitigate these risks. Any cyber-attack that attempts to obtain our or our users' data and assets, disrupt our service, or otherwise access our systems, or those of third parties we use, if successful, could adversely affect our business, operating results, and financial condition, be expensive to remedy, and damage our reputation. In addition, any such breaches may result in negative publicity, adversely affect our brand, decrease demand for our products and services, and adversely affect our operating results and financial condition.

We may lose the services of key management personnel and may not be able to attract and retain other necessary personnel.

Changes in our management could have an adverse effect on our business, and in particular while our staff is relatively small with under 25 employees, we are dependent upon the active participation of several key management personnel, including Jeffrey Thompson, our founder, President and Chief Executive Officer, Chad Kapper, Rotor Riot's founder and Chief Executive Officer, Greg French, Fat Shark's founder and Chief Technology Officer, and Allan Evans, Fat Shark's Chief Executive Officer. Each of these executives are critical to the strategic direction and overall management of our company as well as our manufacturing, and research and development process. The loss of any of them could adversely affect our business, financial condition, and operating results. We do not carry key person life insurance on any of our senior management or other key personnel. Greg French, the founder of Fat Shark on whom we expect to continue to rely, is a Canadian citizen, and has his principal residence in China and is tied by family relationship to Fat Shark's principal manufacturing supplier and Allan Evans resides in the Cayman Islands where Fat Shark and its subsidiaries are domiciled. If either becomes unable to legally or efficiently travel to or from work in the United States, China or elsewhere where there is dependence on the manufacturing supply chain, their ability to perform some of their duties could be materially adversely affected.

We will need to hire and retain highly skilled technical personnel as employees and as independent contractors in order to develop our products and grow our business. The competition for highly skilled technical, managerial, and other personnel is at times intense. Our recruiting and retention success is substantially dependent upon our ability to offer competitive salaries and benefits to our employees. We must compete with companies that possess greater financial and other resources than we do and that may be more attractive to potential employees and contractors. To be competitive, we may have to increase the compensation, bonuses, stock options and other fringe benefits we offer to employees in order to attract and retain such personnel. The costs of retaining or attracting new personnel may have a material adverse effect on our business and operating results. If we fail to attract and retain the technical and managerial personnel required to be successful, our business, operating results and financial condition could be materially adversely affected.

We may acquire other businesses or receive offers to be acquired, which could require significant management attention, disrupt our business, dilute stockholder value and adversely affect our operating results.

As part of our business strategy, we may make investments in complementary businesses, products, services, or technologies. We have not made any material acquisitions to date other than Rotor Riot and the acquisition of Fat Shark and, as a result, our ability as an organization to successfully acquire and integrate other companies, products, services or technologies is unproven. We may not be able to find suitable acquisition candidates and we may not be able to complete acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by customers or investors. In addition, if we fail to successfully integrate such acquisitions, or the technologies associated with such acquisitions, into our company, the revenue and operating results of the combined company could be adversely affected. Any integration process will require significant time and resources, and we may not be able to manage the process successfully. We may not successfully evaluate or utilize the acquired technology and accurately forecast the financial impact of an acquisition transaction, including accounting charges. We may have to pay cash, incur debt or issue equity securities to pay for any such acquisition, each of which could affect our financial condition or the value of our capital stock. The sale of equity or issuance of debt to finance any such acquisitions could result in dilution to our stockholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations. Additionally, we may receive indications of interest from other parties interested in acquiring some or all of our business. The time required to evaluate such indications of interest could require significant attention from management, disrupt the ordinary functioning of our business and adversely affect our operating results.

Our failure to effectively manage growth could harm our business.

We intend to expand the number and types of products we sell. We will need to replace and regularly introduce on a timely basis new products and technologies, enhance existing products, and effectively stimulate customer demand for new products and upgraded or enhanced versions of our existing products.

The replacement and expansion of our products places a significant strain on our management, operations and engineering resources. Specifically, the areas that are strained most by these activities include the following:

- **New Product Launches:** With the changes in and growth of our product portfolio, we will experience increased complexity in coordinating product development, manufacturing, and shipping. As this complexity increases, it places a strain on our ability to accurately coordinate the commercial launch of our products with adequate supply to meet anticipated customer demand and effectively market to stimulate demand and market acceptance. We have experienced delays in the past. If we are unable to scale and improve our product launch coordination, we could frustrate our customers and lose possible retail shelf space and product sales;
- **Existing Products Impacted by New Introductions:** The introduction of new products or product enhancements may shorten the life cycle of our existing products, or replace sales of some of our current products, thereby offsetting the benefit of even a successful product introduction and may cause customers to defer purchasing our existing products in anticipation of the new products and potentially lead to challenges in managing inventory of existing products. We may also provide price protection to some of our retailers as a result of our new product introductions and reduce the prices of existing products. If we fail to effectively manage new product introductions, our revenue and profitability may be harmed; and
- **Forecasting, Planning and Supply Chain Logistics:** With the changes in and growth of our product portfolio, we will experience increased complexity in forecasting customer demand, in planning for production, and in transportation and logistics management. If we are unable to scale and improve our forecasting, planning, production, and logistics management, we could frustrate our customers, lose product sales or accumulate excess inventory.

Our facilities and information systems and those of our key suppliers could be damaged as a result of disasters or unpredictable events, which could have an adverse effect on our business operations.

Fat Shark operates the majority of its business from one location in George Town, Grand Cayman, Cayman Islands and Rotor Riot operates the majority of its business from one location in Orlando, Florida. The corporate headquarters of the Company is located in San Juan, Puerto Rico. We also rely on third-party manufacturing plants in the US and Asia and third-party logistics, sales and marketing facilities elsewhere in other parts of the world to provide key components for our products and services. If major disasters such as earthquakes, hurricanes, tropical storms, pandemics, fires, floods, wars, terrorist attacks, computer viruses, transportation disasters or other events occur in any of these locations, or the effect of climate change on any of these factors or our locations, or our information systems or communications network or those of any of our key component suppliers breaks down or operates improperly as a result of such events, our facilities or those of our key suppliers may be seriously damaged, and we may have to stop or delay production and shipment of our products. We may also incur expenses relating to such damages. If production or shipment of our products or components is stopped or delayed or if we incur any increased expenses as a result of damage to our facilities, our business, operating results and financial condition could be materially adversely affected.

Risks Related to HMD Manufacturing

We do not control our contract manufacturers or suppliers or require them to comply with a formal code of conduct, and actions that they might take could harm our reputation and sales.

We do not control our contract manufacturers or suppliers, including their labor, environmental or other practices, or require them to comply with a formal code of conduct. Though we may seek to conduct periodic visits to some of our contract manufacturers and suppliers, these visits are not frequent or thorough enough to detect non-compliance with applicable laws and good industry practices. A violation of labor, environmental or other laws by our contract manufacturers or suppliers, or a failure of these parties to follow ethical business practices, could lead to negative publicity and harm our reputation. In addition, we may choose to seek alternative manufacturers or suppliers if these violations or failures were to occur. Identifying and qualifying new manufacturers or suppliers can be time consuming and we might not be able to substitute suitable alternatives in a timely manner or at an acceptable cost. Other consumer products companies have faced significant criticism for the actions of their manufacturers and suppliers, and we could face such criticism ourselves. Any of these events could adversely affect our brand, harm our reputation, reduce demand for our products and harm our ability to meet demand if we need to identify alternative manufacturers or suppliers.

Our principal manufacturer of HMDs is located in China and is owned by the wife of Fat Shark's founder Greg French which could create conflicts of interest.

Fat Shark has historically made purchases and sales of products and supplies for FPV and HMD products from and sold through three companies owned by the spouse of Greg French, Direct FPV Ltd. (China), Shenzhen FatShark Co., Ltd (China) and Zeng Linghao (China). In light of these relationships these business activities have and may, in the future, be subject to influences and may provide such parties with conflicts of interest and business opportunities that may not be subject to reasonable assessment and may not be available to Fat Shark or to the Company. These persons may also face a conflict in selecting between the Fat Shark and their other business interests. We have not formulated a policy for the resolution of such conflicts. These entities are not subject to restrictions on competition with Fat Shark or the Company.

We rely on third-party suppliers, some of which are sole-source suppliers, to provide components for our products which may lead to supply shortages, long lead times for components, and supply changes, any of which could disrupt our supply chain and may increase our costs.

Our ability to meet customer demand depends, in part, on our ability to obtain timely and adequate delivery of components for our products. All of the components that go into the manufacturing are sourced from third-party suppliers.

Some of the key components used to manufacture our products come from a limited or single source of supply, or by a supplier that could potentially become a competitor. Our contract manufacturers generally purchase these components on our behalf from approved suppliers. We are subject to the risk of shortages and long lead times in the supply of these components and the risk that our suppliers discontinue or modify components used in our products. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities and delivery schedules. We have in the past experienced and may in the future experience component shortages, and the availability of these components may be unpredictable.

If we lose access to components from a particular supplier or experience a significant disruption in the supply of products and components from a current supplier, we may be unable to locate alternative suppliers of comparable quality at an acceptable price, or at all, and our business could be materially and adversely affected. In addition, if we experience a significant increase in demand for our products, our suppliers might not have the capacity or elect not to meet our needs as they allocate components to other customers. Developing suitable alternate sources of supply for these components may be time-consuming, difficult and costly, and we may not be able to source these components on terms that are acceptable to us, or at all, which may adversely affect our ability to meet our development requirements or to fill our orders in a timely or cost-effective manner. Identifying a suitable supplier is an involved process that requires us to become satisfied with the supplier's quality control, responsiveness and service, financial stability, labor and other ethical practices, and if we seek to source materials from new suppliers, there can be no assurance that we could do so in a manner that does not disrupt the manufacture and sale of our products.

Our reliance on single source, or a small number of suppliers involves a number of additional risks, including risks related to supplier capacity constraints, price increases, timely delivery, component quality, failure of a key supplier to remain in business and adjust to market conditions, delays in, or the inability to execute on, a supplier roadmap for components and technologies; and natural disasters, fire, acts of terrorism or other catastrophic events, including global pandemics.

We do not currently own or operate any manufacturing facilities. Certain components and services necessary for the manufacture of our products are available from only a limited number of sources, and other components and services are only available from a single source. We currently purchase almost all of components for HMDs from manufacturers related by marriage to Greg French, the Fat Shark founder. Our relationship generally is on a purchase order basis and these firms do not have a contractual obligation to provide adequate supply or acceptable pricing to us on a long-term basis. These firms could discontinue sourcing merchandise for us at any time. If any of these firms were to discontinue its relationship with us, or discontinue providing specific products to us, and we are unable to contract with a new supplier that can meet our requirements, or if they or such other supplier were to suffer a disruption in their production, we could experience disruption of our inventory flow, a decrease in sales and the possible need to re-design our products. Any such event could disrupt our operations and have an adverse effect on our business, financial condition and results of operations. Several new and alternative suppliers have begun offering components suitable for use in our products. With new tooling and electronics, any one of these alternative displays could be incorporated into our products but our costs of production could be higher, they may offer less performance, and, as a result, make our products too costly and less desirable.

The manufacture of HMDs encompasses several complex processes and several steps of our production processes are dependent upon certain critical machines and tools which could result in delivery interruptions, which could adversely affect our operating results.

Our product technology and manufacturing processes are evolving which can result in production challenges and difficulties. We may be unable to produce our products in sufficient quantity and quality to maintain existing customers and attract new customers. In addition, we may experience manufacturing problems which could result in delays in delivery of orders or product introductions.

Several steps of our production processes are dependent upon certain critical machines and tools which could result in delivery interruptions and foregone revenues.

We currently have little equipment redundancy in manufacturing locales. If we experience any significant disruption in manufacturing or a serious failure of a critical piece of equipment, we may be unable to supply products to our customers in a timely manner. Interruptions in our manufacturing could be caused by equipment problems, the introduction of new equipment into the manufacturing process or delays in the delivery of new manufacturing equipment. Lead-time for delivery, installation, testing, repair and maintenance of manufacturing equipment can be extensive. We have experienced production interruptions in the past and no assurance can be given that we will not lose potential sales or be able to meet production orders due to future production interruptions in our manufacturing lines.

Our products are subject to lengthy development cycles.

Some HMDs are subject to lengthy product development phases. The time elapsed between initial sampling of our products, the custom design of our products to meet specific product requirements, and the ultimate incorporation of our products into salable products is significant, often with a duration of between one to two years. If our products fail to meet our customers' cost, performance, or technical requirements or if unexpected technical challenges arise in the integration of our products into consumer products, our operating results could be significantly and adversely affected. Long delays in achieving customer qualification and incorporation of our products also could adversely affect our business. Many HMD companies including Fat Shark are introducing digital HMDs which could create shortages of components and provides an opportunity for companies with significantly greater resources than us to accelerate migration to digital products in a manner or timeline which we cannot meet, which could cause us to lose market share and harm our business and prospects.

We depend on third parties to provide integrated circuit chip sets and other critical components for use in our products.

We do not manufacture the integrated circuit chip sets, optics, micro-displays, backlights, projection engines, printed circuit boards or other electronic components which are used in our products. Instead, we purchase them from third-party suppliers or rely on third-party independent contractors for these integrated circuit chip sets and other critical components, some of which are customized or custom made for us. We also may use third parties to assemble all or portions of our products. Some of these third-party contractors and suppliers are small companies with limited financial resources. If any of these third-party contractors or suppliers were unable or unwilling to supply these HMDs may decrease. As the availability of components decreases, the cost of acquiring those components ordinarily increases. High growth product categories such as the consumer electronics and mobile phone markets have experienced chronic shortages of components during periods of exceptionally high demand. If we do not properly anticipate the need for or procure critical components, we may pay higher prices for those components, our gross margins may decrease and we may be unable to meet the demands of our customers and end-users, which could reduce our competitiveness, cause a decline in our market share and have a material adverse effect on our results of operations.

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the Selling Stockholders. We will not receive any of the proceeds resulting from the sale of common stock by the Selling Stockholders.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock has been quoted on the Pink Open Market since May 2019 under the symbol "RCAT".

Holders

As of December 3, 2020, there were 586 stockholders of record of common stock.

Dividend Policy

We have never paid our stockholders cash dividends, and we do not anticipate paying any cash dividends in the foreseeable future as we intend to retain any earnings for use in our business. Any future determination to pay dividends will be at the discretion of our board of directors.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations should be read together with our financial statements and accompanying notes appearing elsewhere in this Prospectus. This Management's Discussion and Analysis contains forward-looking statements that involve risks and uncertainties. Please see "Forward-Looking Statements" set forth in the beginning of this Prospectus, and see "Risk Factors" beginning on page 7 for a discussion of certain risk factors applicable to our business, financial condition, and results of operations. Operating results are not necessarily indicative of results that may occur in future periods.

Reverse Stock Split

On August 1, 2019, a reverse stock split of our issued and outstanding common stock became effective on a 1 for 1,200 basis. All share and per share amounts, and number of shares of common stock into which each share of preferred stock will convert, in the financial statements and notes thereto have been retroactively adjusted for all periods presented to give effect to the reverse split. It is likely that we will be required to effectuate a further reverse stock split in order to meet the initial listing requirements of any national stock exchange which requires a minimum share price. On November 5, 2020 we submitted an application to allow quotation of our common stock on the OTCQB. There can be no assurance that we will qualify or our shares of common stock will be accepted for any national stock exchange or the OTCQB or OTCQX.

Results of Operations

Year Ended April 30, 2020 and April 30, 2019

Revenue

During the year ended April 30, 2020 (or the "2020 period"), we generated revenues totaling \$403,940 compared to zero revenues during the three months ended April 30, 2019 (or the "2019 period"). On January 23, 2020, we completed a merger with Rotor Riot which sells drone technology on its e*commerce site located at www.rotorriot.com. The sales reported in the 2020 period represent those generated on the e*commerce site from January 24, 2020 through April 30, 2020.

Operating Expenses

During the year ended April 30, 2020, we incurred research and development expenses totaling \$488,990 compared to \$366,590 for the year ended April 30, 2019 resulting in an increase of \$122,400, or 33%. The increase substantially related to higher payroll costs as the Company's headcount increased from five employees to 10 employees following the merger with Rotor Riot.

During the year ended April 30, 2020, we incurred general and administrative expenses totaling \$1,248,717 compared to \$384,742 for the year ended April 30, 2019 resulting in an increase of \$863,975, or 225%. Professional services costs were significantly higher in the 2020 period because the Company is now a public entity whereas in the 2019 period the Company was still privately owned. Professional services costs totaled \$699,982 during the 2020 period compared to \$195,309 representing an increase of \$504,673, or 258%.

Other Income

Other Income totaled \$57,215 during the year ended April 30, 2020 compared to zero for the year ended April 30, 2019. During the 2020 period, the Company received a loan from the Small Business Administration which will be forgiven if the Company spends the loan proceeds on certain eligible costs, including payroll. The Company believes that it has complied with the terms of forgiveness, and therefore, has recognized the funds as Other Income.

Net Loss

Net Loss for the year ended April 30, 2020 totaled \$1,601,931 compared to \$751,332 for the year ended April 30, 2019 resulting in an increase of \$850,599, or 113%. During the 2020 period, the Company became a public entity and completed a merger which doubled the number of employees. These corporate entity changes resulted in higher operating expenses in the 2020 period compared to the 2019 period. Most significantly, professional services costs were \$504,673 higher in the 2020 period which represented approximately 60% of the increase in the Net Loss.

Cash Flows

Operating Activities

Net cash used in operating activities was \$811,584 during the year ended April 30, 2020 compared to net cash used in operating activities of \$753,388 during the year ended April 30, 2019 representing an increase of \$58,196, or 8%. This increase in net cash used primarily related to a net loss, net of non-cash expenses, which was \$446,704 higher in the 2020 period, partially offset by a positive contribution related to changes in operating assets and liabilities of \$316,452 during the 2020 period compared to a negative contribution of \$72,056 during the 2019 period.

Investing Activities

Net cash provided by investing activities was \$46,327 during the year ended April 30, 2020 compared to \$0 during the year ended April 30, 2019. The Company acquired \$46,327 of cash in connection with two acquisitions completed in the 2020 period.

Financing Activities

Net cash provided by financing activities totaled \$498,487 during the twelve months ended April 30, 2020 compared to \$686,500 during the year ended April 30, 2019, representing a decrease of \$188,013, or 27%. Amounts received in both periods related to capital raised from common stock and debt transactions. Capital transactions can vary from period to period depending upon market conditions, both at a macro-level and specific to the Company.

Liquidity and Capital Resources

As of April 30, 2020, we had current assets totaling \$318,338 primarily related to cash balances of \$236,668. Current liabilities as of April 30, 2020 totaled \$829,266, and included accounts payable of \$249,050, accrued expenses totaling \$89,342, notes payable totaling \$118,771, and amounts due to a related party of \$333,684. Our net working capital as of April 30, 2020 was negative \$510,928.

Three Months Ended July 31, 2020 and July 31, 2019

Revenue

During the three months ended July 31, 2020 (or the “2020 period”), we generated revenues totaling \$548,282 compared to zero revenues during the three months ended July 31, 2019 (or the “2019 period”). On January 23, 2020, we completed a merger with Rotor Riot which sells drone technology on its e*commerce site located at www.rotorriot.com. The sales reported in the 2020 period represent those generated on the e*commerce site during the three months ended July 31, 2020.

Operating Expenses

During the three months ended July 31, 2020, we incurred operations expense of \$89,033 compared to zero during the 2019 period. Expenses incurred during the 2020 period related to the core operations of Rotor Riot which began in January 2020 following our merger with Rotor Riot. During the three months ended July 31, 2020, we incurred research and development expenses totaling \$97,255 compared to \$185,695 for the three months ended July 31, 2019 resulting in a decrease of \$88,440, or 48%. Development costs for Dronebox, our software analytics platform, were lower in the 2020 period as the product candidate progressed to a later stage of development. During the three months ended July 31, 2020, we incurred sales and marketing expenses of \$24,136 compared to zero during the three months ended July 31, 2019. Costs incurred in the 2020 period related to the Rotor Riot business and included sales commissions for referrals. During the three months ended July 31, 2020, we incurred general and administrative expenses totaling \$274,970 compared to \$135,807 for the three months ended July 31, 2019 resulting in an increase of \$139,163, or 102%. Stock based compensation costs included in general and administrative expenses totaled \$94,629 in the 2020 period compared to zero in the 2019 period. In addition, professional services costs were significantly higher in the 2020 period because the Company is now a public entity whereas in the 2019 period the Company was still privately owned for approximately half of the quarter.

Net Loss

Net Loss during the three months ended July 31, 2020 totaled \$383,244 compared to a Net Loss of \$321,502 during the three months ended July 31, 2019, representing an increase of \$61,742, or 19%. Operating expenses totaled \$485,394 during the 2020 period compared to \$321,502 during the 2019 period, representing an increase of \$163,892, or 51%. This increase is attributable to the merger with Rotor Riot in January 2020 and costs associated with operating that business. This increase was partially offset by a positive gross margin of \$102,150 from operations of the Rotor Riot e*commerce site.

Cash Flows

Operating Activities

Net cash used in operating activities was \$232,822 during the three months ended July 31, 2020 compared to net cash used in operating activities of \$197,915 during the three months ended July 31, 2019 representing an increase of \$34,907, or 18%. Net cash used in operations, net of stock based compensation, totaled \$276,183 in the 2020 period compared to \$321,502 in the 2019 period, resulting in a decrease of \$45,319, or 14%. Net cash provided through changes in operating assets and liabilities totaled \$43,361 during the three months ended July 31, 2020 compared to \$123,587 during the three months ended July 31, 2019, representing a decrease of \$80,226, or 65%. Changes in operating assets and liabilities can fluctuate significantly from period to period depending upon the timing and level of multiple factors, including inventory purchases and vendor payments.

Investing Activities

Net cash provided by investing activities was zero during the three months ended July 31, 2020 compared to \$24,704 during the three months ended July 31, 2019. The Company acquired \$24,704 of cash in connection with an acquisition completed in the 2019 period.

Financing Activities

Net cash used provided by financing activities totaled \$52,024 during the three months ended July 31, 2020 compared to zero during the three months ended July 31, 2019. Financing activities can vary from period to period depending upon market conditions, both at a macro-level and specific to the Company. During the 2020 period, the Company received \$140,000 in connection with a new loan and made payments of \$87,496 on existing loans.

Liquidity and Capital Resources

As of July 31, 2020, we had current assets totaling \$189,504, including cash of \$55,870 and inventory of \$133,634. Current liabilities as of July 31, 2020 totaled \$976,615 consisting of accounts payable of \$295,300, accrued expenses totaling \$99,783, notes payable totaling \$171,275, amounts due to a related party of \$333,204, and customer deposits of \$77,053. Our net working capital as of July 31, 2020 was negative \$787,111.

Since inception, we have generated less than \$500,000 in revenues and have accumulated losses of approximately \$2.6 million. To date, we have funded our operations through private offerings of common stock sourced primarily from individual private investors. We do not have sufficient cash resources to meet our working capital needs for the next 12 months and will require additional capital in order to execute our business plan. Such transactions may be insufficient to fund our cash requirements.

In November 2019 we issued a convertible note in the principal amount of \$300,000 to one accredited investor and in December 2019 we issued a convertible note in the principal amount of \$125,000 to a director and a convertible note in the principal amount of \$25,000 to our chief executive officer. (collectively, the “Notes”). The Notes have a term of 2 years and bear interest at a rate of 12% which accrues and is payable in full when the Notes mature. Interest on the Notes may be paid in cash or in shares of common stock of the Company at the Conversion Price (as defined below). The Notes are convertible into shares of common stock at the holder’s sole discretion as follows: (A) prior to consummating an equity financing which generates gross proceeds of not less than \$3,000,000 (a “Qualified Offering”), then at the 30 day volume weighted average of the closing price of a share of our common stock as listed or quoted on the market in which the shares are then traded or listed, or (B) after we have consummated a Qualified Offering, at 40% of the price per share of common stock sold in the Qualified Offering (the “Conversion Price”) . We may, upon 10 business days advance notice, elect to pre-pay the Note, including all accrued interest, in whole or in part, provided that any such prepayment prior to the one-year anniversary of the Note issuance shall be at a price equal to 112% of the then outstanding original principal amount. Upon an event of default, as described in the Notes, the outstanding principal and interest shall become immediately due and payable. Additionally, under the Note, unless waived by the holder, the holder shall not be entitled to convert the Note if such conversion would result in beneficial ownership by the holder and its affiliates of more than 9.99% of the outstanding shares of common stock of the Company on such date.

Until we are able to sustain operations through the sale of products and services, we will continue to fund operations through equity and/or debt transactions. We can provide no assurance that any future financing will be sufficient to fund our operations until we are able to sustain operations through the sale of products and services. In addition, there can be no assurance that such additional financing will be available to us on acceptable terms, or at all.

Going Concern

We have experienced losses from operations since inception. To date, we have generated less than \$500,000 in product sales and have been unable to become cash flow positive. The success of our business plan during the next 12 months and beyond will be contingent upon generating sufficient revenue to cover our costs of operations and/or upon obtaining additional financing. The report from our independent registered public accounting firm for the fiscal year ended April 30, 2020 includes an explanatory paragraph stating the Company has recurring net losses from operations, negative operating cash flows, and will need additional working capital for ongoing operations. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. If we are unable to obtain sufficient funding, our business, prospects, financial condition and results of operations will be materially and adversely affected and we may be unable to continue as a going concern.

We are presently seeking to address these going concern doubts through a number of actions including efforts to (a) raise capital through the public markets, (b) release additional commercial products and (c) pursue acquisitions of complementary, revenue generating companies which are accretive to our operating results. We can provide no assurance that any of these efforts will be successful or, that even if successful, that they will alleviate doubts about our ability to continue as a going concern.

FAT SHARK LTD. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

On November 2, 2020 we completed the acquisition of Fat Shark Holdings, Ltd., a Cayman Islands Exempted Company. The Company deems this to be a material acquisition. Fat Shark reports its financial results annually on a calendar year end basis.

This prospectus provides historical financial statements of Fat Shark and subsidiaries and certain pro forma financial information for the acquisition which are reported separately from the historical financial statements of the Company which are reported on the basis of the Company's fiscal year end April 30.

The unaudited pro forma condensed combined consolidated financial statements are not necessarily indicative of the results that actually would have been attained if the acquisition had been in effect on the dates indicated or which may be attained in the future. Such statements should be read in conjunction with the historical financial statements of the Company

Results of Operations

Year ended December 31, 2019 and 2018:

Net Revenues Fat Shark is principally engaged in the business production and selling of products associated with the non-military drone industry. During the year ended December 31, 2019, Fat Shark generated total revenues of \$7,298,640 from the sale of drone products as compared to \$9,385,135 for the year ended December 31, 2018. The decrease in Net Revenues was principally related to declining sales of analog-based devices while we endeavored to develop and introduce a line of digital products and devices.

Cost of Sales. The primary components of cost of sales include the cost of the materials and production of products. For the year ended December 31, 2019, the Company's cost of sales amounted to \$5,799,156 which primarily represents purchase of display panels and cost of production and testing for products manufactured to our specifications by Shenzhen Fatshark Electronics Co. Ltd, which may be deemed a related party, an inventory reserve of \$479,422 and inventory write-off of \$6,004. This represents a decrease of \$2,025,051 or 25.9% from the year ending December 31, 2018 with cost of sales amounting to \$7,824,207, an inventory reserve of \$927,904 and inventory write-off of \$214,574.

Operating Expenses

For the year ended December 31, 2019, we incurred \$1,249,242 in operating expenses as compared to \$2,013,808 for the year ended December 31, 2018, a decrease of \$764,566 or 38%. The decrease in operating expenses principally consisted of the following:

General and administrative expenses decreased by \$89,424, or 11.7%, from \$766,429 for the year ended December 31, 2018 to \$677,005 for the year ended December 31, 2019. This was driven by a decrease in lease expense related to our commercial lease and rent expense of approximately \$16,766, and by a decrease in compensation including employee benefits of approximately \$37,940.

Selling and marketing expenses decreased by \$267,352, or 59.7%, from \$447,848 for the year ended December 31, 2018 to \$180,496 for the year ended December 31, 2019 primarily due to decrease in marketing and advertising expenses due to promotions, endorser's fee, trade shows, closeout of a contract, and salaries of our sales and marketing staff.

Research and development decreased by \$407,790 or 51%, from \$799,531 for the year ended December 31, 2018 to \$391,741 for the year ended December 31, 2019, as the Company ceased working on ancillary products and focused exclusively on digital based HMD devices and pursued patent protection on various innovations.

Other Expenses, net

Interest expense decreased by \$9,082, or 40.1%, from \$22,312 for the year ended December 31, 2018 to \$13,230 for the year ended December 31, 2019. The increase in interest expense is primarily related to related party indebtedness to our founder and sole shareholder under loans which were cancelled on November 2, 2020.

Net Profit/Loss

As a result of the foregoing, we generated a net profit of \$250,242 for the year ended December 31, 2019 as compared to a net loss of \$452,880 for the year ended December 31, 2018. Because as of the year ended December 31, 2019 and 2018 we were wholly-owned by a single individual, we have not calculated gain/loss per common share on a basic or diluted basis.

Liquidity and Capital Resources

We had cash and cash equivalents and marketable securities of \$237,560 as of September 30, 2020, a decrease from \$362,022 as of September 30, 2019. Our working capital, defined as total current assets less total current liabilities of continuing operations, was \$824,135 as of September 30, 2020, compared to \$551,942 as of September 30, 2019. Our working capital takes into account \$936,271, and \$936,271 short-term debt provided by our founder and sole shareholder as of September 30, 2020 and 2019, respectively. We believe that Fat Shark's existing sources of liquidity are sufficient to support its operating needs, capital requirements and any debt service requirements for the next twelve months.

Critical Accounting Policies and Estimates

Our financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles (“GAAP”) applied on a consistent basis. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

We regularly evaluate the accounting policies and estimates that we use to prepare our financial statements. A complete summary of these policies is included in the notes to our financial statements. In general, management’s estimates are based on historical experience, on information from third party professionals, and on various other assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ from those estimates made by management.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Recently Issued Accounting Pronouncements

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements unless otherwise disclosed, and the Company does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

BUSINESS

Business Overview

The Company's business is to provide products, services and solutions to the drone industry.

We design, develop, market, and sell drone products. We design and develop drone software and are developing a blockchain-based black box to enhance reliability and reporting of drone performance and operations as software as a service (SAAS).

Our business emphasis focuses on drones piloted with wearable display devices. These are head mounted displays ("HMDs") for pilots. HMDs give pilots "first person view" ("FPV") perspective to control their drone in flight. This is a unique experience where the pilot is interacting with an aircraft through visual immersion. In this augmented virtual reality, the pilot sees only what the drone sees, as if sitting in the pilot seat. This experience is accomplished by live streaming footage from a camera mounted on the nose of the drone directly into specially-designed goggles worn by the pilot. The image is transmitted via radio (traditionally analog but increasingly digital) to the pilot. The drone remote control unit, the drone device, and the FPV goggles are all inter-connected via radio. This effect requires sophisticated electronics that transmits visual information with sufficient speed and reliability to allow pilot control over the drone in real-time. Pilots routinely achieve speeds of over 90 mph in racing and other mission critical applications. An FPV pilot must experience a near complete transfer of their visual consciousness into the body of their piloted device.

There are three common categories of FPV flight – freestyle flight, racing and aerial photography. In freestyle the pilot navigates around obstacles, focused on acrobatics and exploring the environment around the aircraft through the HMD. This type of flight includes remote utility and crop inspection with onboard navigation and special equipment, such as moisture or heat sensors, and package delivery. FPV racing describes a growing spectator sport where pilots fly their drones in competitions through a series of obstacles, flags, and gates in a racetrack. Aerial photography is the process of viewing and recording a subject matter from the air from the viewpoint of the pilot.

FPV flight systems are sold through our Rotor Riot and Fat Shark subsidiaries. We sell flight design cameras, video transmitters, goggles, as well as the mounts, airframes and accessories to build or operate drone aircraft. We design, develop, assemble and sell each of these FPV components individually and in packages. We believe our products have become favorites in FPV racing and we sponsor several racing teams and pilots. We purchase and resell drones and components from leading manufacturers, including industry leader DJI and custom design and build our own line of branded products. Prior to our acquisition of Fat Shark, approximately 50% of our revenue had been generated as a reseller and the balance from the sale of our branded products.

We market through social media and attract buyers to our ecommerce platforms. We maintain a robust presence on Facebook and YouTube where we sponsor competitions and provide education. Sports networks, and sponsors such as NBC, Sky, Liberty Media, Fox Sports, MGM, Hearst, Twitter, ProSieben, Groupe AB and Weibo broadcast and sponsor global events where professional pilots and amateurs compete for prizes and sponsorships. Drone racing is a global sport with chapters, leagues, and pilots and established guidelines, rules and regulations for participation adopted by organizations such as MultiGP, Drone Racing League ("DRL"), IUDRO, DR1 Racing, Rotomatch League, FPVR, and Freespace Drone Racing. Pilots specially design their custom built aircraft, selecting and customizing frames, motors, propellers and controllers for speed and maneuverability from Rotor Riot. Rotor Riot sponsors a team of six of the leading pilots on the competitive FPV racing circuit, including the 2019 and 2018 Drone Racing League champion. Drone pilots and spectators alike experience real-time flight through their own HMD. In 2015 Fat Shark sponsored the first annual US National Drone Racing Championships held at the California State Fair with a prize of \$25,000. Subsequent events featured prizes of up to \$1 million.

On November 2, 2020 we acquired Fat Shark. The Company believes Fat Shark and its subsidiaries are leaders in the design, development, marketing and sale of HMDs for pilots.

The operations of Fat Shark are expected to constitute a significant majority of our revenue and results of operations and will position us to become a fully-integrated drone business with a strong supply chain while we continue to develop and promote industry standards through our blockchain-based distributed network that provides secure data storage, operational analytics, reporting, and SaaS solutions for the drone industry. We are also developing the means to accurately track, report and review flight data, which we believe will be the mainstay of future regulatory specifications and insurability. We maintain a commitment to deliver unparalleled innovation to make drones, pilots, and products accountable and the sky a safer place.

Rotor Riot Acquisition

On January 23, 2020, pursuant to the terms of a merger agreement, we acquired Rotor Riot in a merger in which our subsidiary merged with and into Rotor Riot, LLC with Rotor Riot, LLC being the surviving corporation in the Merger. As a result, Rotor Riot, LLC became a wholly-owned subsidiary of the Company.

Each limited liability company member of Rotor Riot, LLC received a pro rata portion of the total number of shares of the Company's common stock issued under the merger agreement based on: (A)(i) the purchase price of \$3,700,000, minus, (ii) the aggregate amount of debt and other payables of Rotor Riot, including those of BRIT and Kapper, divided by (B) the volume weighted average price ("VWAP") of the Company's common stock for the twenty trading days prior to the closing date of the Merger. The aggregate amount of debt and other payables of Rotor Riot was approximately \$915,563, and the VWAP of the Company's common stock for the twenty trading days prior to the Effective Date was \$1.25445 per share. As a result, the Company issued an aggregate of 2,219,650 shares of its Common Stock.

Pursuant to the terms of a Make Whole Agreement, as of the Effective Date, the Company agreed to pay all obligations of Rotor Riot in the aggregate amount of approximately \$915,563. This included the issuance of a promissory note, in the principal amount of \$175,000 to Brains Riding in Tanks, LLC, an Ohio limited liability company and the majority owner of Rotor Riot ("BRIT"). The Note bears interest at a rate of 4.75% per annum, and requires monthly installment payments in the amount of \$3,500 and matures on the earlier of twelve months from the date of issuance, and the closing of an equity offering by the Company in amount of at least \$3,000,000.

Business Strategy

Prior to 2020, we were focused on research and development of software solutions that could provide secure cloud-based analytics, storage and services for the drone industry. In May 2020, we launched "Dronebox" for beta testing. Our current strategy involves expanding into product design, development and sales while continuing research and development into SAAS software opportunities. We principally focus on commercial and consumer (non-military) markets for drone products and services, although we are continually exploring opportunities to expand into governmental and military applications.

The Drone Industry

Drones are rapidly moving beyond their military origin to become a powerful business tool and recreational activity. We expect both of these markets to continue to grow.

- According to Business Insider Intelligence, industry reports project that commercial use of drones will reach 2.4 million by 2023, a 66% compounded annual growth rate. Drones will be employed by the agriculture, construction and mining, insurance, and media and telecommunications industries. The drone services market is expected to grow to over \$60 billion by 2025, from \$4.4 billion in 2018. Consumer drone shipments will reach 29 million by 2021.
- Spending on drones is projected to reach more than \$16 billion in 2020 and experience a compounded annual growth rate of 33% through 2025 as reported by International Data Corporation.
- The small drone market size is projected to increase to \$40 billion by 2025 from \$13.4 billion in 2018 according to MarketsandMarkets,
- The FAA has forecasted a 300% increase in commercial drones from 2019 to 2023 as per businessinsider.com.

Customers

Our revenue is principally derived from online sales. We currently market our products and services to recreational and professional drone pilots and hobbyists.

During 2019, sales to GetFPV, RCCarMax, and BangGood each represented more than 10% of Fat Shark's revenue.

Our SAAS software under development is expected to be marketed to a significantly larger marketplace, namely fleet operators, insurance, and government, including military, commercial and civil aviation. The FAA continues to issue new rules and regulations which are designed to build a traffic management ecosystem for drones which is separate from, but complementary to, existing air traffic control. For example, in December 2019, the FAA proposed a rule which would require drones to be capable of remote identification, similar to civilian and military aviation.

Competition

We compete with a number of significantly larger, better capitalized companies in the consumer (non-military) drone market. SZ DJI Technology Company, Ltd. (Dajiang Innovations), based in Shenzhen China, is the best known of several consumer drone companies with which we compete. DJI is a private company and the dominant market leader with a market share estimated by us at more than 70%. We also compete with Parrot SA (EPA:PARRO) based in Paris, France, privately held Yuneec based in Kunshan Jiangsu, China, and privately held Lumenier Holdco, LLC based in Sarasota, Florida.

We also compete with companies in specific components of our business. Vuzix Corporation (NASDAQ:VUZI) is a competitor with significant experience in augmented reality and HMD products, with 2019 reported revenues of nearly \$7 million. Ambarella (NASDAQ:AMBA) manufactures chips for GoPro action cameras and powers the video processing for other drone makers, such as DJI and Parrot, with 2019 reported revenues of nearly \$70 million. GoPro (NASDAQ:GPRO) develops and markets high definition cameras often used in drones and had sold its own drones through 2018. Other drone specific competitors include 3D Robotics (autonomous drones), Autel Robotics (photography) and Hubsan. To a greatly lesser extent, we also compete with major multi-national corporations such as Boeing (NYSE:BA) and Lockheed Martin LMT (NYSE:LMT).

Our principal method of competition is to attract followers to our online and social media properties and publications. Our Facebook page has more than 33,000 members and our Rotor Riot channel over 192,000 subscribers. We also attract customers through our team sponsorships in the competitive racing circuit.

Suppliers

We purchase approximately 56% of our inventory from three suppliers and 20% of our frames and electronics are purchased from two vendors. The United States has periodically imposed tariffs on approximately 90% of the inventory that we purchase from China. The tariffs have increased our cost of goods on certain items by 8% to 15%, and have adversely affected our gross profit and resulted in shipping delays. Further, beginning in the first quarter of 2020, the emergence of the Coronavirus, Covid-19, has adversely impacted our suppliers and our business. Delivery timelines have significantly increased and our suppliers have reduced their inventory stocking levels, and have increased their minimum order requirements. This has caused us to seek out new suppliers, outside of China, and to order higher quantities than we would prefer.

Government Regulation and Federal Policy of Drones

The Federal Aviation Administration (“FAA” or “Agency”) is the agency of the United States Department of Transportation responsible for the regulation and oversight of civil aviation within the U.S. Its primary mission is to ensure the safety of civil aviation. The FAA has adopted the name unmanned aircraft (UA) to describe aircraft systems without a flight crew on board. More common names include drone, UAV, and remotely operated aircraft (“ROA”).

The FAA began issuing regulations governing drones in 2005 with their scope and frequency expanding in recent years with the significant increase in the number of drones sold. In December 2015, the FAA announced that all drones weighing more than 250 grams, or 0.55 pounds, must be registered with the FAA. As of March 2020, the FAA reported:

- Registration of 1,563,263 drones, of which 441,709 were commercial and 1,117,900 were recreational.
- Certification of 171,744 remote pilots.

In December 2019, the FAA announced a proposed rule that would continue the safe integration of drones into the nation’s airspace by requiring them to be identifiable remotely. The FAA believes that remote ID technologies will enhance safety and security by allowing the FAA, law enforcement, and Federal security agencies to identify drones flying in their jurisdiction. These efforts lay the foundation for more complex operations, such as those beyond visual line of sight at low altitudes, as the FAA and the drone industry move toward a traffic management ecosystem for UAS flights separate from, but complimentary to, the air traffic management system.

Environmental Considerations

In our current business and as we expand into new markets and product categories, we must comply with a wide variety of laws, regulations, standards and other requirements governing, among other things, electrical safety, wireless emissions, hazardous materials usage, product-related energy consumption, packaging, recycling and environmental matters.

Our products must comply with certain requirements of the U.S. Federal Communications Commission (“FCC”) regulating electromagnetic radiation, including radiofrequency energy, in order to be sold in the United States and with comparable requirements of the regulatory authorities of the EU, Japan, China and other jurisdictions in order to be sold in those jurisdictions. In the U.S., our products may also be subject to oversight from federal health and safety agencies such as the EPA, FDA, the National Institute for Occupational Safety and Health, and the Occupational Safety and Health Administration. Our products include wireless radios and receivers which require additional emission testing. We are also subject to various environmental laws and governmental regulations related to toxic, volatile, and other hazardous chemicals used in the third-party components incorporated into our products, including the EU’s Restriction of Certain Hazardous Substances (“RoHS”) Directive and the EU Waste Electrical and Electronic Equipment (“WEEE”) Directive, as well as the implementing legislation of the EU member states.

The RoHS Directive restricts the distribution of products within the EU that exceed very low maximum concentration amounts of certain substances, including lead. Similar laws and regulations have been passed or are pending in China, Japan, and numerous countries around the world and may be enacted in other regions, including in the United States, and we are, or may in the future be, subject to these laws and regulations. Certain products sold in California must adhere to the same requirements as the EU’s RoHS Directive, and other states have enacted restrictions on the distribution and manufacture of products containing certain chemicals within the state.

The WEEE Directive requires electronic goods producers to be responsible for the collection, recycling and treatment of such products. Changes in interpretation of the directive may cause us to incur costs or have additional regulatory requirements to meet in the future in order to comply with this directive, or with any similar laws adopted in other jurisdictions. We also expect that our products will be affected by new environmental laws and regulations on an ongoing basis.

We do not control our contract manufacturers or suppliers, including their labor, environmental or other practices, or require them to comply with a formal code of conduct. Though we conduct periodic visits to some of our contract manufacturers and suppliers, these visits are not frequent or thorough enough to detect non-compliance with applicable laws and good industry practices.

Our drone products may be subject to new and evolving regulations governing drone manufacturing and distribution in various jurisdictions, including by the FAA in the United States and the European Union Aviation Safety Agency in the EU. A drone's ability to reach places (including environmentally protected or sensitive locations) that may otherwise be inaccessible can also result in negative environmental consequences from the introduction of non-natural elements, including plastics, batteries, and electronics and their component materials.

Research and Development

During the years ended April 30, 2020 and 2019, research and development costs of \$488,990 and \$366,590, respectively, were incurred exclusive of Fat Shark costs of approximately \$391,741 and \$799,531, for the fiscal years ended December 31, 2019 and 2018, respectively.

Employees and Human Capital Resources

We currently employ 25 full time employees and contractors. We intend to evaluate in the future our use of human capital measures or objectives in managing our business such as the factors we employ or seek to employ in the development, attraction and retention of personnel and maintenance of diversity in our workforce. Since our business is new and evolving, we have not evaluated these factors historically.

Legal Proceedings

From time to time, we have become involved in various legal proceedings that arise in the ordinary course of business or otherwise. Legal proceedings are subject to inherent uncertainties as to timing, outcomes, costs, expenses and time expenditures by our management and others on our behalf. Although there can be no assurance, based on information currently available, we believe that the outcome of legal proceedings that are pending or threatened against us will not have a material effect on our financial condition. However, the outcome of any of these matters is neither probable nor reasonably estimable.

DESCRIPTION OF PROPERTY

We occupy our corporate headquarters in Humacao, Puerto Rico under an oral lease expiring October 2021 at a monthly cost of \$2,000. We lease approximately 3,635 square feet of office and warehouse space in Orlando, Florida under a three year lease expiring in January 2022. The current monthly rent is \$4,179 and is subject to annual escalations of 2.1%. We lease approximately 200 square feet of office and shared warehouse public space from Cayman Enterprise City Ltd., in Grand Cayman, Cayman Islands under a lease expiring May 2021. The current monthly rent is \$3,450. We do not own any real property. We believe our leased facilities are adequate to meet our present needs.

Patents

We strive to protect the proprietary technology that we believe is important to our business, including seeking and maintaining patents intended to cover our drone, HMD and SAAS developments, methods of use and processes for their manufacture and any other inventions that are commercially important to the development of our business. We also rely on trade secrets to protect aspects of our business that are not amenable to, or that we do not consider appropriate for, patent protection.

We own 11 granted United States patents and 7 pending United States and foreign patent applications. The patents and patent applications include claims to printed circuit boards, and HMD technology.

<u>FilingDate</u>	<u>Status</u>	<u>IssueDate</u>	<u>ApplicationNum</u>	<u>PatentNum</u>	<u>Type</u>	<u>AttorneyRef</u>	<u>Client</u>	<u>Title</u>
7/13/2017	Issued	8/14/2018	29/610,543	D825,381	Design	FS001D	Fat Shark Technology SEZC	UNMANNED AERIAL VEHICLE
1/11/2018	Issued	5/30/2019	179088	179,088	Design	FS001D-CA	Fat Shark Technology SEZC	UNMANNED AERIAL VEHICLE
1/11/2018	Issued	4/23/2018	201830008387.4		Design	FS001D-CN	Fat Shark Technology SEZC	UNMANNED AERIAL VEHICLE
1/12/2018	Issued	1/26/2018	004665040	004665040-0001	Design	FS001D-EU	Fat Shark Technology SEZC	UNMANNED AERIAL VEHICLE
1/11/2018	Issued	7/3/2018	30-2018-1689	30-963991	Design	FS001D-KR	Fat Shark Technology SEZC	UNMANNED AERIAL VEHICLE
8/23/2017	Issued	1/15/2019	15/684,814	10,179,647	Utility: Non- Provisional	FS001U	Fat Shark Technology SEZC	UNMANNED AERIAL VEHICLE
6/26/2018	Abandoned		3,009,413		Utility: Foreign	FS001U-CA	Fat Shark Technology SEZC	UNMANNED AERIAL VEHICLE
8/8/2018	Pending		201810895541.3		Utility: Foreign	FS001U-CN	Fat Shark Technology SEZC	UNMANNED AERIAL VEHICLE
6/25/2018	Pending		EP18179512.1		Utility: Foreign	FS001U-EU	Fat Shark Technology SEZC	UNMANNED AERIAL VEHICLE
7/13/2017	Issued	5/14/2019	29/610,554	D848383	Design	FS002D	Fat Shark Technology SEZC	PRINTED CIRCUIT BOARD
1/11/2018	Issued	5/30/2019	179089	179,089	Design	FS002D-CA	Fat Shark Technology SEZC	PRINTED CIRCUIT BOARD
1/11/2018	Issued	4/25/2018	201830008494.7		Design	FS002D-CN	Fat Shark Technology SEZC	PRINTED CIRCUIT BOARD
1/12/2018	Issued	1/26/2018	004665032	004665032-0001	Design	FS002D-EU	Fat Shark Technology SEZC	PRINTED CIRCUIT BOARD
1/11/2018	Issued	7/13/2018	30-2018-1690	30-965570	Design	FS002D-KR	Fat Shark Technology SEZC	PRINTED CIRCUIT BOARD
4/12/2018	Pending		201810324925.X		Utility: Foreign	FS002U-CN	Fat Shark Technology SEZC	SINGLE-PANEL HEAD-MOUNTED DISPLAY
3/4/2019	Pending		19159958.8		Utility: Non- Provisional	FS002U-EU	Fat Shark Technology SEZC	SINGLE-PANEL HEAD-MOUNTED DISPLAY
6/7/2018	Published		16/002,200		Utility: Non- Provisional	FS002U-US	Fat Shark Technology SEZC	SINGLE-PANEL HEAD-MOUNTED DISPLAY
3/6/2020	Pending		202010150301.8		Utility: Foreign	FS003U-CN	Fat Shark Technology SEZC	APPARATUS FOR ATTACHING ACCESSORIES TO A FIRST-PERSON VIEW HEADSET

Unfiled

Utility: Non- Provisional

FS003U-US

Fat Shark
Technology
SEZC

APPARATUS
FOR
ATTACHING
ACCESSORIES
TO A FIRST-
PERSON VIEW
HEADSET

Our success will depend significantly on our ability to obtain and maintain patents and other proprietary protection for commercially important technology, inventions and know-how related to our business, defend and enforce our patents, maintain our licenses to use intellectual property owned by third parties, preserve the confidentiality of our trade secrets and operate without infringing the valid and enforceable patents and other proprietary rights of third parties. We also rely on know-how, continuing technological innovation and in-licensing opportunities to develop, strengthen, and maintain our proprietary position in the fields in which we operate.

We cannot be sure that patents will be granted with respect to any of our pending patent applications or with respect to any patent applications filed by us in the future, nor can we be sure that any of our existing patents or any patents that may be granted to us in the future will be commercially useful in protecting our technology.

Our objective is to continue to expand our intellectual property by filing patent applications directed to our drone, HMD and SAAS programs. We intend to pursue, maintain, and defend patent rights, whether developed internally or licensed from third parties, and to protect the technology, inventions, and improvements that are commercially important to the development of our business.

MANAGEMENT

Board of Directors, Executive Officers and Significant Employees

<u>Name</u>	<u>Age</u>	<u>Position</u>
Jeffrey M. Thompson	54	Chairman of the Board, President, Chief Executive Officer and Director
Joseph Hernon	60	Chief Financial Officer, Treasurer and Secretary
Nicholas Liuzza, Jr.	53	Director
Patrick T. Mitchell	58	Director
Jonathan Read	60	Director

Our directors hold office until the next annual meeting of shareholders of the Company and until their successors have been elected and qualified. Our officers are elected by and serve at the discretion of the board of directors.

Biographies

Jeffrey M. Thompson, President, Chief Executive Officer and Director

Jeffrey Thompson has been President, Chief Executive Officer and Director of the Company since May 2019 following acquisition by the Company of Red Cat Propware, Inc. a company founded by Mr. Thompson. Mr. Thompson was a director of Exactus, Inc. (OTCMKTS:EXDI), a producer and marketer of products made from industrial hemp (CBD), from January 2019 until April 2020. Mr. Thompson was the founder, President, Chief Executive Officer and Director of Towerstream Corporation (NASDAQ:TWER), a fixed-wireless company delivering high-speed internet access, from November 2005 to February 2016. In 1994, Mr. Thompson founded EdgeNet Inc., a privately held Internet service provider (which was sold to Citadel Broadcasting Corporation in 1997) and became eFortress through 1999. Mr. Thompson holds a B.S. degree from the University of Massachusetts.

Mr. Thompson's management and public company experience and his role as President and Chief Executive Officer of the Company, led to his appointment as a director.

Joseph Hernon, Chief Financial Officer, Secretary and Treasurer

Joseph Hernon has been Chief Financial Officer and Secretary of the Company since January 2020. Mr. Hernon has extensive experience in financial services over the course of his 30-year career. From May 2016 to January 2020, Mr. Hernon served as a financial consultant to various private companies. Mr. Hernon was the Chief Financial Officer for Towerstream Corporation (NASDAQ:TWER), Alseres Pharmaceuticals, Inc. (OTC:ALSE) and Aqua Bounty Technologies, Inc. (NASDAQ:AQT) from 1998 - 2016. Previously, Mr. Hernon was employed by PricewaterhouseCoopers for ten years in its audit practice and was a Senior Business Assurance Manager during his last five years with the firm. Mr. Hernon is a certified public accountant and earned a Master's degree in Accountancy from Bentley University in 1986.

Nicholas Liuzza Jr., Director

Nicholas Liuzza Jr. has been a director of the Company since June 2019. Mr. Liuzza serves as an Executive Vice President of Real Matters, Inc. (TSX:REAL) a network management services provider for the mortgage lending and insurance industries a position he has held from April of 2016. Mr. Liuzza co-founded and served as the Chief Executive Officer of Beeline Mortgage LLC, a residential mortgage lender, since 2019. Prior to founding Beeline Mr. Liuzza founded Linear Title & Closing in 2005, and was a senior executive until its sale in 2016. Mr. Liuzza was also the founder and CEO of Linear Settlement Services, LLC, a title insurance agency acquired by Real Matters. In 2001, Mr. Liuzza founded and was the President of New Age Nurses, a healthcare staffing company which he grew into a national provider of healthcare personnel services acquired in 2003 by Crdentia. Priorthereto, Mr. Liuzza was Executive Vice President of AMICUS Legal Staffing, a national staffing services provider with a specialization in real estate transactions. Mr. Liuzza started his career with Xerox Corporation in 1988.

Mr. Liuzza's more than 20 years of experience as an entrepreneur in the software industry and his sales experience and software development led to his appointment as a director.

Patrick T. Mitchell, Director

Patrick T. Mitchell has been a director of the Company since June 2019. Since 2014 Mr. Mitchell has been the Chief Executive Officer of The Carpenter Health Network, a health care provider in the Gulf Coast region providing nursing, home care, hospice, and rehabilitation care services. In 2002, Mr. Mitchell founded St. Joseph Hospice with the mission of providing peace, comfort and dignity to those facing terminal illness. The Carpenter Health Network was created in 2014 as the parent company of St. Joseph Hospice and its sister companies. In 2006, Mr. Mitchell formed STAT Home Health, a healthcare services company, leading to Louisiana's first AIM Palliative Home Health Program that helps seriously ill patients who lack coordinated hospital, home health and hospice care. In 2013, Mr. Mitchell created Homedica, a healthcare services company, to improve the patient experience and reducing hospitalizations by enabling physicians and mid-level care providers to make house calls. Mr. Mitchell is a graduate of the University of Louisiana-Monroe.

Mr. Mitchell's experience building companies and his merger and acquisitions and corporate finance experience led to his appointment as a director.

Jonathan Read, Director

Jonathan Read was a director of the Company from August 2017 and was the Chief Executive Officer, Secretary and Treasurer of Company from October 2017 until May 2019. From July 14, 2017 through July 20, 2018, Mr. Read served as a director of BTCS Inc. (OTCQB:BTCS) a digital asset and cryptocurrency company. From November 2015 to January 2017, Mr. Read was Chief Executive Officer and a director of the Company. Since 2013, Mr. Read has been Managing Partner of Quadratam1 LLC, a Scottsdale, Arizona based firm specializing in providing financial and organizational consulting services for growth-stage companies in the United States and China. From 2005 through 2012, Mr. Read was the Chief Executive Officer and a director of ECOtality, Inc., a San Francisco based company that Mr. Read founded. In 2013, ECOtality, Inc. filed for Chapter 11 bankruptcy protection. In 2014, Mr. Read filed for bankruptcy personally.

Mr. Read's prior experience with the Company and other public company led to his appointment as a director.

Board Committees

The Company has no nominating, audit or compensation committees. The entire Board participates in the nomination and audit oversight processes and considers executive and director compensation. Thus, there is a potential conflict of interest in that our directors and officers have the authority to determine issues concerning management compensation, nominations, and audit issues that may affect management decisions. We are not aware of any other conflicts of interest with any of our executive officers or directors.

Family Relationships

There are no family relationships among any of our officers or directors.

Involvement in Legal Proceedings

We are not aware of any of our directors or officers being involved in any legal proceedings in the past ten years relating to any matters in bankruptcy, insolvency, criminal proceedings (other than traffic and other minor offenses) or being subject to any of the items set forth under Item 401(f) of Regulation S-K other than Mr. Read as described under "Biographies".

INDEPENDENCE OF THE BOARD OF DIRECTORS

The Board of Directors has determined that all of the Company's directors are independent within the meaning of the applicable listing standards of The NASDAQ Capital Market, except Mr. Thompson, our Chairman, Chief Executive Officer and President.

CODE OF CONDUCT

We have adopted the Red Cat Holdings, Inc. Code of Conduct, a code of ethics with which every person who works for us is expected to comply, including without limitation our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions.

EXECUTIVE COMPENSATION

The following table sets forth information concerning all cash and non-cash compensation awarded to, earned by or paid to our Chief Executive Officer and the other(1 executive officer with compensation exceeding \$100,000 during the fiscal years ended April 30, 2020 and 2019 (each a "Named Executive Officer").

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$)(2)	All Other Compensation (\$)	Total (\$)
Jeffrey Thompson Chief Executive Officer and President	2020	\$ 153,333	\$ —	\$ —	\$ —	\$ 153,333
	2019	\$ —	\$ —	\$ —	\$ —	\$ —
Jonathan Read Former Chief Executive Officer (1)	2020	\$ 10,000	—	—	—	\$ 10,000
	2019	\$ 240,000	—	—	—	\$ 240,000

(1) Mr. Read resigned as the Company’s Chief Executive Officer in May 2019.

2019 Equity Incentive Plan

Effective August 2019, shareholders of Company approved the Company’s 2019 Equity Incentive Plan (the “Plan”). The Plan provides for the award of stock options (incentive and non-qualified), stock awards and stock appreciation rights to officers, directors, employees and consultants who provide services to the Company.

The Company has reserved 8,750,00 shares for issuance under the Plan. The Board may terminate the Plan at any time. Unless sooner terminated, the Plan will terminate ten years after the effective date of the Plan. The number of shares of common stock covered by each outstanding stock right, and the number of shares of common stock which have been authorized for issuance under the Plan as well as the price per share of common stock (or cash, as applicable) covered by each such outstanding option or SAR, shall be proportionately adjusted for any increases or decrease in the number of issued shares of common stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification, or any other increase or decrease in the number of issued shares of common stock effected without receipt of consideration by the Company.

Employment Agreements

We currently do not have employment agreements.

Outstanding Equity Awards

The table below reflects all outstanding equity awards made to each Named Executive Officer that were outstanding at July 31, 2020.

Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Joseph Herson	January 2020	183,334	916,666	\$0.82	January 2030

October 2019 Issuances

In October 2019, we issued options to purchase 350,000 shares of common stock valued at \$477,500. Options to purchase 200,000 shares vest ratably over a 2 year period and expire in October 2029. Options to purchase 150,000 shares vest ratably over a 3 year period and expire in October 2024. All of the options were issued at an exercise price of \$2.10 which equaled the stock price on the date of issuance. We used the Black-Scholes Model to estimate the fair value of the stock options issued using the following assumptions: (i) expected volatility – 75%, (ii) risk free interest rate – 1.59% or 1.74%, (iii) expected life – 5 or 10 years, and (iv) expected dividend yield of 0%.

January 2020 Issuances

In January 2020, we issued options to purchase 1,100,000 shares of common stock exercisable at \$0.82 vesting quarterly over a 3 year period. These options were valued at \$707,300. We also issued options to purchase 147,475 shares of common stock exercisable at \$0.82. These options were valued at \$94,826 and were vested in full upon issuance. All of these options were issued at an exercise price which equaled the stock price on the date of issuance. We used the Black-Scholes Model to estimate the fair value of the stock options issued using the following assumptions: (i) expected volatility – 75%, (ii) risk free interest rate – 1.74%, (iii) expected life – 10 years, and (iv) expected dividend yield of zero.

Director Compensation**Director Compensation Table**

The following table sets forth the compensation paid to directors for services rendered during the fiscal year ended April 30, 2020.

Name	Fees Earned or Paid in Cash	Stock Awards	Options Awards	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Nicholas Liuzza Jr.	\$ —	—	148,000(1)	—	—	—	\$ 148,000
Patrick T. Mitchell	\$ —	—	148,000(1)	—	—	—	\$ 148,000

(1) Represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 (See Note 11 to the financial statements) of 10-year options to purchase 100,000 shares of common stock at an exercise price of \$2.10, which became fully vested on October 8, 2020.

During the year ended April 30, 2020, no cash compensation has been paid to our directors in consideration for their services rendered in their capacities as directors.

Employee Benefit Plans

The Company currently has no employee benefit plans.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table lists, as of October 29, 2020, the number of shares of common stock beneficially owned by (i) each person, entity or group (as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934) known to the Company to be the beneficial owner of more than 5% of the outstanding common stock; (ii) each of our directors (iii) each of our Named Executive Officers and (iv) all executive officers and directors as a group. Information relating to beneficial ownership of common stock by our principal stockholders and management is based upon information furnished by each person using "beneficial ownership" concepts under the rules of the SEC. Under these rules, a person is deemed to be a beneficial owner of a security if that person directly or indirectly has or shares voting power, which includes the power to vote or direct the voting of the security, or investment power, which includes the power to dispose or direct the disposition of the security. The person is also deemed to be a beneficial owner of any security of which that person has a right to acquire beneficial ownership within 60 days. Under the SEC rules, more than one person may be deemed to be a beneficial owner of the same securities, and a person may be deemed to be a beneficial owner of securities as to which he or she may not have any pecuniary interest. Except as noted below, each person has sole voting and investment power with respect to the shares beneficially owned and each stockholder's address is c/o Red Hat Holdings, Inc., 370 Harbour Drive, Palmas del Mar, Humacao, Puerto Rico 00791.

The percentages below are calculated based on 20,721,535 shares of common stock issued and outstanding as of October 27, 2020.

<u>Name and Address of Beneficial Owner</u>	<u>Amount of Shares Beneficially Owned</u>	<u>Percentage of Beneficial Ownership</u>
Named Executive Officers and Directors:		
Jeffrey Thompson	12,167,518	58.7%
Nicholas Liuzza, Jr.	1,018,589(1)	4.8%
Patrick Mitchell	413,248(2)	2.0%
Jonathan Read	—	—
Joseph Hernon	283,000(3)	*
All executive officers and directors as a group (5 persons)	13,874,355(1)(2)(3)	64.0%

*Represents less than 1%

(1) Includes (i) 300,000 shares of common stock issuable upon conversion of a convertible note at a conversion price of \$1.00 per share or 75% of the price of our securities sold in a qualified offering, (ii) 199,998 shares of common stock issuable upon the exercise of a warrant at an exercise price of \$1.50 per share or a 25% discount to the price of securities sold in a qualified offering, and (iii) a currently exercisable stock option to purchase 100,000 shares of common stock.

(2) Includes a currently exercisable stock option to purchase 100,000 shares of common stock.

(3) Represents currently exercisable stock options.

Change-in-Control Agreements

The Company does not have any change-in-control agreements with any of its executive officers.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The following is a description of transactions since May 1, 2018, to which we were a party or will be party, in which the amount involved exceeded or will exceed the lesser of \$120,000 or 1% of the average of our total assets at year-end for the last two completed fiscal years, and any of our directors, executive officers or holders of more than 5% of our outstanding capital stock, or any immediate family member of, or person sharing the household with, any of these individuals or entities, had or will have a direct or indirect material interest.

On October 12, 2018, Company issued a promissory note in the principal amount of \$15,000 to Jonathan Read, our director and former Chief Executive Officer. The note, and accrued interest thereon, was repaid in full in January 2019.

On May 13, 2019, the Company paid \$1,820 to Mr. Read for expenses paid on behalf of the Company by Mr. Read.

The Company rented office space from Jeffrey Thompson, our Chief Executive Officer until March 31, 2019 and paid a total of \$8,100 from May 1, 2018 to March 31, 2019 for such space.

In December 2019, we issued a two-year convertible note in the principal amount of \$125,000 to Nicholas Liuzza, Jr., a director, and a convertible note in the principal amount of \$25,000 to Jeffrey Thompson, our chief executive officer. The notes bear interest at a rate of 12% per annum which accrues and is payable in full upon maturity. Interest on the notes may be paid in cash or in shares of common stock of the Company at the holder's sole discretion as follows: (i) prior to an equity financing which generates gross proceeds of not less than \$3,000,000 (a "Qualified Offering"), at the 30 day volume weighted average of the closing price of our common stock, or (ii) after we have consummated a Qualified Offering, at 40% of the price per share of common stock sold in the Qualified Offering. We may, upon 10 business days advance notice, elect to pre-pay the notes, including all accrued interest, in whole or in part, provided that any such prepayment prior to the one-year anniversary of the note issuance be at a price equal to 112% of the then outstanding original principal amount. Upon an event of default, as described in the notes, the outstanding principal and interest shall become immediately due and payable. Additionally, under the note, unless waived by the holder, the holder may not convert the note if such conversion would result in beneficial ownership by the holder and its affiliates of more than 9.99% of the outstanding shares of common stock of the Company.

In October 2020, Mr. Liuzza converted his convertible note in the amount of \$125,000 plus \$11,342 of accrued interest into 209,758 shares of common stock.

In October 2020, Mr. Thompson converted his convertible note in the amount of \$25,000 plus \$2,416 of accrued interest into 29,166 shares of common stock.

DESCRIPTION OF SECURITIES

Our authorized capital stock consists of 500,000,000 shares of common stock, par value \$0.001 per share, and 10,000,000 shares of preferred stock, par value \$0.001 per share, of which 2,200,000 shares have been designated Series A Preferred Stock and 4,300,000 shares have been designated Series B Preferred Stock. As of October 21, 2020, there were (i) 20,721,535 shares of common stock outstanding, (ii) 208,704 shares of Series A Preferred Stock outstanding that are convertible into 1,738,504 shares of common stock, and (iii) 3,681,623 shares of Series B Preferred Stock outstanding that are convertible into 3,055,748 shares of common stock.

Common Stock

The holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of common stock and preferred stock entitled to vote in any election of directors may elect all of the directors standing for election. Subject to preferences that may be applicable to any outstanding shares of preferred stock, the holders of common stock are entitled to receive ratably such dividends as may be declared by the board of directors out of funds legally available therefor. Upon the liquidation, dissolution or winding up of the Company, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding shares of preferred stock. Holders of common stock have no preemptive rights and no right to convert their common stock into any other securities. Our common stock has no redemption or sinking fund provisions. All outstanding shares of common stock are fully paid and non-assessable.

Preferred Stock

Pursuant to our articles of incorporation, our board of directors has the authority, without further action by the stockholders, to issue up to 10,000,000 shares of preferred stock, in one or more series. Our articles of incorporation, as amended, provide that our Board of Directors has the authority, without further action by the shareholders, to issue shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions granted to or imposed upon the preferred stock. Preferred stock may be designated and issued without authorization of shareholders unless such authorization is required by applicable law, the rules of the principal market or other securities exchange on which our stock is then listed or admitted to trading.

Our Board of Directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes could, under some circumstances, have the effect of delaying, deferring or preventing a change in control of the Company.

The description of preferred stock in this prospectus and the description of the terms of a particular series of preferred stock in any applicable prospectus supplement are not complete. You should refer to any applicable certificate of designation for complete information.

All shares of preferred stock offered hereby will, when issued, be fully paid and nonassessable, including shares of preferred stock issued upon the exercise of preferred stock warrants or subscription rights, if any.

Series A Convertible Preferred Stock

On May 15, 2019, we closed a Share Exchange Agreement (the “Exchange Agreement”) with Red Cat Propware, Inc., a Nevada corporation (“Red Cat Propware”) and its then current shareholders (the “Acquisition”) pursuant to which we acquired all of the issued and outstanding capital stock of Red Cat Propware in exchange for our issuance of our common stock and Series A Preferred Stock (“Series A Stock”) to the Red Cat Propware shareholders which constituted approximately 83.33% of our issued and outstanding share capital on a fully-diluted basis at such time. With the exception of shares held by our current Chief Executive Officer, Jeffrey Thompson, the convertibility of shares of Series A Stock is limited such that a holder of Series A Stock may not convert Series A Stock to our common stock to the extent that the number of shares of Common Stock to be issued pursuant to such conversion, when aggregated with all other shares of common stock owned by the holder at such time, would result in the holder beneficially owning more than 4.99% of all of our outstanding common stock.

On May 15, 2019 we filed with the Secretary of State of the State of Nevada a Certificate of Designation of Series A Preferred Stock (the “Series A Certificate of Designation”). Pursuant to the Series A Certificate of Designation, the Company designated 2,200,000 shares of its blank check preferred stock as Series A Preferred Stock. Each share of Series A Preferred Stock has no stated value. In the event of a liquidation, dissolution or winding up of the Company, each share of Series A Preferred Stock will not be entitled to a per share preferential payment but will be entitled to participate in any distribution out of the assets of the Company on an equal basis per share with the holders of Common Stock, as if all shares of Series A Preferred Stock had been converted to Common Stock immediately prior to the distribution. Each share of Series A Preferred Stock is convertible at the option of the holder into 8.33 shares of common stock for every one share of Series A Preferred Stock held (the “A Conversion Rate”). .. The conversion ratio is subject to adjustment in the event of stock splits, stock dividends, combination of shares and similar recapitalization transactions. The Company is prohibited from effecting the conversion of the Series A Preferred Stock to the extent that, as a result of such conversion, the holder beneficially owns more than 4.99%, in the aggregate, which beneficial ownership limitation may be increased by the holder up to, but not exceeding, 9.99% of the issued and outstanding shares of the Company’s Common Stock calculated immediately after giving effect to the issuance of shares of Common Stock upon the conversion of the Series A Preferred Stock (the “Beneficial Ownership Limit”). The Beneficial Ownership Limit is inapplicable to a shareholder who, in advance issuance of Series A Preferred Stock, specifically waives such limitations and our Chief Executive Officer, Jeffrey Thompson, waived such limitations prior to the Red Cat Propware acquisition. Under the Series A Certificate of Designation, no consideration (including any modification of this Certificate of Designation or related transaction document) shall be offered or paid to any person or entity to amend or consent to a waiver or modification of any provision of this Certificate of Designation or related transaction document unless the same consideration is also offered to all of the holders of the outstanding shares of Series A Preferred Stock.

Series B Convertible Preferred Stock

On May 13, 2019 we filed with the Secretary of State of the State of Nevada a Certificate of Designation of Series B Preferred Stock (the “Series B Certificate of Designation”). Pursuant to the Series B Certificate of Designation, the Company designated 4,300,000 shares of its blank check preferred stock as Series B Preferred Stock. Each share of Series B Preferred Stock has no stated value. In the event of a liquidation, dissolution or winding up of the Company, each share of Series B Preferred Stock will not be entitled to a per share preferential payment but will be entitled to participate in any distribution out of the assets of the Company on an equal basis per share with the holders of Common Stock, as if all shares of Series B Preferred Stock had been converted to Common Stock immediately prior to the distribution. Each share of Series B Preferred Stock is convertible at the option of the holder into 0.83 shares of common stock for every one share of Series B Preferred Stock held (the “B Conversion Rate”). The conversion ratio is subject to adjustment in the event of stock splits, stock dividends, combination of shares and similar recapitalization transactions. The Company is prohibited from effecting the conversion of the Series B Preferred Stock to the extent that, as a result of such conversion, the holder beneficially owns more than 4.99%, in the aggregate, which beneficial ownership limitation may be increased by the holder up to, but not exceeding, 9.99% of the issued and outstanding shares of the Company’s Common Stock calculated immediately after giving effect to the issuance of shares of Common Stock upon the conversion of the Series A Preferred Stock (the “Beneficial Ownership Limit”). Under the Series B Certificate of Designation, no consideration (including any modification of this Certificate of Designation or related transaction document) shall be offered or paid to any person or entity to amend or consent to a waiver or modification of any provision of this Certificate of Designation or related transaction document unless the same consideration is also offered to all of the holders of the outstanding shares of Series B Preferred Stock.

Anti-Takeover Effects of Provisions of Our Amended and Restated Articles of Incorporation, Our Bylaws and Nevada Law

Nevada Anti-Takeover Law

The Nevada Revised Statutes (“NRS”) contain several provisions which may make a hostile take-over or change of control of our Company more difficult to accomplish. They include the following:

Under Nevada law, any one or all of the directors of a corporation may be removed by the holders of not less than two-thirds of the voting power of a corporation’s issued and outstanding stock. All vacancies on the board of directors of a Nevada corporation may be filled by a majority of the remaining directors, though less than a quorum, unless the articles of incorporation provide otherwise. In addition, unless otherwise provided in the articles of incorporation, the board may fill the vacancies for the entire remainder of the term of office of the resigning director or directors. Our Articles of Incorporation do not provide otherwise.

In addition, Nevada law provides that unless otherwise provided in a corporation’s articles of incorporation or bylaws, shareholders do not have the right to call special meetings. Our articles of incorporation and our bylaws do not give shareholders this right. In accordance with Nevada law, we also require advance notice of any shareholder proposals.

Nevada law provides that, unless otherwise prohibited by any bylaws adopted by the shareholders, the board of directors may amend any bylaw, including any bylaw adopted by the shareholders. Pursuant to Nevada law, our articles of incorporation grant the authority to adopt, amend or repeal bylaws exclusively to our directors.

Nevada's "combinations with interested stockholders" statutes prohibit certain business "combinations" between certain Nevada corporations and any person deemed to be an "interested stockholder" for two years after the such person first becomes an "interested stockholder" unless (i) the corporation's board of directors approves the combination (or the transaction by which such person becomes an "interested stockholder") in advance, or (ii) the combination is approved by the board of directors and sixty percent of the corporation's voting power not beneficially owned by the interested stockholder, its affiliates and associates. Furthermore, in the absence of prior approval, certain restrictions may apply even after such two-year period. For purposes of these statutes, an "interested stockholder" is any person who is (x) the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the outstanding voting shares of the corporation, or (y) an affiliate or associate of the corporation and at any time within the two previous years was the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the then outstanding shares of the corporation. Subject to certain timing requirements set forth in the statutes, a corporation may elect not to be governed by these statutes. However, we have not included any such provision in our Articles of Incorporation or Bylaws, which means these provisions apply to us.

Nevada's "acquisition of controlling interest" statutes contain provisions governing the acquisition of a controlling interest in certain Nevada corporations. These "control share" laws provide generally that any person who acquires a "controlling interest" in certain Nevada corporations may be denied certain voting rights, unless a majority of the disinterested stockholders of the corporation elects to restore such voting rights. These statutes provide that a person acquires a "controlling interest" whenever a person acquires shares of a subject corporation that, but for the application of these provisions of the NRS, would enable that person to exercise (1) one-fifth or more, but less than one-third, (2) one-third or more, but less than a majority or (3) a majority or more, of all of the voting power of the corporation in the election of directors. Once an acquirer crosses one of these thresholds, shares which it acquired in the transaction taking it over the threshold and within the 90 days immediately preceding the date when the acquiring person acquired or offered to acquire a controlling interest become "control shares" to which the voting restrictions described above apply. Our Articles of Incorporation and Bylaws currently contain no provisions relating to these statutes, and unless our Articles of Incorporation or Bylaws in effect on the tenth day after the acquisition of a controlling interest were to provide otherwise, these laws would apply to us if we were to (i) have 200 or more stockholders of record (at least 100 of which have addresses in the State of Nevada appearing on our stock ledger) and (ii) do business in the State of Nevada directly or through an affiliated corporation. As of the date of this prospectus, we have less than 100 record stockholders with Nevada addresses. However, if these laws were to apply to us, they might discourage companies or persons interested in acquiring a significant interest in or control of the company, regardless of whether such acquisition may be in the interest of our stockholders.

SELLING STOCKHOLDERS

This prospectus relates to the resale by Selling Stockholders of (i) 3,692,779 shares of our common stock and (ii) an aggregate of 1,512,206 shares of our common stock issuable upon conversion of outstanding shares of Series B Preferred Stock.

The Selling Stockholders may also resell all or a portion of their securities in reliance upon Rule 144 under the Securities Act provided that they meet the criteria and conform to the requirements of that rule or by any other available means.

The Selling Stockholders named below may from time to time offer and sell pursuant to this prospectus up to 5,119,651 shares of common stock.

The following table sets forth:

- the name of the Selling Stockholders;
- the number and percent of shares of our common stock that the Selling Stockholders beneficially owned prior to the offering for resale of the shares under this prospectus;
- the number of shares of our common stock that may be offered for resale for the account of the Selling Stockholders under this prospectus; and
- the number and percent of shares of our common stock to be beneficially owned by the Selling Stockholders after the offering (assuming all of the offered shares are sold by the Selling Stockholders).

The number of shares in the column “Number of Shares Being Offered” represents all of the shares that each Selling Stockholder may offer under this prospectus. We do not know how long the Selling Stockholders will hold the shares before selling them or how many shares they will sell, and we currently have no agreements, arrangements or understandings with any of the Selling Stockholders regarding the sale of any of their shares.

This table is prepared solely based on information supplied to us by the Selling Stockholders, any Schedules 13D or 13G, and other public documents filed with the SEC. The applicable percentages of beneficial ownership are based on an aggregate of 26,698,508 shares of our common stock issued and outstanding on December 3, 2020.

Except as noted herein, to our knowledge, none of the Selling Stockholders has held any position or office or had any other material relationship with us or any of our predecessors or affiliates within the past three years other than as a result of the ownership of our securities. None of the Selling Stockholders is a broker-dealer or affiliate of a broker-dealer. See “Plan of Distribution” for additional information about the Selling Stockholders and the manner in which the Selling Stockholders may dispose of their shares.

Beneficial ownership has been determined in accordance with the rules of the SEC, and generally means that a person has beneficial ownership of a security if he, she or it possesses sole or shares voting or investment power of that security, and includes options that are currently exercisable or exercisable within 60 days. Our registration of these securities does not necessarily mean that the Selling Stockholders will sell any or all of the securities covered by this prospectus.

Name of Selling Stockholder	Number of Shares Beneficially Owned Prior to Offering	Number of Shares Offered	Number of Shares Beneficially Owned After Offering	Percent Beneficially Owned After Offering
Cavalry Fund I LP(1)	1,435,536	1,000,000	1,474,657	4.99%(5)
L1 Capital Global Opportunity Master Fund Ltd.(2)	1,427,757	426,872	1,474,657	4.99%(5)
Paradox Capital Partners, LLC(3)	1,403,456	1,251,164	1,474,657	4.99%(5)
Brains Riding in Tanks, LLC(4)	2,219,650	2,219,650	0	—
Greg French	5,338,255	110,982	5,227,273	17.69%
Allan Evans	110,983	110,983	0	—

— Less than 1%

(1) Cavalry Fund I Management LLC, General Partner. Thomas Walsh is the manager of Cavalry Fund I Management LLC. In such capacity he has voting and dispositive control over the securities owned by such entity. Includes (i) 514,739 shares of common stock and 3,164,741 shares of Series B Preferred Stock owned by Cavalry Fund I LP. Based solely upon a Schedule 13G/A filed February 13, 2020.

(2) David Feldman and Joel Arber are both directors of L1 Capital Global Opportunity Master Fund Ltd. Includes 215 shares of common stock and 512,206 shares of Series B Preferred Stock owned by L1 Global Opportunity Master Fund. As such each individually has voting and dispositive control over the shares held by such entity.

(3) Harvey Kesner is the managing member of Paradox Capital Partners, LLC. In such capacity he has voting and dispositive control over the securities held by such entity. Includes (i) 1,738,504 shares of common stock underlying Series A Preferred Stock, (ii) 17,542 shares of Series A Preferred Stock owned by Harvey Kesner and (iii) 191,162 shares of Series A Preferred Stock owned by Paradox Capital Partners, LLC.

(4) Chad Kapper is the managing member of Brains Riding in Tanks, LLC. In such capacity he has voting and dispositive control over the securities held by such entity.

(5) The shares represented hereby are subject to a 4.99% ownership limitation.

PLAN OF DISTRIBUTION

Each Selling Stockholder of the common stock and any of their pledgees, donees, assignees and other successors-in-interest may, from time to time, sell any or all of their shares of common stock on the Pink Open Markets or any other stock exchange, market or trading facility on which the shares are traded or in private transactions. The price of \$1.50 is a fixed price at which the Selling Stockholders may sell their shares until our common stock is quoted on the OTCQB or other established public trading markets, at which time the shares covered by this prospectus may be sold at prevailing market prices or privately negotiated prices. A Selling Stockholder may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;

- settlement of short sales;
- In transactions through broker-dealers that agree with the Selling Stockholders to sell a specified number of such common stock at a stipulated price per security;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- a combination of any such methods of sale; or
- any other method permitted pursuant to applicable law.

The Selling Stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the Selling Stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the Selling Stockholders (or, if any broker-dealer acts as agent for the purchaser of securities, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with FINRA Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with FINRA IM-2440.

In connection with the sale of the common stock or interests therein, the Selling Stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the Common Stock in the course of hedging the positions they assume. The Selling Stockholders may also sell shares of the Common Stock short and deliver these securities to close out their short positions, or loan or pledge the Common Stock to broker-dealers that in turn may sell these securities. The Selling Stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The Selling Stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be “underwriters” within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act of 1933, as amended. Each Selling Stockholder has informed us that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the Common Stock.

We are required to pay certain fees and expenses incurred by us incident to the registration of the shares. We have agreed to indemnify the Selling Stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

We agreed to keep this prospectus effective until the earlier of (i) the date on which the securities may be resold by the Selling Stockholders without registration and without regard to any volume or manner-of-sale limitations by reason of Rule 144, without the requirement for the Company to be in compliance with the current public information under Rule 144 under the Securities Act or any other rule of similar effect, or (ii) all of the securities have been sold pursuant to this prospectus or Rule 144 under the Securities Act or any other rule of similar effect. The Resale Shares will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the Resale Shares covered hereby may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the Resale Shares may not simultaneously engage in market making activities with respect to the Common Stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the Selling Stockholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of the Common Stock by the Selling Stockholders or any other person. We will make copies of this prospectus available to the Selling Stockholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including by compliance with Rule 172 under the Securities Act).

LEGAL MATTERS

The validity of the shares of common stock being offered by this prospectus has been passed upon for us by The Crone Law Group, P.C.

EXPERTS

The consolidated financial statements of the Company as of April 30, 2020 and 2019, and for the years then ended included in this prospectus have been so included in reliance on the report of BF Borges, CPA, PC an independent registered public accounting firm, which includes an explanatory paragraph about the Company's ability to continue as a going concern, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of the acquired company Fat Shark Holdings, Ltd. as of December 31, 2019 and 2018, and for the years then ended included in this prospectus have been so included in reliance on the report of BF Borges, CPA, PC an independent registered public accounting firm.

INTERESTS OF NAMED EXPERTS AND COUNSEL

MEC Consulting, Inc. owns 150,000 shares of common stock of the Company. Mark Crone, the managing partner of The Crone Law Group, P.C., is the sole owner of MEC Consulting, Inc.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the securities offered hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits filed with the registration statement. For further information about us and the securities offered hereby, we refer you to the registration statement and the exhibits filed with the registration statement. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and each such statement is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit to the registration statement. A copy of the registration statement and the filed exhibits may be inspected without charge at the public reference room maintained by the SEC, located at 100 F Street, NE, Washington, DC 20549, and copies of all or any part of the registration statement may be obtained from that office at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the website is www.sec.gov.

We are subject to the information and reporting requirements of the Exchange Act and, in accordance with this law, are required to file periodic reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information are available for inspection and copying at the SEC's public reference facilities and the website of the SEC referenced above. We make available free of charge, on or through the investor relations section of our website, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information found on our website is not part of this prospectus. The consolidated financial statements of the acquired company Fat Shark Holdings, Ltd and subsidiaries as of December 31, 2019 and 2018, and for the years then ended included in this prospectus have been so included in reliance on the report of BF Borges, CPA, PC an independent registered public accounting firm.

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RED CAT HOLDINGS, INC.
Condensed Consolidated Balance Sheets

	July 31, 2020	April 30, 2020
ASSETS		
Current Assets		
Cash	\$ 55,870	\$ 236,668
Inventory	\$ 133,634	\$ 78,650
Other	—	3,020
Total Current Assets	189,504	318,338
Goodwill	2,466,073	2,466,073
Trademark	20,000	20,000
Other	3,853	3,853
TOTAL ASSETS	\$ 2,679,430	\$ 2,808,264
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 295,300	\$ 249,050
Accrued Expenses	99,783	89,342
Notes Payable	171,275	118,771
Due to Related Party	333,204	333,684
Customer deposits	77,053	38,419
Total Current Liabilities	976,615	829,266
Convertible debentures	450,000	450,000
Commitments and contingencies		
Stockholders' Equity		
Series A Preferred Stock - shares authorized 2,200,000; outstanding 208,704	2,087	2,087
Series B Preferred Stock - shares authorized 4,300,000; outstanding 3,681,623	36,816	36,816
Common stock - shares authorized 500,000,000; outstanding 20,011,091	20,011	20,011
Additional paid-in capital	4,150,898	4,043,837
Accumulated deficit	(2,956,997)	(2,573,753)
Total Stockholders' Equity	1,252,815	1,528,998
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,679,430	\$ 2,808,264

See accompanying notes.

RED CAT HOLDINGS, INC.
Condensed Consolidated Statements Of Operations

	Three months ended July 31,	
	2020	2019
Revenues	\$ 548,282	\$ —
Cost of goods sold	<u>446,132</u>	<u>\$ —</u>
Gross Margin	102,150	\$ —
Operating Expenses		
Operations	89,033	—
Research and development	97,255	185,695
Sales and marketing	24,136	—
General and administrative	<u>274,970</u>	<u>135,807</u>
Total operating expenses	<u>485,394</u>	<u>321,502</u>
Operating loss	(383,244)	(321,502)
Provision for income taxes	<u>\$ —</u>	<u>\$ —</u>
Net loss	<u>\$ (383,244)</u>	<u>\$ (321,502)</u>
Loss per share - basic and diluted	<u>\$ 0.02</u>	<u>\$ 0.89</u>
Weighted average shares outstanding - basic and diluted	<u>20,011,091</u>	<u>359,715</u>

RED CAT HOLDINGS, INC.
Condensed Consolidated Stockholders' Equity Statements

	Series A		Series B		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Equity
	Preferred Stock		Preferred Stock		Shares	Amount			
	Shares	Amount	Shares	Amount					
Balances, April 30, 2019	—	—	—	—	179,292	\$ 179	\$ 784,371	\$ (971,822)	\$ (187,272)
Issuance of common stock					15,355	15	684,685		684,699
Share Exchange Agreement	2,169,068	21,691	4,212,645	42,126	196,667	197	53,740		117,754
Conversion of Preferred Stock	(1,960,364)	(19,604)	(240,000)	(2,400)	16,536,164	16,536	5,467		—
Shares Issued for Services					1,570	2	69,998		70,000
Net Loss								(321,502)	(321,502)
Balances, July 31, 2019	<u>208,704</u>	<u>2,087</u>	<u>3,972,645</u>	<u>39,726</u>	<u>16,929,048</u>	<u>16,929</u>	<u>1,598,261</u>	<u>(1,293,324)</u>	<u>363,679</u>
Balances, April 30, 2020	208,704	2,087	3,681,623	36,816	20,011,091	20,011	4,043,837	(2,573,753)	1,528,998
Stock based compensation							107,061		107,061
Net Loss								(383,244)	(383,244)
Balances, April 30, 2020	<u>208,704</u>	<u>2,087</u>	<u>3,681,623</u>	<u>36,816</u>	<u>20,011,091</u>	<u>20,011</u>	<u>4,150,898</u>	<u>(2,956,997)</u>	<u>1,252,815</u>

RED CAT HOLDINGS, INC.
Condensed Consolidated Cash Flows Statements

	Three months ended July 31,	
	2020	2019
Cash Flows from Operating Activities		
Net loss	\$ (383,244)	\$ (321,502)
Stock based compensation	107,061	—
Adjustments to reconcile net loss to net cash from operations:		
Changes in operating assets and liabilities		
Inventory	(54,984)	—
Other current assets	3,020	\$ 43,931
Customer deposits	38,634	—
Accounts payable	46,250	(17,024)
Accrued expenses	10,441	\$ 96,680
Net cash used in operating activities	(232,822)	(197,915)
Cash Flows from Investing Activities		
Acquired through acquisitions	—	\$ 24,704
Net cash provided by investing activities	—	\$ 24,704
Cash Flows from Financing Activities		
Payments under related party obligations	(480)	—
Proceeds from notes payable	140,000	—
Payments under notes payable	(87,496)	—
Net cash provided by financing activities	52,024	—
Net use of Cash	(180,798)	(173,211)
Cash, beginning of period	236,668	503,438
Cash, end of period	\$ 55,870	\$ 330,227
Cash paid for interest and taxes	—	—
Noncash transactions		
Common stock issued for services	—	\$ 70,000
Fair value of shares exchanged in acquisitions	—	\$ 117,754

See accompanying notes.

RED CAT HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2020 and 2019
(unaudited)

Our unaudited interim condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with the financial information included in the Annual Report on Form 10-K for the fiscal year ended April 30, 2020 of Red Cat Holdings, Inc. (the “Company”), filed with the Securities and Exchange Commission (“SEC”) on August 13, 2020.

Note 1 - The Business

The Company was originally incorporated in February 1984. The Company’s primary business is to provide products, services and solutions to the drone industry. It operates in two sectors of the drone industry. Rotor Riot, LLC, an Ohio limited liability company and a wholly owned subsidiary (“Rotor Riot”), designs and sells drones and related components. Rotor Riot is focused on the consumer market and sells its products through its e-commerce platform operated at www.rotorriot.com. The Company is also developing software solutions to provide secure cloud-based analytics, storage and services for the drone industry. Its initial product candidate is Dronebox, a blockchain technology that records, stores and analyzes flight data and information from a drone, much like the “black box” utilized by the airline industry. The Company plans to offer Dronebox as a Software-as-a-Service platform.

Recent corporate developments include:

A. The Share Exchange Agreement

Effective May 15, 2019, we closed a Share Exchange Agreement (the “SEA”) with TimeFireVR, Inc., (“TimeFire”), a Nevada corporation. Under the SEA, we acquired approximately 83.33% of TimeFire’s outstanding share capital on a fully-diluted basis. We issued: (i) 196,667 shares of our common stock, (ii) 2,169,068 shares of our newly-designated Series A Preferred Stock, and (iii) 4,212,645 shares of our newly-designated Series B Preferred Stock. In total, the common stock, Series A Preferred Stock, and Series B Preferred Stock issued under the SEA were valued at \$117,754.

The transaction was accounted for as a “reverse acquisition” as the stockholders of Red Cat possessed majority voting control of the company immediately following the acquisition. In this reverse merger, the financial results of Red Cat Propware, Inc., (the accounting acquirer), have been presented as the continuing operations of the Company since inception. The transaction was accounted for as follows:

Cash	\$	24,704
Goodwill		93,050
Total	\$	<u>117,754</u>

The goodwill recognized in connection with the acquisition is primarily attributable to anticipated synergies and benefits from the combination of the two companies, including access to the public markets to raise capital, and is expected to be deductible for tax purposes.

Series A Preferred Stock is convertible to common stock at a ratio of 8.33 shares of common stock for each share of preferred stock held and votes together with the common stock on an as-converted basis. The new Series A Preferred Stock converted automatically to common stock upon the effectiveness of the reverse split of our common stock in August 2019. This common stock and Series A Preferred Stock issued under the SEA constituted approximately 83.33% of our issued and outstanding share capital on a fully-diluted basis on the date of issuance.

Series B Preferred Stock is convertible to common stock at a ratio of 0.83 shares of common stock for each share of preferred stock held and votes together with the common stock on an as-converted basis. The Series B Preferred Stock issued under the SEA constituted approximately 15.64% of our issued and outstanding share capital on a fully-diluted basis on the date of issuance.

B. Organizational

In July 2019, we changed our name from TimeFire VR Inc. to Red Cat Holdings, Inc.

In August 2019, we changed our fiscal year to April 30 which was the historical fiscal year of Red Cat Propware, Inc.

In August 2019, we effected a reverse stock split (the "Reverse Stock Split") of our outstanding shares of common stock at a ratio of one-for-twelve hundred (1 for 1,200). All references in this report to shares of the Company's common stock, including prices per share of its common stock, reflect the Reverse Stock Split.

C. Merger Agreement with Rotor Riot, LLC

On December 31, 2019, the Company entered into an Agreement of Merger (the "Merger Agreement") with Rotor Riot and the three members of Rotor Riot. On January 23, 2020, the Merger was consummated under which Rotor Riot Acquisition Corp, a wholly owned Delaware subsidiary of the Company, merged with and into Rotor Riot, with Rotor Riot continuing as the surviving entity and a wholly owned subsidiary of the Company.

Under the Merger Agreement, each member of Rotor Riot received its pro rata portion of the total number of shares of the Company's common stock issued based on (A)(i) \$3,700,000 minus (ii) \$915,563 (which included certain debt and other obligations of Rotor Riot and its Chief Executive Officer that the Company agreed to assume (the "Assumed Obligations")) divided by (B) the volume weighted average price ("VWAP") of the Company's common stock for the twenty trading days prior to the closing of the Merger. Based on a share issuance value of \$2,784,437 and a VWAP of \$1.25445, the Company issued an aggregate of 2,219,650 shares of common stock to the members of Rotor Riot.

Following the closing of the Merger Agreement, the former members of Rotor Riot owned approximately 10.4% of the Company. In addition, the Company's management controls the operating decisions of the combined company. Accordingly, we have accounted for the transaction as an acquisition of Rotor Riot by the Company. Based on purchase price accounting, we have recognized the assets and liabilities of Rotor Riot at fair value with the excess of the purchase price over the net assets acquired recognized as goodwill. The table below reflects the Company's estimates of the acquisition date values of the purchase consideration, assets acquired, and liabilities assumed. The shares issued were valued at \$1,820,113 (2,219,650 shares issued times \$0.82 per share which equaled the closing price of the Company's common stock on the date that the merger agreement was consummated).

I. **Purchase Price**

Shares issued	\$	1,820,114
Promissory note issued	\$	175,000
Total Purchase Price	\$	<u>1,995,114</u>

II. **Purchase Price Allocation**

<i><u>Assets Acquired</u></i>		
Cash	\$	21,623
Accounts receivable		28,500
Other assets		3,853
Inventory		127,411
Trademark		20,000
Goodwill		2,373,023
Total assets acquired		<u>2,574,410</u>
<i><u>Liabilities Assumed</u></i>		
Accounts Payable and accrued expenses	\$	171,651
Notes payable	\$	209,799
Due to Related Party	\$	197,846
Total liabilities assumed	\$	<u>579,296</u>
Net assets acquired	\$	<u>1,995,114</u>

The foregoing amounts reflect our current estimates of fair value as of the January 23, 2020 acquisition date. The Company expects to recognize fair values associated with the customer relationships acquired, as well as the Rotor Riot brand name, but has not yet accumulated sufficient information to assign such values. As additional information becomes known regarding the acquired assets and assumed liabilities, management may make adjustments to the opening balance sheet of the acquired company up to the end of the measurement period, which is a one-year period following the acquisition date. The determination of the fair values of the acquired assets and liabilities assumed (and the related determination of estimated lives of depreciable tangible and intangible assets) requires significant judgement.

Note 2 - Going Concern

The financial statements have been prepared on a going concern basis which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in our accompanying financial statements, we have negative working capital of approximately \$800,000 at July 31, 2020 and have accumulated losses totaling approximately \$3 million through July 31, 2020. Management recognizes that these operating results and our financial position raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts and the classification of liabilities that might be necessary should we be unable to continue as a going concern.

We are presently seeking to address these going concern doubts through a number of actions including efforts to (a) raise capital through the public markets, (b) release additional commercial products and (c) pursue acquisitions of complementary, revenue generating companies which are accretive to our operating results. We can provide no assurance that any of these efforts will be successful or, that even if successful, that they will alleviate doubts about our ability to continue as a going concern.

Note 3 - Summary of Significant Accounting Policies

Basis of Accounting - The financial statements and accompanying notes are prepared in accordance with GAAP.

Principles of Consolidation – Our condensed consolidated financial statements include the accounts of our subsidiaries, Red Cat Propware, Inc. and Rotor Riot, LLC. Intercompany transactions and balances have been eliminated.

Use of Estimates – The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates reflected in these financial statements include those used to (i) determine stock based compensation and (ii) complete purchase price accounting for acquisitions.

Cash – At July 31, 2020, we held cash of \$55,870 in multiple commercial banks and financial services companies. We have not experienced any loss on these accounts and believe they are not exposed to any significant credit risk.

Leases – Leases at July 31, 2020 are short term in nature and do not require accounting under the lease accounting standards.

Goodwill – Goodwill represents the excess of the purchase price of an acquisition over the estimated fair value of identifiable net assets acquired. The measurement periods for the valuation of assets acquired and liabilities assumed ends as soon as information on the facts and circumstances that existed as of the acquisition date becomes known, not to exceed 12 months. Adjustments in a purchase price allocation may require a change in the amounts allocated to goodwill during the periods in which the adjustments are determined.

We perform an impairment test at the end of each fiscal year, or more frequently if indications of impairment arise. We have a single reporting unit, and consequently, evaluate goodwill for impairment based on an evaluation of the fair value of the Company as a whole.

Common Stock – Our common stock has a par value of \$0.001 per share.

Warrants – In connection with our Series B Preferred Stock Issuance, we issued warrants to purchase shares of our common stock. Outstanding warrants are standalone instruments that are not puttable or mandatorily redeemable by the holder and are classified as equity. We measured the fair value of the warrants using the Black-Scholes option pricing model.

Revenue Recognition – The Company recognizes revenue in accordance with ASC 606, “Revenue from Contracts with Customers”, issued by the Financial Accounting Standards Board (“FASB”). This standard includes a comprehensive evaluation of factors to be considered regarding revenue recognition including (i) identifying the promised goods, (ii) evaluating performance obligations, (iii) measuring the transaction price, (iv) allocating the transaction price to the performance obligations if there are multiple components, and (v) recognizing revenue as each obligation is satisfied. The Company’s revenue transactions include a single component, specifically, the shipment of goods to customers as orders are received. Customers pay at the time they order and the Company recognizes revenue upon shipment. The timing of the shipment of orders can vary considerably depending upon whether an order is for an item normally maintained in inventory or an order that requires assembly or unique parts. Customer deposits totaled \$77,053 and \$38,419 at July 31, 2020 and April 30, 2020, respectively.

Research and Development - Research and development expenses include payroll, employee benefits, and other headcount-related expenses associated with product development. Research and development expenses also include third-party development and programming costs, as well as a proportionate share of overhead costs such as rent. Costs related to software development are included in research and development expense until technological feasibility is reached, which for our software products, is generally shortly before the products are released to production. Once technological feasibility is reached, such costs are capitalized and amortized as a cost of revenue over the estimated lives of the products.

Income Taxes - Deferred taxes are provided on the liability method, whereby deferred tax assets are recognized for deductible temporary differences 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 and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Recent Accounting Pronouncements - Management does not believe that recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying condensed consolidated financial statements.

Comprehensive Loss –During the three months ended July 31, 2020 and 2019, there were no differences between net loss and comprehensive loss. Therefore, the consolidated statements of comprehensive loss have been omitted.

Stock-Based Compensation – We use the estimated grant-date fair value method of accounting in accordance with ASC Topic 718, Compensation – Stock Compensation. Fair value is determined using the Black-Scholes Model using inputs reflecting our estimates of expected volatility, term and future dividends. We plan to estimate the forfeiture rate based on our historical experience but have made no such allowance to date as our first issuances of stock based awards occurred in October 2019 and we have not experienced any forfeitures to date. We recognize compensation costs on a straight line basis over the service period which is generally the vesting term.

Basic and Diluted Net Loss per Share– Basic and diluted net loss per share has been calculated by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Common stock equivalents were excluded from the computation of diluted net loss per share of common stock because they were anti-dilutive. The exercise of these common stock equivalents would dilute earnings per share if we become profitable in the future.

Related Parties – Parties are considered to be related to us if they have control or significant influence, directly or indirectly, over us, including key management personnel and members of the Board of Directors. Related Party transactions are disclosed in Note 12.

Note 4 – Notes Payable

In connection with the merger agreement with Rotor Riot, the Company agreed to assume certain financial obligations of Rotor Riot totaling \$216,099 in the aggregate. A summary of these obligations is as follows:

A. Note Payable to PayPal

In November 2019, Rotor Riot entered into an agreement with PayPal under which it borrowed \$100,000. PayPal is an electronic commerce company that facilitates payments between parties through online funds transfers. The Company processes certain customer payments ordered on its e-commerce site through PayPal. The note is being repaid through 52 weekly payments of \$2,056 ending in November 2020, resulting in an effective interest rate of 16%. The balance outstanding at July 31, 2020 was \$55,945.

B. Note Payable to Shopify Capital

In August 2019, Rotor Riot entered into an agreement with Shopify Capital under which it sold \$176,000 of “Purchased Receivables” for total consideration of \$160,000. Shopify Capital is an affiliate of Shopify, Inc. which provides sales software and services to the Company. The Company processes customer transactions ordered on its e-commerce site through Shopify which retained 14% of daily receipts until a total of \$176,000 was retained. This note was repaid in May 2020. In May 2020, Rotor Riot entered into a new agreement with Shopify Capital under which it sold \$158,200 of Purchased Receivables for total consideration of \$140,000. Shopify will retain 17% of daily receipts until a total of \$158,200 is retained. The balance outstanding at July 31, 2020 was \$66,107.

C. Note Payable to Race Day Quads

During 2019, Rotor Riot purchased inventory from Race Day Quads (“RDQ”), an online retailer of drone racing parts. The owner of Race Day Quads acquired a Membership Interest in Rotor Riot in March 2019. The balance owed at July 31, 2020 totaled \$49,223.

Note 5 – Due to Related Party

BRIT, LLC, formally known as Brains Riding in Tanks, LLC, was the largest shareholder of Rotor Riot. Following the Merger, BRIT is a significant shareholder in the Company. The controlling shareholder of BRIT is now employed in a management role with the Company.

A. Note Payable to BRIT, LLC

Under the terms of the Merger Agreement, the Company issued a promissory note to BRIT, LLC in the principal amount of \$175,000. The promissory note bears interest at 4.75% annually and provides for monthly principal payments of \$3,500. The outstanding principal amount and all accrued interest is due on the earlier of (a) January 23, 2021 or (b) the closing of an equity offering by the Company of at least \$3,500,000. The balance outstanding at July 31, 2020 totaled \$164,260. In addition, accrued interest totaled \$5,010 at July 31, 2020.

B. Obligations of BRIT, LLC

BRIT incurred certain financial obligations in support of the operations of Rotor Riot which the Company assumed responsibility to pay. The total amount assumed was \$167,939. These obligations bear interest at annual rates ranging from 7.5% to 21.74%. The outstanding balance totaled \$168,944 at July 31, 2020.

Note 6 – Convertible Debentures

In November 2019 we issued a convertible note in the principal amount of \$300,000 to one accredited investor and in December 2019 we issued a convertible note in the principal amount of \$125,000 to a director and a convertible note in the principal amount of \$25,000 to our chief executive officer (collectively, the “Notes”). The Notes have a term of 2 years and bear interest at a rate of 12% which accrues and is payable in full when the Notes mature. Interest on the Notes may be paid in cash or in shares of common stock of the Company at the Conversion Price (as defined below). The Notes are convertible into shares of common stock at the holder’s sole discretion as follows: (A) prior to consummating an equity financing which generates gross proceeds of not less than \$3,000,000 (a “Qualified Offering”), then at the 30 day volume weighted average of the closing price of a share of our common stock as listed or quoted on the market in which the shares are then traded or listed, or (B) after we have consummated a Qualified Offering, at 40% of the price per share of common stock sold in the Qualified Offering (the “Conversion Price”). We may, upon 10 business days advance notice, elect to pre-pay the Note, including all accrued interest, in whole or in part, provided that any such prepayment prior to the one-year anniversary of the Note issuance shall be at a price equal to 112% of the then outstanding original principal amount. Upon an event of default, as described in the Notes, the outstanding principal and interest shall become immediately due and payable. Additionally, under the Note, unless waived by the holder, the holder shall not be entitled to convert the Note if such conversion would result in beneficial ownership by the holder and its affiliates of more than 9.99% of the outstanding shares of common stock of the Company on such date. Based on the Company’s results since inception, both on an operating and capital raising basis, we believe that it is more likely than not that the Company will not be able to complete an equity financing of at least \$3,000,000 during the term of the Notes. In addition, we do not believe that the Company will be able to pre-pay the Notes prior to the one year anniversary of their issuance. Based on these conclusions, the Company has not recognized a beneficial conversion feature or a derivative liability in connection with the convertible debentures.

Note 7 - Income Taxes

Our operating subsidiary is incorporated and based in Puerto Rico which is a commonwealth of the United States. We are not subject to taxation by the United States as Puerto Rico has its own taxing authority which passed the Export Services Act, also known as Act 20, in 2012. Under Act 20, eligible businesses are subject to a special corporate tax rate of 4%. Since inception, we have incurred net losses in each year of operations. Our current provision for the reporting periods presented in these financial statements consisted of a tax benefit against which we applied a full valuation allowance, resulting in no current provision for income taxes. In addition, there was no deferred provision for any of these reporting periods.

At July 31, 2020 and April 30, 2020, we had accumulated deficits of approximately \$3,000,000 and \$2,600,000, respectively. Deferred tax assets related to the future benefit of these net operating losses for tax purposes totaled approximately \$120,000 and \$104,000, respectively, based on the Act 20 rate of 4%. Currently, we focus on projected future taxable income in evaluating whether it is more likely than not that these deferred assets will be realized. Based on the fact that we have not generated an operating profit since inception, we have applied a full valuation allowance against our deferred tax assets at July 31, 2020 and April 30, 2020.

Note 8 – Common Stock

We are authorized to issue 500,000,000 shares of common stock. Each share of common stock is entitled to one vote.

Note 9 – Preferred Stock

Our Series A Preferred Stock (“Series A Stock”) is convertible to common stock at a ratio of 8.33 shares of common stock for each share of Series A Stock, and votes together with the common stock on an as-converted basis. The Series A Preferred Stock was originally issued under the Securities Exchange Agreement, as further described in Note 1. The Series A Stock was automatically converted into shares of common stock upon the effectiveness of our reverse stock split in August 2019, except for 208,704 shares which were subject to a limitation on the number of shares of common stock that can be held by the holder of those shares of Series A Stock.

Our Series B Preferred Stock (“Series B Stock”) is convertible into common stock at a ratio of 0.8334 shares of common stock for each share of Series B Stock held and votes together with the common stock on an as-converted basis. The Series B Preferred Stock was originally issued under the Exchange Agreement, as further described in Note 1. Conversions of Series B Stock into Common Stock are as follows:

<u>Date</u>	<u>Series B</u>	<u>Common Stock</u>
July 2019	240,000	200,000
November 2019	60,000	50,000
December 2019	231,022	192,519

Note 10 - Warrants

In May 2019, as part of the Share Exchange Agreement, we issued warrants to purchase 469,874 shares of common stock at an exercise price of \$0.324 per share of common stock. The value of these warrants was considered to be a nominal amount at the time of issuance. In September 2019, we received \$152,239 in connection with the exercise of these warrants. We also assumed a fully vested, restricted stock unit agreement requiring the issuance of 41,667 shares of common stock in May 2021, as well as a warrant to purchase 5,556 shares of common stock at an exercise price of \$60.00 per share. This warrant expires in March 2021.

Note 11 – Share Based Awards

Effective August 2019, shareholders approved the 2019 Equity Incentive Plan (the “Plan”) which allows us to incentivize key employees, consultants, and directors with long term compensation awards such as stock options, restricted stock, and restricted stock units (collectively, the “Awards”). The number of shares issuable in connection with Awards under the Plan may not exceed 8,750,000.

A. October 2019 Issuances

In October 2019, we issued options to purchase 350,000 shares of common stock valued at \$477,500. Options to purchase 200,000 shares vest ratably over a 2 year period and expire in October 2029. Options to purchase 150,000 shares vest ratably over a 3 year period and expire in October 2024. All of the options were issued at an exercise price of \$2.10 which equaled the stock price on the date of issuance. We used the Black-Scholes Model to estimate the fair value of the stock options issued using the following assumptions: (i) expected volatility – 75%, (ii) risk free interest rate – 1.59% or 1.74%, (iii) expected life – 5 or 10 years, and (iv) expected dividend yield of 0%.

B. January 2020 Issuances

In January 2020, we issued options to purchase 1,100,000 shares of common stock exercisable at \$0.82 vesting quarterly over a 3 year period. These options were valued at \$707,300. We also issued options to purchase 147,475 shares of common stock exercisable at \$0.82. These options were valued at \$94,826 and were vested in full upon issuance. All of these options were issued at an exercise price which equaled the stock price on the date of issuance. We used the Black-Scholes Model to estimate the fair value of the stock options issued using the following assumptions: (i) expected volatility – 75%, (ii) risk free interest rate – 1.74%, (iii) expected life – 10 years, and (iv) expected dividend yield of zero.

C. Summary for three months ended July 31, 2020

Share based compensation expense recognized in the three months ended July 31, 2020 was \$107,061, of which \$94,629 was included in general and administrative expenses, \$9,945 was included in research and development expenses, and \$2,487 was included in operations expenses. There was no compensation expense recognized in the three months ended July 31, 2019.

Options exercisable as of January 31, 2020 totaled 330,809. The remaining weighted average contractual term of the options outstanding at October 31, 2019 was 8.98 years. The aggregate intrinsic value of outstanding options, representing the excess of the stock price at July 31, 2020 of \$0.99 over the exercise price of each option, was \$212,071 at July 31, 2020.

Note 12 - Related-Party Transactions

Shares Issued for Services – In May 2019, we issued 1,570 shares of common stock valued at \$70,000 to a shareholder for legal services provided to us. In April 2020, we issued 150,000 shares of common stock with a fair market value of \$204,000 to a different law firm for services provided to us.

Convertible Note Financing – In December 2019, we completed a convertible note financing with a member of the Board of Directors for \$125,000 and with our Chief Executive Officer for \$25,000. See Note 6 for details on the terms of the transaction.

Note 13 - Subsequent Events

Subsequent events have been evaluated through the date of this filing and there are no subsequent events which require disclosure.

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of Red Cat Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Red Cat Holdings, Inc. as of April 30, 2020 and 2019, the related statements of operations, stockholders' equity (deficit), and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of April 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and has a significant accumulated deficit. In addition, the Company continues to experience negative cash flows from operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/S/ BF Borgers CPA PC

BF Borgers CPA PC

We have served as the Company's auditor since 2020

Lakewood, CO

August 13, 2020

RED CAT HOLDINGS
Consolidated Balance Sheets

	April 30, 2020	April 30, 2019
ASSETS		
Current Assets		
Cash	\$ 236,668	\$ 503,438
Inventory	\$ 78,650	\$ 0
Other	3,020	100,000
Total Current Assets	318,338	603,438
Goodwill	2,466,073	—
Trademark	20,000	—
Other	3,853	—
TOTAL ASSETS	<u>\$ 2,808,264</u>	<u>\$ 603,438</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 249,050	\$ 20,894
Accrued Expenses	89,342	15,116
Notes Payable	118,771	—
Due to Related Party	333,684	—
Customer deposits	38,419	—
Common shares to be issued	—	754,700
Total Current Liabilities	829,266	790,710
Convertible debentures	450,000	—
Commitments and contingencies		
Stockholders' Equity		
Series A Preferred Stock - shares authorized 2,200,000; outstanding 208,704 and 0	2,087	—
Series B Preferred Stock - shares authorized 4,300,000; outstanding 3,681,623 and 0	36,816	—
Common stock - shares authorized 500,000,000; outstanding 20,011,091 and 179,292	20,011	179
Additional paid-in capital	4,043,837	784,371
Accumulated deficit	(2,573,753)	(971,822)
Total Stockholders' Equity	1,528,998	(187,272)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 2,808,264</u>	<u>\$ 603,438</u>

See accompanying notes.

RED CAT HOLDINGS
Consolidated Statements Of Operations

	Year ended April 30,	
	2020	2019
Revenues	\$ 403,940	\$ —
Cost of goods sold	<u>325,379</u>	<u>\$ —</u>
Gross Margin	78,561	\$ —
Operating Expenses		
Research and development	488,990	366,590
General and administrative	<u>1,248,717</u>	<u>384,742</u>
Total operating expenses	<u>1,737,707</u>	<u>751,332</u>
Operating loss	(1,659,146)	(751,332)
Provision for income taxes	<u>\$ —</u>	<u>\$ —</u>
Net operating income	(1,659,146)	(751,332)
Other income	<u>57,215</u>	<u>\$ —</u>
Net loss	<u>\$ (1,601,931)</u>	<u>\$ (751,332)</u>
Loss per share - basic and diluted	<u>\$ 0.12</u>	<u>\$ 0.14</u>
Weighted average shares outstanding - basic and diluted	<u>13,732,205</u>	<u>5,328,630</u>

See accompanying notes.

RED CAT HOLDINGS
Consolidated Stockholders' Equity Statements

	Series A		Series B		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Equity
	Preferred Stock		Preferred Stock		Shares	Amount			
	Shares	Amount	Shares	Amount					
Balances, April 30, 2018					177,611	\$ 178	\$ 734,372	\$ (220,490)	\$ 514,060
Issuance of common stock					1,681	2	49,999		50,000
Net Loss								(751,332)	(751,332)
Balances, April 30, 2019	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>179,292</u>	<u>\$ 179</u>	<u>\$ 784,371</u>	<u>\$ (971,822)</u>	<u>\$ (187,272)</u>
Issuance of common stock					15,355	15	684,186		684,200
Share Exchange Agreement	2,169,068	21,691	4,212,645	42,126	196,667	197	53,740		117,754
Conversion of Preferred Stock	(1,960,364)	(19,604)	(531,022)	(5,310)	16,778,683	16,779	8,135		—
Exercise of warrants					469,874	470	151,769		152,239
Merger with Rotor Riot					2,219,650	2,220	1,817,893		1,820,113
Stock based compensation							269,895		269,895
Shares Issued for Services					151,570	152	273,848		274,000
Net Loss								(1,601,931)	(1,601,931)
Balances, April 30, 2020	<u>208,704</u>	<u>\$ 2,087</u>	<u>3,681,623</u>	<u>\$ 36,816</u>	<u>20,011,091</u>	<u>\$20,011</u>	<u>\$4,043,837</u>	<u>\$(2,573,753)</u>	<u>\$ 1,528,998</u>

See accompanying notes.

RED CAT HOLDINGS
Consolidated Cash Flows Statements

	Year ended April 30,	
	2020	2019
Cash Flows from Operating Activities		
Net loss	\$ (1,601,931)	\$ (751,332)
Stock based compensation	269,895	0
Common stock issued for services	204,000	70,000
Adjustments to reconcile net loss to net cash from operations:		
Changes in operating assets and liabilities		
Inventory	48,761	—
Other current assets	124,979	(100,000)
Customer deposits	38,419	—
Accounts payable	68,068	20,894
Accrued expense	36,225	7,050
Net cash used in operating activities	<u>(811,584)</u>	<u>(753,388)</u>
Cash Flows from Investing Activities		
Acquired through acquisitions	46,327	—
Net cash provided by investing activities	<u>46,327</u>	<u>—</u>
Cash Flows from Financing Activities		
Proceeds from issuance of common stock	—	684,700
Capital to be returned	—	1,800
Proceeds from exercise of warrants	152,239	—
Proceeds from issuance of convertible debentures	450,000	—
Payments under related party obligations	(12,725)	—
Payments under notes payable	(91,027)	—
Net cash provided by financing activities	<u>498,487</u>	<u>686,500</u>
Net use of Cash		
	(266,770)	(66,888)
Cash, beginning of period	503,438	570,326
Cash, end of period	<u>\$ 236,668</u>	<u>\$ 503,438</u>
Cash paid for interest and taxes		
	—	—
Noncash transactions		
Common stock issued for services	204,000	70,000
Fair value of shares exchanged in acquisitions	<u>\$ 1,937,867</u>	<u>\$ —</u>

See accompanying notes.

RED CAT HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2020 and 2019

Note 1 - The Business

Red Cat Holdings, Inc. (“Red Cat” or the “Company”) was originally incorporated in February 1984. The Company’s primary business is to provide products, services and solutions to the drone industry. It operates in two sectors of the drone industry. Rotor Riot, a wholly owned subsidiary, designs and sells drones and related components. Rotor Riot is focused on the consumer market and sells its products through its e-commerce platform operated at www.rotorriot.com. The Company is also developing software solutions to provide secure cloud-based analytics, storage and services for the drone industry. Its initial product candidate is Dronebox, a blockchain technology that records, stores and analyzes flight data and information from a drone, much like the “black box” utilized by the airline industry. The Company plans to offer Dronebox as a Software-as-a-Service platform.

Recent corporate developments include:

A. The Share Exchange Agreement

Effective May 15, 2019, we closed a Share Exchange Agreement (the “SEA”) with TimeFireVR, Inc., (“TimeFire”), a Nevada corporation. Under the SEA, we acquired approximately 83.33% of TimeFire’s outstanding share capital on a fully-diluted basis. We issued: (i) 196,667 shares of our common stock, (ii) 2,169,068 shares of our newly-designated Series A Preferred Stock, and (iii) 4,212,645 shares of our newly-designated Series B Preferred Stock. In total, the common stock, Series A Preferred Stock, and Series B Preferred Stock issued under the SEA were valued at \$117,754.

The transaction was accounted for as a “reverse acquisition” as the stockholders of Red Cat possessed majority voting control of the company immediately following the acquisition. In this reverse merger, the financial results of Red Cat Propware, Inc., (the accounting acquirer), have been presented as the continuing operations of the Company since inception. The transaction was accounted for as follows:

Cash	\$	24,704
Goodwill		93,050
Total	\$	<u>117,754</u>

The goodwill recognized in connection with the acquisition is primarily attributable to anticipated synergies and benefits from the combination of the two companies, including access to the public markets to raise capital, and is expected to be deductible for tax purposes.

Series A Preferred Stock is convertible to common stock at a ratio of 8.33 shares of common stock for each share of preferred stock held and votes together with the common stock on an as-converted basis. The new Series A Preferred Stock converted automatically to common stock upon the effectiveness of the reverse split of our common stock in August 2019. This common stock and Series A Preferred Stock issued under the SEA constituted approximately 83.33% of our issued and outstanding share capital on a fully-diluted basis on the date of issuance.

Series B Preferred Stock is convertible to common stock at a ratio of 0.83 shares of common stock for each share of preferred stock held, and votes together with the common stock on an as-converted basis. The Series B Preferred Stock issued under the SEA constituted approximately 15.64% of our issued and outstanding share capital on a fully-diluted basis on the date of issuance.

B. Organizational

In July 2019, we changed our name from TimeFire VR Inc. to Red Cat Holdings, Inc.

In August 2019, we changed our fiscal year to April 30 which was the historical fiscal year of Red Cat.

In August 2019, we effected a reverse stock split (the “Reverse Stock Split”) of our outstanding shares of common stock at a ratio of one-for-twelve hundred (1 for 1,200). All references in this report to shares of the Company’s common stock, including prices per share of its common stock, reflect the Reverse Stock Split.

C. Merger Agreement with Rotor Riot, LLC

On December 31, 2019, the Company entered into an Agreement of Merger (the “Merger Agreement”) with Rotor Riot and the three members of Rotor Riot. On January 23, 2020, the Merger was consummated under which Rotor Riot Acquisition Corp, a wholly owned Delaware subsidiary of the Company, merged with and into Rotor Riot, with Rotor Riot continuing as the surviving entity and a wholly owned subsidiary of Red Cat Holdings.

Under the Merger Agreement, each member of Rotor Riot received its pro rata portion of the total number of shares of the Company’s common stock issued based on (A)(i) \$3,700,000 minus (ii) \$915,563 (which included certain debt and other obligations of Rotor Riot and its Chief Executive Officer that the Company agreed to assume (the “Assumed Obligations”) divided by (B) the volume weighted average price (“VWAP”) of the Company’s common stock for the twenty trading days prior to the closing of the Merger. Based on a share issuance value of \$2,784,437 and a VWAP of \$1.25445, the Company issued an aggregate of 2,219,650 shares of common stock to the members of Rotor Riot.

Following the closing of the Merger Agreement, the former members of Rotor Riot owned approximately 10.4% of the Company. In addition, management of Red Cat Holdings controls the operating decisions of the combined company. Accordingly, we have accounted for the transaction as an acquisition of Rotor Riot by Red Cat. Based on purchase price accounting, we have recognized the assets and liabilities of Rotor Riot at fair value with the excess of the purchase price over the net assets acquired recognized as goodwill. The table below reflects the Company’s estimates of the acquisition date values of the purchase consideration, assets acquired, and liabilities assumed. The shares issued were valued at \$1,820,113 (2,219,650 shares issued times \$0.82 per share which equaled the closing price of the Company’s common stock on the date that the merger agreement was consummated).

I. Purchase Price

Shares issued	\$	1,820,114
Promissory note issued	\$	175,000
Total Purchase Price	\$	<u>1,995,114</u>

II. Purchase Price Allocation

<i>Assets Acquired</i>		
Cash	\$	21,623
Accounts receivable		28,500
Other assets		3,853
Inventory		127,411
Trademark		20,000
Goodwill		2,373,023
Total assets acquired		<u>2,574,410</u>
<i>Liabilities Assumed</i>		
Accounts Payable and accrued expenses	\$	171,651
Notes payable	\$	209,799
Due to Related Party	\$	197,846
Total liabilities assumed	\$	<u>579,296</u>
Net assets acquired	\$	<u>1,995,114</u>

The foregoing amounts reflect our current estimates of fair value as of the January 23, 2020 acquisition date. The Company expects to recognize fair values associated with the customer relationships acquired, as well as the Rotor Riot brand name, but has not yet accumulated sufficient information to assign such values. As additional information becomes known regarding the acquired assets and assumed liabilities, management may make adjustments to the opening balance sheet of the acquired company up to the end of the measurement period, which is a one-year period following the acquisition date. The determination of the fair values of the acquired assets and liabilities assumed (and the related determination of estimated lives of depreciable tangible and intangible assets) requires significant judgement.

Note 2 - Going Concern

The financial statements have been prepared on a going concern basis which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in our accompanying financial statements, we have (i) negative working capital of approximately \$500,000 at April 30, 2020, (ii) have generated less than \$500,000 in revenues since our inception, and (iii) have accumulated losses totaling approximately \$2.6 million through April 30, 2020. Management recognizes that these operating results and our financial position raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts and the classification of liabilities that might be necessary should we be unable to continue as a going concern.

We are presently seeking to address these going concern doubts through a number of actions including efforts to (a) raise capital through the public markets, (b) release additional commercial products and (c) pursue acquisitions of complementary, revenue generating companies which are accretive to our operating results. We can provide no assurance that any of these efforts will be successful or, that even if successful, that they will alleviate doubts about our ability to continue as a going concern.

Note 3 - Summary of Significant Accounting Policies

Basis of Accounting - The financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles ("GAAP").

Principles of Consolidation - Our condensed consolidated financial statements include the accounts of our subsidiaries, Red Cat Propware, Inc. and Rotor Riot, LLC. Intercompany transactions and balances have been eliminated.

Use of Estimates - The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates reflected in these financial statements include those used to (i) determine stock based compensation and (ii) complete purchase price accounting for acquisitions.

Cash - At April 30, 2020, our cash balances totaled \$236,668 and was held across multiple commercial banks and financial services companies. We have not experienced any loss on these accounts and believe they are not exposed to any significant credit risk.

Leases - Leases at April 30, 2020 are short term in nature and do not require accounting under the lease accounting standards.

Goodwill - Goodwill represents the excess of the purchase price of an acquisition over the estimated fair value of identifiable net assets acquired. The measurement periods for the valuation of assets acquired and liabilities assumed ends as soon as information on the facts and circumstances that existed as of the acquisition date becomes known, not to exceed 12 months. Adjustments in a purchase price allocation may require a change in the amounts allocated to goodwill during the periods in which the adjustments are determined.

We plan to perform an impairment test at the end of each fiscal year, or more frequently if indications of impairment arise. We have a single reporting unit, and consequently, evaluate goodwill for impairment based on an evaluation of the fair value of the Company as a whole.

Common Stock - Our common stock has a par value of \$0.001 per share.

Warrants - In connection with our Series B Preferred Stock Issuance, we issued warrants to purchase shares of our common stock. Outstanding warrants are standalone instruments that are not puttable or mandatorily redeemable by the holder and are classified as equity. We measured the fair value of the warrants using the Black-Scholes option pricing model.

Revenue Recognition – The Company recognizes revenue in accordance with ASC 606, “Revenue from Contracts with Customers”, issued by the Financial Accounting Standards Board (“FASB”). This standard includes a comprehensive evaluation of factors to be considered regarding revenue recognition including (i) identifying the promised goods, (ii) evaluating performance obligations, (iii) measuring the transaction price, (iv) allocating the transaction price to the performance obligations if there are multiple components, and (v) recognizing revenue as each obligation is satisfied. The Company’s revenue transactions include a single component, specifically, the shipment of goods to customers as orders are received. Customers pay at the time they order and the Company recognizes revenue upon shipment. The timing of the shipment of orders can vary considerably depending upon whether an order is for an item normally maintained in inventory or an order that requires assembly or unique parts. Customer deposits totaled \$38,419 and \$ 0 at April 30, 2020 and 2019, respectively.

Other Income – In April 2020, the Company received \$57,215 in connection with a Payment Protection Program loan issued by the Small Business Administration. Under the terms of the loan, the full amount is eligible to be forgiven if the Company spends the funds for certain operating expenses, including payroll costs, over a certain period of time after the issuance of the loan. The Company believes that it has complied with the terms of the loan and that the entire amount will be forgiven. Therefore, the full amount has been recognized as Other Income in the Statement of Operations for the fiscal year ended April 30, 2020.

Research and Development - Research and development expenses include payroll, employee benefits, and other headcount-related expenses associated with product development. Research and development expenses also include third-party development and programming costs, as well as a proportionate share of overhead costs such as rent. Costs related to software development are included in research and development expense until technological feasibility is reached, which for our software products, is generally shortly before the products are released to production. Once technological feasibility is reached, such costs are capitalized and amortized as a cost of revenue over the estimated lives of the products.

Income Taxes - Deferred taxes are provided on the liability method, whereby deferred tax assets are recognized for deductible temporary differences 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 and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Recent Accounting Pronouncements - Management does not believe that recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying condensed consolidated financial statements.

Comprehensive Loss –During the years ended April 30, 2020 and 2019, there were no differences between net loss and comprehensive loss. Therefore, the consolidated statements of comprehensive loss have been omitted.

Stock-Based Compensation – We use the estimated grant-date fair value method of accounting in accordance with ASC Topic 718, Compensation – Stock Compensation. Fair value is determined using the Black-Scholes Model using inputs reflecting our estimates of expected volatility, term and future dividends. We plan to estimate the forfeiture rate based on our historical experience but have made no such allowance to date as our first issuances of stock based awards occurred in October 2019. We recognize compensation costs on a straight line basis over the service period which is generally the vesting term.

Basic and Diluted Net Loss per Share– Basic and diluted net loss per share has been calculated by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Common stock equivalents were excluded from the computation of diluted net loss per share of common stock because they were anti-dilutive. The exercise of these common stock equivalents would dilute earnings per share if we become profitable in the future.

Related Parties – Parties are considered to be related to us if they have control or significant influence, directly or indirectly, over us, including key management personnel and members of the Board of Directors. Related Party transactions are disclosed in Note 12.

Note 4 – Notes Payable

In connection with the merger agreement with Rotor Riot, the Company agreed to assume certain financial obligations of Rotor Riot totaling \$216,099 in the aggregate. A summary of these obligations is as follows:

A. Note Payable to PayPal

In November 2019, Rotor Riot entered into an agreement with PayPal under which it borrowed \$100,000. PayPal is an electronic commerce company that facilitates payments between parties through online funds transfers. The Company processes certain customer payments ordered on its e-commerce site through PayPal. The note is being repaid through 52 weekly payments of \$2,056 ending in November 2020, resulting in an effective interest rate of 16%. The balance outstanding at April 30, 2020 was \$61,673.

B. Note Payable to Shopify Capital

In August 2019, Rotor Riot entered into an agreement with Shopify Capital under which it sold \$176,000 of “Purchased Receivables” for total consideration of \$160,000. Shopify Capital is an affiliate of Shopify, Inc. which provides sales software and services to the Company. The Company processes customer transactions ordered on its e-commerce site through Shopify which will retain 14% of daily receipts until a total of \$176,000 is retained. The balance outstanding at April 30, 2020 was \$7,875.

C. Note Payable to Race Day Quads

During 2019, Rotor Riot purchased inventory from Race Day Quads (“RDQ”), an online retailer of drone racing parts. The owner of Race Day Quads acquired a Membership Interest in Rotor Riot in March 2019. In October 2019, RDQ agreed to allow Rotor Riot to pay for \$82,141 of inventory purchases on an installment basis through June 2020. The balance outstanding at January 31, 2020 was \$49,223. The Company has been in discussions with RDQ regarding the payment of the remaining balance.

Note 5 – Due to Related Party

BRIT, LLC, formally known as Brains Riding in Tanks, LLC, was the largest shareholder of Rotor Riot. Following the Merger, BRIT is a significant shareholder in the Company. The controlling shareholder of BRIT is now employed in a management role with the Company.

A. Note Payable to BRIT, LLC

Under the terms of the Merger Agreement, the Company issued a promissory note to BRIT, LLC in the principal amount of \$175,000. The promissory note bears interest at 4.75% annually and requires \$3,500 of the principal amount to be paid monthly. The outstanding principal amount and all accrued interest is due on the earlier of (a) January 23, 2021 or (b) the closing of an equity offering by the Company of at least \$3,500,000. The balance outstanding at April 30, 2020 totaled \$164,234. In addition, accrued interest totaled \$2,232 at April 30, 2020.

B. Obligations of BRIT, LLC

BRIT incurred certain financial obligations in support of the operations of Rotor Riot which the Company has agreed to assume responsibility to pay. The total amount assumed was \$167,939 which equals the balance outstanding at January 31, 2020. These obligations bear interest at annual rates ranging from 7.5% to 21.74%. The outstanding balance of these assumed obligations totaled \$72,299 at April 30, 2020.

Note 6 – Convertible Debentures

In November 2019 we issued a convertible note in the principal amount of \$300,000 to one accredited investor and in December 2019 we issued a convertible note in the principal amount of \$125,000 to a director and a convertible note in the principal amount of \$25,000 to our chief executive officer (collectively, the “Notes”). The Notes have a term of 2 years and bear interest at a rate of 12% which accrues and is payable in full when the Notes mature. Interest on the Notes may be paid in cash or in shares of common stock of the Company at the Conversion Price (as defined below). The Notes are convertible into shares of common stock at the holder’s sole discretion as follows: (A) prior to consummating an equity financing which generates gross proceeds of not less than \$3,000,000 (a “Qualified Offering”), then at the 30 day volume weighted average of the closing price of a share of our common stock as listed or quoted on the market in which the shares are then traded or listed, or (B) after we have consummated a Qualified Offering, at 40% of the price per share of common stock sold in the Qualified Offering (the “Conversion Price”). We may, upon 10 business days advance notice, elect to pre-pay the Note, including all accrued interest, in whole or in part, provided that any such prepayment prior to the one-year anniversary of the Note issuance shall be at a price equal to 112% of the then outstanding original principal amount. Upon an event of default, as described in the Notes, the outstanding principal and interest shall become immediately due and payable. Additionally, under the Note, unless waived by the holder, the holder shall not be entitled to convert the Note if such conversion would result in beneficial ownership by the holder and its affiliates of more than 9.99% of the outstanding shares of common stock of the Company on such date. Based on the Company’s results since inception, both on an operating and capital raising basis, we believe that it is more likely than not that the Company will not be able to complete an equity financing of at least \$3,000,000 during the term of the Notes. In addition, we do not believe that the Company will be able to pre-pay the Notes prior to the one year anniversary of their issuance. Based on these conclusions, the Company has not recognized a beneficial conversion feature or a derivative liability in connection with the convertible debentures.

Note 7 - Income Taxes

Our operating subsidiary is incorporated and based in Puerto Rico which is a commonwealth of the United States. We are not subject to taxation by the United States as Puerto Rico has its own taxing authority which passed the Export Services Act, also known as Act 20, in 2012. Under Act 20, eligible businesses are subject to a special corporate tax rate of 4%. Since inception, we have incurred net losses in each year of operations. Our current provision for the reporting periods presented in these financial statements consisted of a tax benefit against which we applied a full valuation allowance, resulting in no current provision for income taxes. In addition, there was no deferred provision for any of these reporting periods.

At April 30, 2020 and 2019, we had accumulated deficits of approximately \$2,600,000 and \$972,000, respectively. Deferred tax assets related to the future benefit of these net operating losses for tax purposes totaled approximately \$104,000 and \$39,000, respectively, based on the Act 20 rate of 4%. Currently, we focus on projected future taxable income in evaluating whether it is more likely than not that these deferred assets will be realized. Based on the fact that we have not generated an operating profit since inception, we have applied a full valuation allowance against our deferred tax assets at January 31, 2020 and April 30, 2019.

Note 8 – Common Stock

We are authorized to issue 500,000,000 shares of common stock. Each share of common stock is entitled to one vote.

Note 9 – Preferred Stock

Our Series A Preferred Stock (“Series A Stock”) is convertible to common stock at a ratio of 8.33 shares of common stock for each share of Series A Stock, and votes together with the common stock on an as-converted basis. The Series A Preferred Stock was originally issued under the Securities Exchange Agreement, as further described in Note 1. The Series A Stock was automatically converted into shares of common stock upon the effectiveness of our reverse stock split in August 2019, except for 208,704 shares which were subject to a limitation on the number of shares of common stock that can be held by the holder of those shares of Series A Stock.

Our Series B Preferred Stock (“Series B Stock”) is convertible into common stock at a ratio of 0.8334 shares of common stock for each share of Series B Stock held and votes together with the common stock on an as-converted basis. The Series B Preferred Stock was originally issued under the Exchange Agreement, as further described in Note 1. Conversions of Series B Stock into Common Stock are as follows:

<u>Date</u>	<u>Series B</u>	<u>Common Stock</u>
July 2019	240,000	200,000
November 2019	60,000	50,000
December 2019	231,022	192,519

Note 10 - Warrants

In May 2019, as part of the Share Exchange Agreement, we issued warrants to purchase 469,874 shares of common stock at an exercise price of \$0.324 per share of common stock. The value of these warrants was considered to be a nominal amount at the time of issuance. In September 2019, we received \$152,239 in connection with the exercise of these warrants. We also assumed a fully vested, restricted stock unit agreement requiring the issuance of 41,667 shares of common stock in May 2021, as well as a warrant to purchase 5,556 shares of common stock at an exercise price of \$60.00 per share. This warrant expires in March 2021.

Note 11 – Share Based Awards

Effective August 2019, shareholders approved the 2019 Equity Incentive Plan (the “Plan”) which allows us to incentivize key employees, consultants, and directors with long term compensation awards such as stock options, restricted stock, and restricted stock units (collectively, the “Awards”). The number of shares issuable in connection with Awards under the Plan may not exceed 8,750,000.

A. October 2019 Issuances

In October 2019, we issued options to purchase 350,000 shares of common stock valued at \$477,500. Options to purchase 200,000 shares vest ratably over a 2 year period and expire in October 2029. Options to purchase 150,000 shares vest ratably over a 3 year period and expire in October 2024. All of the options were issued at an exercise price of \$2.10 which equaled the stock price on the date of issuance. We used the Black-Scholes Model to estimate the fair value of the stock options issued using the following assumptions: (i) expected volatility – 75%, (ii) risk free interest rate – 1.59% or 1.74%, (iii) expected life – 5 or 10 years, and (iv) expected dividend yield of 0%.

B. January 2020 Issuances

In January 2020, we issued options to purchase 1,100,000 shares of common stock exercisable at \$0.82 vesting quarterly over a 3 year period. These options were valued at \$707,300. We also issued options to purchase 147,475 shares of common stock exercisable at \$0.82. These options were valued at \$94,826 and were vested in full upon issuance. All of these options were issued at an exercise price which equaled the stock price on the date of issuance. We used the Black-Scholes Model to estimate the fair value of the stock options issued using the following assumptions: (i) expected volatility – 75%, (ii) risk free interest rate – 1.74%, (iii) expected life – 10 years, and (iv) expected dividend yield of zero.

C. Summary

Compensation expense recognized during the year ended April 30, 2020 was 269,895, of which \$213,959 was included in general and administrative expenses and \$55,936 was included in research and development expenses. There was no compensation expense recognized during the year ended April 30, 2019.

Options exercisable as of January 31, 2020 totaled 339,142. The remaining weighted average contractual term of the options outstanding at October 31, 2019 was 9.22 years. The aggregate intrinsic value of outstanding options, representing the excess of the stock price at April 30, 2020 of \$1.50 over the exercise price of each option, was \$848,283 at April 30, 2020.

Note 12 - Related-Party Transactions

Shares Issued for Services – In May 2019, we issued 1,570 shares of common stock valued at \$70,000 to a shareholder for legal services provided to us. In April 2020, we issued 150,000 shares of common stock with a fair market value of \$204,000 to a different law firm for services provided to us.

Office Lease – We rented space from our Chief Executive Officer during the fiscal year ended April 30, 2019 and made payments totaling \$8,100.

Convertible Note Financing – In December 2019, we completed a convertible note financing with a member of the Board of Directors for \$125,000 and with our Chief Executive Officer for \$25,000. See Note 6 for details on the terms of the transaction.

Note 13 - Subsequent Events

Subsequent events have been evaluated through the date of this filing and there are no subsequent events which require disclosure.

FAT SHARK HOLDINGS
Condensed Consolidated Balance Sheets

	September 30, 2020	September 30, 2019
ASSETS		
Current Assets		
Cash and equivalents	\$ 237,560	\$ 362,022
Accounts receivable, net	185,656	404,987
Inventory	276,297	556,042
Other	416,863	5,575
Total Current Assets	<u>1,116,376</u>	<u>1,328,626</u>
Other	<u>105,000</u>	<u>\$ 55,000</u>
TOTAL ASSETS	<u>\$ 1,221,376</u>	<u>\$ 1,383,626</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 258,514	\$ 792,314
Accrued Expenses	48,478	35,370
Customer deposits	<u>40,249</u>	<u>\$ 0</u>
	347,241	827,684
Notes Payable	936,271	\$ 936,271
Commitments and contingencies		
Stockholders' Equity		
Preferred Stock - 700,000 shares authorized and outstanding	35,000	35,000
Common Stock - 500 million shares authorized; zero shares outstanding	0	0
Additional paid-in capital	1,200	1,200
Accumulated deficit	<u>(98,336)</u>	<u>(416,529)</u>
Total Stockholders' Equity	<u>(62,136)</u>	<u>(380,329)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,221,376</u>	<u>\$ 1,383,626</u>

See accompanying notes.

FAT SHARK HOLDINGS
Condensed Consolidated Statements Of Operations

	Period ended September 30,	
	2020	2019
Revenues	\$ 4,436,439	\$ 5,597,234
Cost of goods sold	<u>3,463,995</u>	<u>4,355,218</u>
Gross Margin	972,444	1,242,016
Operating Expenses		
Operations	119,063	202,829
Research and development	207,514	328,628
Sales and marketing	57,678	67,901
General and administrative	<u>280,562</u>	<u>402,982</u>
Total operating expenses	<u>664,817</u>	<u>1,002,340</u>
Operating income	307,627	239,676
Provision for income taxes	—	—
Net income	<u>\$ 307,627</u>	<u>\$ 239,676</u>

FAT SHARK HOLDINGS
Condensed Consolidated Cash Flows Statements

	Period ended September 30,	
	2020	2019
Cash Flows from Operating Activities		
Net income	\$ 307,626	\$ 239,676
Adjustments to reconcile net income to net cash from operations:		
Forgiveness of note receivable	(50,000)	—
Opening Equity	—	(4,000)
Changes in operating assets and liabilities		
Accounts receivable	313,819	175,716
Inventory	203,125	375,862
Other current assets	(271,338)	(5,575)
Accounts payable	(697,195)	(127,162)
Accrued expenses	8,461	391
Customer deposits	(90,289)	(83,722)
Net cash (used in) provided by operating activities	(275,791)	571,186
Cash Flows from Investing Activities	—	—
Cash Flows from Financing Activities		
Repurchase of common stock	—	(30,000)
Payments under notes payable	—	(863,729)
Net cash used in financing activities	—	(893,729)
Net decrease in cash	(275,791)	(322,543)
Cash, beginning of period	513,351	412,320
Cash, end of period	<u>\$ 237,560</u>	<u>\$ 89,777</u>
Cash paid for interest and taxes	—	—

See accompanying notes.

FAT SHARK HOLDINGS
Condensed Consolidated Stockholders' Equity Statements

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balances, December 31, 2018	700,000	\$ 35,000	300,000	\$ 15,000	\$ 16,200	(\$ 656,205)	(\$ 590,005)
Repurchase of common stock			(300,000)	(15,000)	(15,000)		(30,000)
Net Income						239,676	239,676
Balances, September 30, 2019	<u>700,000</u>	<u>35,000</u>	<u>—</u>	<u>—</u>	<u>1,200</u>	<u>(416,529)</u>	<u>(380,329)</u>
Balances, December 31, 2019	700,000	35,000	—	—	1,200	(405,963)	(369,763)
Net income						307,627	307,627
Balances, September 30, 2020	<u>700,000</u>	<u>35,000</u>	<u>—</u>	<u>—</u>	<u>1,200</u>	<u>(98,336)</u>	<u>(62,136)</u>

FAT SHARK HOLDINGS
Notes to Condensed Consolidated Financial Statements
September 30, 2020 and 2019
(unaudited)

Our unaudited interim condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

Note 1 – The Business

The Company was founded in 2007. The Company’s primary business is the sale of consumer electronics products to the first-person view (FPV) sector of the drone industry. Fat Shark’s flagship products are headsets with a built in display (or “goggles”) that allow a pilot to see a real-time video feed from a camera mounted on an aerial platform. The Company is also developing Shark Byte, a digital video downlink to allow for the low latency transmission from the camera on the drone. This technology is designed to replace the analog platforms currently used for FPV.

Principles of Consolidation – The condensed consolidated financial statements include the accounts of our wholly owned subsidiaries, Fat Shark Tech Ltd. Inc. and Fat Shark Technology SEZC. Intercompany transactions and balances have been eliminated.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting – The financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles (“GAAP”).

Use of Estimates – The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash – Cash balances at September 30, 2020 and 2019 totaled \$237,560 and \$362,022, respectively, and were held across multiple commercial banks and financial services companies. We have not experienced any loss on these accounts and believe they are not exposed to any significant credit risk.

Leases – Leases at September 30, 2020 and 2019 are short term in nature and do not require accounting under the lease accounting standards.

Revenue Recognition – The Company recognizes revenue in accordance with ASC 606, “Revenue from Contracts with Customers”, issued by the Financial Accounting Standards Board (“FASB”). This standard includes a comprehensive evaluation of factors to be considered regarding revenue recognition including (i) identifying the promised goods, (ii) evaluating performance obligations, (iii) measuring the transaction price, (iv) allocating the transaction price to the performance obligations if there are multiple components, and (v) recognizing revenue as each obligation is satisfied. The Company’s revenue transactions include a single component, specifically, the shipment of goods to customers based upon orders. Most customers pay at the time the order is ready to be shipped and the Company recognizes revenue upon shipment. The timing of the shipment of orders can vary considerably depending upon whether an order is for an item normally maintained in inventory or an order that is in the process of being manufactured. Customer deposits totaled \$40,249 and \$0 at September 30, 2020 and 2019, respectively.

Research and Development – Research and development expenses include payroll, contractor costs, prototyping costs, and other material purchases associated with product development. Research and development expenses also include third-party development costs. Costs related to software and hardware development are included in research and development expenses until production validation testing (PVT) is completed. For our hardware products, this is the step just prior to mass production and sales. Once technological feasibility is reached, such costs will be capitalized and amortized over the estimated lives of the products.

Income Taxes – Fat Shark Holdings, Fat Shark Tech LTD and Fat Shark Technology SEZC all operate exclusively in the jurisdiction of the Cayman Islands. The operating jurisdiction does not charge income taxes and none of the companies create tax nexus with any jurisdictions which would claim income tax.

Recent Accounting Pronouncements – Management does not believe that recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying condensed consolidated financial statements.

Related Parties – Parties are considered to be related if they have control or significant influence, directly or indirectly, over us, including key management personnel and members of the Board of Directors. Related Party transactions are disclosed in Note 4.

Note 2 – Notes Payable

In connection with its initial capitalization, the Company entered into an agreement with its sole shareholder to secure up to \$2,000,000 in debt financing. The agreement provides for an interest rate of 1% annually and a term of twenty years. The Company borrowed \$100,000 in July 2017 and an additional \$1,700,000 in September 2017. In May 2019, the Company made a payment of \$507,912 and in August 2019, the Company made an additional payment of \$355,817. The principal balance and accrued interest totaled \$978,841 at September 30, 2020. Interest expense totaled \$7,028 and \$0 for the years ended September 30, 2020 and 2019, respectively. In connection with the acquisition of the Company in November 2020, the Note was forgiven. See Note 5 for further information.

Note 3 – Stockholders' Equity

Common Stock

There are 300,000 shares of common stock authorized for issuance by Fat Shark with each share having a par value of \$0.05 per share and entitled to one vote. A total of 30,000 shares were issued in September 2017 for \$30,000. These shares were repurchased in February 2019. No shares of Fat Shark common stock were outstanding at September 30, 2020.

Fat Shark holds 100 shares of the common stock of each of its subsidiaries which it acquired for a total cost of \$200. This amount is included in additional paid in capital.

Preferred Stock

There are 700,000 shares of preferred stock authorized for issuance with each share having a par value of \$0.05 per share and entitled to one vote.

Note 4 – Related Party Transactions

The Company completed transactions in 2020 and 2019 with entities controlled by the spouse of the Company's sole shareholder. These include:

- **Purchases of Finished Goods** from Shenzhen Fat Shark Electronics Co., Ltd which totaled \$3,180,009 and \$3,527,259 for the nine months ended September 30, 2020 and 2019, respectively.
- **Retail Partner** sales of finished goods to Direct FPV Ltd for importation and distribution of products inside of mainland China. Sales totaled \$672,230 and \$960,528 for the nine months ended September 30, 2020 and 2019 respectively.
- **Administrative and logistics services** from AceccTV which totaled \$43,445 and \$81,297 for the nine months ended September 30, 2020 and 2019, respectively.
- **Purchases of Finished Goods** from AceccTV which totaled \$3,750 and \$225,950 for the nine months ended September 30, 2020 and 2019, respectively.

In June 2020, Fat Shark Technology SEZC entered into an unsecured term note agreement to loan Doctor Goggle SEZC US\$50,000. The agreement provides for an interest rate of 3% annually and a term of twenty years. In connection with the acquisition of the Company in November 2020, the Note was forgiven. See Note 5 for further information.

Note 5 – Subsequent Events

Subsequent events have been evaluated through the date of this filing.

On November 2, 2020, the Company was acquired by Red Cat Holdings, a Puerto Rico based company. Under the terms of the agreement, Red Cat acquired 100% of the Company's outstanding equity and issued to the Company's sole shareholder consideration totaling (i) 5,227,223 shares of common stock of Red Cat, (ii) a cash payment of \$250,000, and (iii) a promissory note for \$1,500,000. The promissory note bears interest at 3%, and the entire principal and accrued interest is due on November 1, 2023.

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of Fat Shark Holdings

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Fat Shark Holdings as of December 31, 2019 and 2018, the related statements of operations, stockholders' equity (deficit), and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company's Liabilities exceeding Assets raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/S/ BF Borgers CPA PC
BF Borgers CPA PC

We have served as the Company's auditor since 2020
Lakewood, CO
December 2, 2020

FAT SHARK HOLDINGS
Condensed Consolidated Balance Sheets

	December 31, 2019	December 31, 2018
ASSETS		
Current Assets		
Cash and equivalents	\$ 513,351	\$ 412,320
Accounts receivable	\$ 499,475	\$ 842,078
Inventory	\$ 479,422	\$ 927,904
Other	145,525	
Total Current Assets	<u>1,637,773</u>	<u>2,182,302</u>
Other	\$ 55,000	\$ 55,000
TOTAL ASSETS	<u>\$ 1,692,773</u>	<u>\$ 2,237,302</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 955,711	\$ 919,477
Accrued Expenses	40,016	24,108
Customer deposits	\$ 130,538	\$ 83,722
	1,126,265	1,027,307
Notes Payable	\$ 936,271	\$ 1,800,000
Commitments and contingencies		
Stockholders' Equity		
Preferred Stock - 700,000 shares authorized and outstanding	\$ 35,000	\$ 35,000
Common Stock - 500 million shares authorized; zero and 300,000 shares outstanding, respectively	0	15,000
Additional paid-in capital	1,200	16,200
Accumulated deficit	(405,963)	(656,205)
Total Stockholders' Equity	<u>(369,763)</u>	<u>(590,005)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,692,773</u>	<u>\$ 2,237,302</u>

See accompanying notes.

FAT SHARK HOLDINGS
Condensed Consolidated Statements Of Operations

	Year ended December 31,	
	2019	2018
Revenues	\$ 7,298,640	\$ 9,385,135
Cost of goods sold	\$ 5,799,156	\$ 7,824,207
Gross Margin	1,499,484	1,560,928
Operating Expenses		
Research and development	391,741	799,531
Sales and marketing	180,496	447,848
General and administrative	677,005	766,429
Total operating expenses	<u>1,249,242</u>	<u>2,013,808</u>
Operating income (loss)	250,242	(452,880)
Provision for income taxes	\$ —	\$ —
Net income (loss)	<u>\$ 250,242</u>	<u>\$ (452,880)</u>

FAT SHARK HOLDINGS
Condensed Consolidated Cash Flows Statements

	Year ended December 31,	
	2019	2018
Cash Flows from Operating Activities		
Net income (loss)	\$ 250,242	\$ (452,880)
Adjustments to reconcile net income (loss) to net cash from operations:		
Changes in operating assets and liabilities		
Accounts receivable	\$ 342,603	\$ (722,217)
Inventory	\$ 448,482	\$ 14,782
Other current assets	\$ (145,525)	\$ 8,000
Accounts payable	36,234	625,572
Accrued expenses	\$ 15,908	\$ 20,970
Customer deposits	\$ 46,816	\$ 35,163
Net cash provided by (used in) operating activities	994,760	(470,610)
Cash Flows from Investing Activities	—	—
Cash Flows from Financing Activities		
Repurchase of common stock	\$ (30,000)	\$ —
Payments under notes payable	(863,729)	—
Net cash used in financing activities	(893,729)	—
Net increase (decrease) in cash	101,031	(470,610)
Cash, beginning of period	412,320	882,930
Cash, end of period	\$ 513,351	\$ 412,320
Cash paid for interest and taxes	—	—

See accompanying notes.

FAT SHARK HOLDINGS
Condensed Consolidated Stockholders' Equity Statements

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balances, December 31, 2017	700,000	\$ 35,000	300,000	\$ 15,000	\$ 16,200	\$ (203,325)	\$ (137,125)
Issuance of common stock							—
Net Loss						\$ (452,880)	\$ (452,880)
Balances, December 31, 2018	<u>700,000</u>	<u>\$ 35,000</u>	<u>300,000</u>	<u>\$ 15,000</u>	<u>\$ 16,200</u>	<u>\$ (656,205)</u>	<u>\$ (590,005)</u>
Repurchase of common stock			(300,000)	\$ (15,000)	\$ (15,000)		\$ (30,000)
Net income						\$ 250,242	\$ 250,242
Balances, December 31, 2019	<u>700,000</u>	<u>\$ 35,000</u>	<u>0</u>	<u>\$ 0</u>	<u>\$ 1,200</u>	<u>\$ (405,963)</u>	<u>\$ (369,763)</u>

FAT SHARK HOLDINGS
Notes to Condensed Consolidated Financial Statements
December 31, 2019 and 2018

Note 1 – The Business

Fat Shark Holdings (“Fat Shark” or the “Company”) was founded in 2007. The Company’s primary business is the sale of consumer electronics products to the first-person view (FPV) sector of the drone industry. Fat Shark’s flagship products are headsets with a built in display (or “goggles”) that allow a pilot to see a real-time video feed from a camera mounted on an aerial platform. The Company is also developing Shark Byte, a digital video downlink to allow for the low latency transmission from the camera on the drone. This technology is designed to replace the analog platforms currently used for FPV.

Principles of Consolidation – The condensed consolidated financial statements include the accounts of our wholly owned subsidiaries, Fat Shark Tech Ltd. Inc. and Fat Shark Technology SEZC. Intercompany transactions and balances have been eliminated.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting – The financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles (“GAAP”).

Use of Estimates – The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash – Cash balances at December 31, 2019 and 2018 totaled \$513,351 and \$412,320, respectively, and were held across multiple commercial banks and financial services companies. We have not experienced any loss on these accounts and believe they are not exposed to any significant credit risk.

Leases – Leases at December 31, 2019 and 2018 are short term in nature and do not require accounting under the lease accounting standards.

Revenue Recognition – The Company recognizes revenue in accordance with ASC 606, “Revenue from Contracts with Customers”, issued by the Financial Accounting Standards Board (“FASB”). This standard includes a comprehensive evaluation of factors to be considered regarding revenue recognition including (i) identifying the promised goods, (ii) evaluating performance obligations, (iii) measuring the transaction price, (iv) allocating the transaction price to the performance obligations if there are multiple components, and (v) recognizing revenue as each obligation is satisfied. The Company’s revenue transactions include a single component, specifically, the shipment of goods to customers based upon orders. Most customers pay at the time the order is ready to be shipped and the Company recognizes revenue upon shipment. The timing of the shipment of orders can vary considerably depending upon whether an order is for an item normally maintained in inventory or an order that is in the process of being manufactured. Customer deposits totaled \$130,538 and \$83,722 at December 31, 2019 and 2018, respectively.

Research and Development – Research and development expenses include payroll, contractor costs, prototyping costs, and other material purchases associated with product development. Research and development expenses also include third-party development costs. Costs related to software and hardware development are included in research and development expenses until production validation testing (PVT) is completed. For our hardware products, this is the step just prior to mass production and sales. Once technological feasibility is reached, such costs will be capitalized and amortized over the estimated lives of the products.

Income Taxes – Fat Shark Holdings, Fat Shark Tech LTD and Fat Shark Technology SEZC all operate exclusively in the jurisdiction of the Cayman Islands. The operating jurisdiction does not charge income taxes and none of the companies create tax nexus with any jurisdictions which would claim income tax.

Recent Accounting Pronouncements – Management does not believe that recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying condensed consolidated financial statements.

Related Parties – Parties are considered to be related if they have control or significant influence, directly or indirectly, over us, including key management personnel and members of the Board of Directors. Related Party transactions are disclosed in Note 4.

Note 2 – Notes Payable

In connection with its initial capitalization, the Company entered into an agreement with its sole shareholder to secure up to \$2,000,000 in debt financing. The agreement provides for an interest rate of 1% annually and a term of twenty years. The Company borrowed \$100,000 in July 2017 and an additional \$1,700,000 in September 2017. In May 2019, the Company made a payment of \$507,912 and in August 2019, the Company made an additional payment of \$355,817. The principal balance and accrued interest totaled \$936,271 and \$35,542, respectively, at December 31, 2019. Interest expense totaled \$13,230 and \$22,312 for the years ended December 31, 2019 and 2018, respectively. In connection with the acquisition of the Company in November 2020, the Note was forgiven. See Note 5 for further information.

Note 3 – Stockholders' Equity

Common Stock

There are 300,000 shares of common stock authorized for issuance by Fat Shark with each share having a par value of \$0.05 per share and entitled to one vote. A total of 30,000 shares were issued in September 2017 for \$30,000. These shares were repurchased in February 2019. No shares of Fat Shark common stock were outstanding at December 31, 2019.

Fat Shark holds 100 shares of the common stock of each of its subsidiaries which it acquired for a total cost of \$200. This amount is included in additional paid in capital.

Preferred Stock

There are 700,000 shares of preferred stock authorized for issuance with each share having a par value of \$0.05 per share and entitled to one vote.

Note 4 – Related Party Transactions

The Company completed transactions in 2019 and 2018 with entities controlled by the spouse of the Company's sole shareholder. These include:

- **Purchases of Finished Goods** from Shenzhen Fat Shark Electronics Co., Ltd which totaled \$7,537,717 and \$5,243,657 in 2019 and 2018, respectively.
- **Retail Partner** sales of finished goods to Direct FPV Ltd for importation and distribution of products inside of mainland China. Sales totaled \$333,161 and \$1,177,642 in 2019 and 2018, respectively.
- **Administrative and logistics services** – from AceccTV which totaled \$127,222 and \$189,478 in 2019 and 2018, respectively.

Note 5 – Subsequent Events

Subsequent events have been evaluated through the date of this filing.

On November 2, 2020, the Company was acquired by Red Cat Holdings, a Puerto Rico based company. Under the terms of the agreement, Red Cat acquired 100% of the Company's outstanding equity and issued to the Company's sole shareholder consideration totaling (i) 5,227,223 shares of common stock of Red Cat, (ii) a cash payment of \$250,000, and (iii) a promissory note for \$1,500,000. The promissory note bears interest at 3%, and the entire principal and accrued interest is due on November 1, 2023.

Red Cat Holdings, Inc.
Pro Forma Balance Sheet
As of September 30, 2020
(unaudited)

	<u>Red Cat</u>	<u>Fat Shark</u>	<u>Adjustments</u>	<u>Pro-Forma</u>
ASSETS				
Current Assets				
Cash and equivalents	\$ 446,912	\$ 237,560	\$ 0	\$ 684,472
Accounts receivable	\$ 0	\$ 185,656	\$ 0	\$ 185,656
Inventory	\$ 168,181	\$ 276,297	\$ 0	\$ 444,478
Goodwill	\$ 2,466,073	\$ 0	\$ 7,226,941	\$ 9,693,014
Other	0	416,863		\$ 416,863
Total Current Assets	<u>3,081,166</u>	<u>1,116,376</u>	<u>7,226,941</u>	<u>\$ 11,424,483</u>
Other	23,853	105,000	\$ 0	\$ 128,853
TOTAL ASSETS	<u>\$ 3,105,019</u>	<u>\$ 1,221,376</u>	<u>\$ 7,226,941</u>	<u>\$ 11,553,336</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable	\$ 295,300	\$ 258,514	\$ 0	\$ 553,814
Accrued Expenses	163,661	48,478	0	\$ 212,139
Customer deposits	77,053	40,249	\$ 0	\$ 117,302
	<u>536,014</u>	<u>347,241</u>	<u>0</u>	<u>\$ 883,255</u>
Notes Payable	1,533,467	936,271	\$ 563,729	\$ 3,033,467
Stockholders' Equity				
Preferred Stock	38,903	35,000	(\$ 35,000)	\$ 38,903
Common stock	20,011	0	5,227	\$ 25,238
Additional paid-in capital	4,246,412	1,200	6,848,399	\$ 11,096,011
Accumulated deficit	<u>(3,269,788)</u>	<u>(98,336)</u>	<u>(155,414)</u>	<u>\$ (3,523,538)</u>
Total Stockholders' Equity	<u>1,035,538</u>	<u>(62,136)</u>	<u>6,663,212</u>	<u>\$ 7,636,614</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 3,105,019</u>	<u>\$ 1,221,376</u>	<u>\$ 7,226,941</u>	<u>\$ 11,553,336</u>

See accompanying notes.

Adjustments:

1. The transaction included (a) the issuance of 5,227,223 shares of common stock with a fair value of \$6,351,076, (b) a cash payment of \$250,000, and (c) the issuance of a promissory note in the amount of \$1,500,000.
2. The sole shareholder of Fat Shark forgave a Promissory Note in the amount of \$936,271 prior to the closing of the transaction.
3. The Company has not yet completed an allocation of the purchase price, and therefore has reported the excess of the purchase price over the net tangible assets acquired as Intangible assets. The Company expects to complete a formal valuation of the intangible assets acquired, including Customer Relationships and Brand Name.

Red Cat Holdings, Inc.
Pro Forma Statement of Operations
Year ended December 31, 2019
(Unaudited)

	<u>Red Cat</u>	<u>Fat Shark</u>	<u>Adjustments</u>	<u>Pro-Forma</u>
Revenues	\$ —	\$ 7,298,640	\$ —	\$ 7,298,640
Cost of goods sold	\$ —	5,799,156	\$ —	\$ 5,799,156
Gross Margin	\$ —	1,499,484	\$ —	\$ 1,499,484
Operating Expenses				
Research and development	519,467	391,741	\$ —	\$ 911,208
Sales and marketing	\$ —	180,496	\$ —	\$ 180,496
General and administrative	531,964	677,005	100,000	\$ 1,308,969
Total operating expenses	<u>1,051,431</u>	<u>1,249,242</u>	<u>100,000</u>	<u>\$ 2,400,673</u>
Operating income (loss)	(1,051,431)	250,242	(100,000)	\$ (901,189)
Interest expense	\$ —	0	\$ 45,000	\$ 45,000
Provision for income taxes	\$ —	\$ —	\$ —	\$ —
Other expense, net	\$ —	\$ —	\$ 45,000	\$ 45,000
Net income (loss)	<u>\$ (1,051,431)</u>	<u>\$ 250,242</u>	<u>\$ (145,000)</u>	<u>\$ (946,189)</u>

See accompanying notes.

Adjustments:

1. \$145,000 adjustment reflects (a) full year of interest totaling \$45,000 on promissory note for \$1,500,000 bearing interest at 3% which was issued in connection with the acquisition and (b) \$100,000 of additional payroll costs associated with additional personnel required.
2. An adjustment for the amortization of intangible assets acquired in connection with the transaction have not been included as a purchase price allocation has not been completed and an estimate of the value of amortizable intangible assets is not determinable at this time.

Red Cat Holdings, Inc.
Pro Forma Statement of Operations
Nine months ended September 30, 2020
(Unaudited)

	<u>Red Cat</u>	<u>Fat Shark</u>	<u>Adjustments</u>	<u>Pro-Forma</u>
Revenues	\$ 1,216,986	\$ 4,436,439	\$ —	\$ 5,653,425
Cost of goods sold	\$ 794,871	3,463,995	\$ —	\$ 4,258,866
Gross Margin	422,115	972,444	\$ —	\$ 1,394,559
Operating Expenses				
Operations	84,876	119,063	0	\$ 203,939
Research and development	141,401	207,514	0	\$ 348,915
Sales and marketing	26,917	57,678	0	\$ 84,595
General and administrative	1,482,670	280,562	75,000	\$ 1,838,232
Total operating expenses	1,735,864	664,817	75,000	\$ 2,475,681
Operating income (loss)	(1,313,749)	307,627	(75,000)	\$ (1,081,122)
Interest expense	\$ 93,811	0	\$ 33,750	\$ 127,561
Provision for income taxes	\$ —	\$ —	\$ —	\$ —
Other expense, net	\$ 93,811	\$ —	\$ 33,750	\$ 127,561
Net income (loss)	<u>\$ (1,407,560)</u>	<u>\$ 307,627</u>	<u>\$ (108,750)</u>	<u>\$ (1,208,683)</u>

See accompanying notes.

Adjustments:

1. \$108,750 adjustment reflects (a) nine months of interest totaling \$33,750 on promissory note for \$1,500,000 bearing interest at 3% which was issued in connection with the acquisition and (b) \$75,000 of additional payroll costs associated with additional personnel required.
2. An adjustment for the amortization of intangible assets acquired in connection with the transaction have not been included as a purchase price allocation has not been completed and an estimate of the value of amortizable intangible assets is not determinable at this time.

Red Cat Holdings, Inc.
Notes to the Unaudited Pro Forma Combined Financial Statements

On November 2, 2020, Red Cat Holdings, Inc. (the “Company” or “Red Cat”) completed the acquisition (the “Acquisition”) of Fat Shark Holdings (“Fat Shark”).

1. Basis of Presentation

The unaudited pro forma condensed combined Balance Sheet and Statement of Operations of Red Cat and Fat Shark have been derived from the historical accounting records of each entity. The historical financial information has been evaluated to determine whether there should be any pro-forma adjustments recorded to reflect events that are directly attributable to the Acquisition, factually supportable, and expected to have a continuing effect on the Company’s results of operations. The pro-forma Balance Sheet and Statement of Operations present the Acquisition as if it had been consummated as of January 1, 2018.

The unaudited pro forma combined financial information is for illustrative purposes only. The combined company may have reported different operating results if they had actually been combined for the periods presented. These pro-forma combined financial statements should not be relied upon as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined companies may realize after the Acquisition.

2. Accounting Periods Presented

The unaudited pro forma combined Balance Sheet is being reported based upon September 30, 2020 because the Balance Sheet of Fat Shark was audited as of such date. The unaudited pro forma combined Statements of Operation are being reported for the twelve months ended December 31, 2019 and for the nine months ended September 30, 2020 because the Statements of Operations for Fat Shark were audited for such periods. The Balance Sheet and Statements of Operations for Red Cat are based on these dates and reporting periods.



5,119,651 Shares of Common Stock

PROSPECTUS

December 4, 2020

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. *Other Expenses of Issuance and Distribution*

The following table sets forth all expenses to be paid by the Registrant in connection with our public offering. All amounts shown are estimates except for the SEC registration fee:

SEC registration fee	\$	1,110
Legal fees and expenses	\$	25,000
Accounting fees and expenses	\$	10,000
Transfer agent and registrar fees	\$	1,000
Miscellaneous fees and expenses	\$	1,000
Total	\$	38,110

Item 14. *Indemnification of Directors and Officers*

Section 78.7502(1) of the Nevada Revised Statutes (“NRS”) provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (except an action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding if such person: (i) is not liable for a breach of fiduciary duties that involved intentional misconduct, fraud or a knowing violation of law; or (ii) acted in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

NRS Section 78.7502(2) further provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including amounts paid in settlement and attorneys’ fees actually and reasonably incurred in connection with the defense or settlement of the action or suit if such person: (i) is not liable for a breach of fiduciary duties that involved intentional misconduct, fraud or a knowing violation of law; or (ii) acted in good faith and in a manner that he or she reasonably believed to be in or not opposed to the best interests of the corporation. Indemnification may not be made for any claim, issue or matter as to which such a person has been adjudged by a court of competent jurisdiction, after exhaustion of all appeals therefrom, to be liable to the corporation or for amounts paid in settlement to the corporation, unless and only to the extent that the court in which the action or suit was brought or other court of competent jurisdiction determines upon application that in view of all the circumstances of the case the person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

To the extent that a director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsections (1) and (2) of NRS Section 78.7502, as described above, or in defense of any claim, issue or matter therein, the corporation shall indemnify him or her against expenses (including attorneys’ fees) actually and reasonably incurred by such person in connection with the defense.

The articles of incorporation, as amended, and the amended and restated bylaws of the Company provide that the Company shall, to the fullest extent permitted by the NRS, as now or hereafter in effect, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, except an action by or in the right of the Company, by reason of the fact that he is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action, suit or proceeding if he: (i) is not liable pursuant to NRS Section 78.138; or (ii) acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Item 15. *Recent Sales of Unregistered Securities*

The following is a summary of all securities that we have sold during the last three years without registration under the Securities Act of 1933, as amended.

On October 5, 2020 we issued convertible notes in the principal amount of \$600,000 and issued five year warrants to purchase 399,996 shares of our common stock.

In December 2019, we issued a two-year convertible note in the principal amount of \$125,000 to Nicholas Liuzza, Jr., a director, and a convertible note in the principal amount of \$25,000 to Jeffrey Thompson, our chief executive officer for an aggregate of \$150,000.

In November 2019 we issued a convertible note in the principal amount of \$300,000 to one accredited investor.

In May 2019, we issued 1,570 shares of common stock, with a fair value of \$70,000, to a law firm for services provided to the Company.

In August 2019, we issued 469,847 shares of common stock upon the exercise of a warrant and received proceeds of \$152,239.

In April 2019, we issued 150,000 shares of common stock with a fair value of \$204,000 to a law firm for services provided to the Company.

In connection with the conversion of the Company's Convertible Series E Preferred Stock into shares of the Company's common stock, we issued a total of 108,332,000 (pre-split) shares of common stock on various dates between January 4, 2018 and April 2, 2018.

We issued an aggregate of 236,000,000 (pre-split) shares of common stock and 2,169,068.0554 (pre-split) shares of Series A Preferred Stock to the former shareholders of Red Cat Propware, Inc. In May 2019 in connection with the acquisition of Red Cat Propware, Inc.

We issued an aggregate of 4,212,645.28 (pre-split) shares of Series B Preferred Stock to the former shareholders of Red Cat Propware, Inc. In May 2019 in connection with the acquisition of Red Cat Propware, Inc.

The issuance of the common stock, Series A Preferred Stock, and Series B Preferred Stock as described herein was exempt from registration under Rule 506 of Regulation D under the Securities Act. The exchange of other securities for the Series B Preferred Stock was also exempt under Section 3(a)(9) of the Securities Act.

All the shares issued in connection with the transactions listed above were exempt from registration under Section 4(a)(2) of the Securities Act of 1933 (the "Act") and Rule 506(b) thereunder as transactions not involving a public offering. Each of the third parties acquired their shares for investment and not with a view to distribution. We reasonably believed that each third party was an accredited investor as defined by Rule 501 under the Act.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits

Exhibit Description
No.

2.1	Agreement and Plan of Merger (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on September 13, 2016)
2.2	Articles of Merger- Nevada (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed with the SEC on September 13, 2016)
2.3	Articles of Merger- Arizona (incorporated by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K filed with the SEC on September 13, 2016)
2.4	Agreement of Merger, dated January 23, 2019, among the Company, Rotor Riot Acquisition, LLC and the stockholder signatory thereon (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on January 29, 2020)
2.5	Amendment No. 1 to the Agreement of Merger, dated December 31, 2019, among the Company, Rotor Riot Acquisition, LLC and the stockholder signatory thereon (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on January 29, 2020)
2.6	Second Amendment to the Agreement of Merger, dated December 31, 2019, among the Company, Rotor Riot Acquisition, LLC and the stockholder signatory thereon (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on January 29, 2020)
3.1	Amended and Restated Articles of Incorporation, dated July 17, 2019 (incorporated by reference to Exhibit B to the Company's Schedule 14C Information Statement filed with the SEC on July 2, 2019)
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 filed with the SEC on February 8, 2017)
3.3	Certification of Designation of Series A Preferred Stock, dated May 10, 2019 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on May 16, 2019)
3.4	Certification of Designation of Series B Preferred Stock, dated May 10, 2019 (incorporated by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K filed with the SEC on May 16, 2019)
3.5	Red Cat Holdings, Inc. Code of Conduct
5.1**	Opinion of The Crone law Group, P.C. as to the legality of the securities being registered.
10.1	Form of Senior Convertible Note (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 6, 2019)
10.2	Share Exchange Agreement, dated as of May 13, 2019, among TimefireVR, Inc. (Timefire"), Red Cat Propware, Inc, and Red Cat Propware, Inc's. shareholders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 16, 2019)
10.3	Warrant, dated May 5, 2019, issued to Calvary Fund I LP ("Calvary") (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on May 16, 2019)
10.4	Restricted Stock Unit Agreement, dated May 15, 2019, between Timefire and Jonathan Read (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on May 16, 2019)
10.5	Securities Exchange Agreement, dated May 13, 2019, between Timefire and Calvary (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on May 16, 2019)
10.6	Securities Exchange Agreement, dated May 13, 2019, between Timefire and L1 Capital Global Opportunity Master Fund Ltd. (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on May 16, 2019)
10.7	Securities Exchange Agreement, dated May 13, 2019, between Timefire and Digital Power Lending, LLC (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the SEC on May 16, 2019)

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10.8	Securities Exchange Agreement, dated May 13, 2019, between Timefire and Gary Smith (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed with the SEC on May 16, 2019)
10.9	Securities Exchange Agreement, dated May 13, 2019, between Timefire and Edward Slade Mead (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed with the SEC on May 16, 2019)
10.10	Redemption Letter for Series A Preferred Stock, dated May 9, 2019, from Timefire to Jonathan Read (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K filed with the SEC on May 16, 2019)
10.11	2019 Equity Incentive Plan (incorporated by reference to Exhibit C to the Company's Schedule 14C Information Statement filed with the SEC on July 2, 2019)
10.12	Amended and Restated Promissory Note, dated October 26, 2020, issued to Brains Riding in Tanks, LLC
10.13	Make Whole Agreement, dated January 23, 2020, among the Company, Brains Riding in Tanks, LLC, Rotor Riot, LLC and Chad Kapper (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on January 29, 2020)
10.14	Share Purchase Agreement dated September 30, 2020 among the Company, Fat Shark Holdings, Ltd., Fat Shark Tech, Ltd., Fat Shark Technology SEZC, Greg French and FS Acquisition Corp (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 5, 2020).
10.15	First Amendment dated October 29, 2020 to Share Purchase Agreement dated September 30, 2020 among the Company, Fat Shark Holdings, Ltd., Fat Shark Tech, Ltd., Fat Shark Technology SEZC, Greg French and FS Acquisition Corp.
10.16*	Lease dated April 6, 2017 by and between Cayman Enterprise City Ltd and Fat Shark Holdings, Ltd.
10.17*	Lease dated January 15, 2019 by and between Gamh Properties, Inc. and Rotor Riot LLC.
21.1	List of Subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm (Red Cat Holdings, Inc.)
23.2*	Consent of Independent Registered Public Accounting Firm (Fat Shark Holdings, Ltd.)
23.3**	Consent of The Crone Law Group, P.C. (included as part of Exhibit 5.1)

* Filed herewith

** To be filed by amendment.

Item 17. Undertakings

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

- (i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;
- (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and
- (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

- (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- (4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

- (i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424 (§230.424 of this chapter);
 - (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
 - (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
 - (iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.
- (b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.
- (c) The undersigned registrant hereby undertakes that:
- (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
 - (2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Orlando, State of Florida on December 4, 2020.

RED CAT HOLDINGS, INC.

By: /s/ Jeffery M. Thompson
Jeffrey M. Thompson
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Joseph Hernon
Joseph Hernon
Chief Financial Officer
(Principal Financial and Accounting Officer)

POWER OF ATTORNEY

We, the undersigned officers and directors of Red Cat Holdings, Inc. hereby severally constitute and appoint Jeffrey M. Thompson and Joseph Hernon, our true and lawful attorney-in-fact and agents, with full power of substitution and resubstitution for him and in his name, place and stead, and in any and all capacities, to sign for us and in our names in the capacities indicated below any and all amendments (including post-effective amendments) to this registration statement (or any other registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended), and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as full to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jeffrey M. Thompson</u> Jeffrey M. Thompson	President and Chief Executive Officer (Principal executive officer)	December 4, 2020
<u>/s/ Joseph Hernon</u> Joseph Hernon	Chief Financial Officer (Principal financial and accounting officer)	December 4, 2020
<u>/s/ Nicholas Liuzza Jr., Nicholas Liuzza Jr.,</u>	Director	December 4, 2020
<u>/s/ Patrick T. Mitchell</u> Patrick T. Mitchell	Director	December 4, 2020
<u>/s/ Jonathan Read</u> Jonathan Read	Director	December 4, 2020

OFFICE SPACE LICENSE AGREEMENT

This Office License is made this ___th day of October, 2020 between The Yacht Club, LLC, a Puerto Rico limited liability company, represented herein by its manager EMSL LLC (hereinafter called "Licensor") and Red Cat Holdings, a Puerto Rico limited liability company represented herein by its manager Jeff Thompson (hereinafter "Licensee").

1. PREMISES

- 1.01 Description of Premises. Licensor hereby licenses to Licensee, and Licensee hereby licenses from Licensor, a portion of the Building, as specified in the Memorandum of License and further described in Exhibit "A" attached hereto (the "Premises"). The Licensor reserves the right to verify the exact area of the Premises by using the BOMA standard (ANSI-Z65.1-1980) for measurement of multi-tenant's space. This License does not include any exterior portion of the Building. This License does not grant any right to light or air, over or about, the Premises or Building.
- 1.02 Condition of Premises. Effective with the Commencement Date, the Premises shall be in the condition detailed in Exhibit A-I, if any. By occupying the Premises, Licensee acknowledges that it has had full opportunity to examine the Building, including the Premises, and is fully informed, independently of Licensor, as to the character, construction and structure of the Building and of the Premises. It is agreed that by occupying the Premises, Licensee formally accepts the same in its "As is" condition, and acknowledges that Licensor has complied with all requirements imposed upon it under the terms of this License.
- 1.03 Access. Licensee shall, at all times, during the Term of the License, have full and unimpaired access to the Premises and to all parking areas, walkways, access ways and other common areas of the Building. Appurtenant to the License are the rights of ingress and egress to the Premises, the right in common with others to use the elevators and common passageways, stairways and vestibules in the Building and the right to go through and park on that portion of structure owned by Licensor, designated by it for parking purposes and Licensed to Licensee.
- 1.04 Parking. Licensee shall have the number of parking spaces allotted for its exclusive use as detailed in the Memorandum of License during business hours but excluding during special events, which might occur periodically. Licensee's use of the parking spaces are included in the Base Rent as specified in the Memorandum of License; which may change from time to time with previous notice; additional parking spaces shall be available subject to Licensor's availability, on a month to month basis, at a rate mutually agreed. Parking spaces shall be located adjacent to the Building. There are no special designated areas for Licensee's customers. Licensee shall have to pay the prevailing one-time rate for each access card and/or beeper for the parking facility it procures from Licensor. Any violation by Licensee's employees may, at Licensor's option (exercisable in its reasonable discretion), result in the loss of parking privileges for any employees, within 24-hours' notice. Licensor reserves the right to deactivate, with previous 24-hour's notice, the access cards and/or beepers in the event Licensee defaults on the monthly payment for said parking space and/or any term of the License.
- 1.05 Occupancy Share. Stated in the Memorandum of License is the ratio of the Available Square Feet of the Premises to the total Available Square feet of the Building. Licensor has informed Licensee that the Available Area of the Building is 14,103 square feet. Licensor reserves the right to increase or decrease the total available square feet of the Building; if this were to occur the total available area of the Building shall be measured, thus, the occupancy ratio will be amended so as to reflect the changes to the Building. If a portion(s) of the Building (but not the entire Building) is sold, transferred or conveyed, Licensee's Share will be changed to that percentage which shall be equal to a fraction, the numerator of which shall be the square feet of the area of the Premises, and the denominator of which shall be the aggregate available square feet of office space of Premises in that portion of the Building owned by Licensor at such time (and from time to time), as reasonably determined by Licensor's architect.
- 1.06 Relocation. Licensor, at its cost, shall have the right at any time during the term of this License Agreement, to relocate Licensee from the Premises to another space within the Building, reasonably convenient, adapted to the same purpose and of an equal value to the Premises. In the event Licensor exercises its right to relocate, Licensee shall surrender its actual Premises at the request of Licensor, provided that the substitute space is ready for Licensee's occupancy. Notwithstanding the above, Licensor shall make its best efforts to relocate Licensee to premises similar to Licensee's current existing Premises. In case of relocation, Licensee will have the option, but not the obligation, to terminate this License without penalty by written notice within fifteen (15) days of Licensor's relocation notice. In any case, Licensor shall reimburse Licensee for the improvements made and paid by Licensee, which shall be depreciated on a straight line basis based on the Term of this License. The improvements total costs shall be conditioned to evidence of invoices and expenses previously provided by Licensee according to this License, after taking into account Licensor's License Fee Rebates. If Licensee decides to terminate the License it shall vacate the Premises within sixty (60) days of Licensee's termination notice.
- 1.07 Right of Entry. Licensor shall have the right to enter and to grant licenses to others to enter the Premises at any reasonable time, upon reasonable prior notice, except in case of an emergency or potential default or after an event of default; and provided no unreasonable interruption to the office operation: (i) to examine the Premises; (ii) to make repairs, replacements and improvements to the Premises or to the Building, machinery, equipment and facilities, including the right during the progress of any such work to keep within the Premises all necessary materials, tools and equipment, or to repair or prevent water or wind damage; (iii) for the operation and maintenance of the Building; or (iv) to show the Premises to prospective purchasers or mortgagees (and during the last twelve months of the License Term, to prospective Licensees). Licensee's notice shall detail the needed repairs Licensor understands are required within the Premises (if any). If Licensee is not present to open and permit entry into the Premises, Licensor or Licensor's agents may enter the same whenever such entry may be necessary or permissible (including for trash pickup or to provide other services as specified herein) by master key or other means. Reasonable care will be exercised to safeguard Licensee's property. Such entry shall not be construed as an illegal entry by Licensor or its agents. In case of an emergency, Licensor shall endeavor to notify Licensee before entering the Premises. If entry is the result of this section (i), (ii) and (iii), Licensor shall provide Licensee a report of any work performed within the Premises. During the last month of the Term, if Licensee shall have removed all or substantially all of Licensee's property from the Premises, Licensor may terminate this License and immediately or at any time thereafter enter, alter, renovate or redecorate the Premises without limitation or abatement of License Fee, or incurring liability to Licensee for any compensation, and such act shall have no effect on this License or Licensee's obligations hereunder.

2. TERM

2.01 Initial Term. The term of this License (the "Term") shall commence on the Commencement Date and expire on the Termination Date, both specified in the Memorandum of License. The expiration of the Term or the sooner termination of this License, pursuant to its provisions, is referred to in this License as the "License Termination". If the Commencement Date depends upon an uncertain or undefined date at the time of this contract's execution (for example, substantial completion of construction), then Licensor shall notify Licensee in writing the Commencement Date, which shall be the date of delivery of possession of the Premises. Notwithstanding anything herein to the contrary, Licensor shall reserve the right to require Licensee to relinquish occupancy of the Premises for a period of 24 hours once every 365 days.

3. LICENSE FEE

3.01 Base License Fee. Licensee shall pay to Licensor in advance, without demand and without deduction, abatement, or setoff, as "Base License Fee" the amount specified in the Memorandum of License in twelve equal monthly installments, on the first day of each month of the Term of the License, beginning on the Commencement Date. If the Commencement Date falls on any day which is not the first of the month, then the Base License Fee shall be apportioned for the balance of that month, and from thereon, it shall be paid on the first day of each and every month during the Term of this License. All additional costs, charges, expenses and payments detailed in this License Agreement which are on Licensee's account (including, but not limited to, Operating and Maintenance Expenses, Services, Utilities and Taxes), shall be deemed Additional License Fee. In the event that Licensee fails to timely pay such Additional License Fee, Licensor shall have all of the rights and remedies with respect thereto as are provided for herein or by applicable law in the case of non-payment of Monthly Base License Fee.

3.02 Additional License Fee. As provided in the Memorandum of License, Licensee shall pay to Licensor as Additional License Fee its pro-rata share of Licensor's estimated Operating Expenses for the current calendar year the "Estimated Operating Expenses" in twelve equal monthly installments, in advance, on the first day of each month of the Term, beginning on the Commencement Date. Within the first three months following the end of each calendar year or following the License Termination, as the case may be, Licensor shall provide to Licensee an invoice (the "Invoice") for the difference between the Estimated Operating Expenses paid by Licensee as provided above and Licensee's pro-rata share of Licensor's Actual Operating Expenses for such calendar year. The Invoice shall include in reasonable detail all computations of the Additional License Fee. Licensee shall pay the Invoice for the Additional License Fee within thirty days following receipt of it. Commencing on January 1st of the following calendar year and from thereon, on each and every first day of the calendar year during the Term of this License, Licensee shall pay to Licensor, without demand, deduction, abatement or set-off, as "Additional License Fee", its pro-rata share of the Actual Operating Expenses incurred by Licensor for the preceding calendar year. The Invoice shall reflect the adjustments of the previous months and for any month following the Invoice, Licensee must pay the new pro-rata share stated therein.

3.03 Late Payment. Licensee covenants to pay the Base and Additional License Fee as herein set forth, when due and without notice, demand, abatement, deduction, or setoff in lawful money of the United States. If any installment of Monthly Base License Fee or any Additional License Fee is not paid within ten (10) calendar days ("Grace Period") after such installment of Monthly Base or Additional License Fee has become due, Licensee shall also pay to Licensor without demand a late charge at the rate stated in the Memorandum of License thereon from the due date until such installment is fully paid ("Late Charge"). Such Late Charge shall be due and payable as Additional License Fee with the next month's License Fee. Licensor shall have all the rights and remedies provided herein for monetary defaults to recover from Licensee any unpaid Late Charge. Any Late Charge payable by Licensee pursuant to this License shall be calculated from the day such expenditure is made or obligation is incurred until the date when such payment is finally and completely paid by Licensee to Licensor.

No payment by Licensee or receipt by Licensor of a lesser amount than the Monthly Base License Fee and Additional License Fee stipulated in this License shall be deemed to be other than on account of the earliest stipulated Monthly Base License Fee or Additional License Fee, nor shall endorsement or statement on any check or in any letter accompanying any check or payment, prejudice Licensor's right to recover the balance of such Monthly Base License Fee and Additional License Fee or pursue any other remedy provided in this License, at law or in equity. Payment will first be applied towards the unpaid License Fee and then to interest until paid in full.

3.04 Additional License Fee Adjustment Mechanism. Following the furnishing of the Invoice for Additional License Fee due for a prior calendar year, Licensee shall pay Licensor in the event of an increase:

- (1) Any unpaid amount of Licensee's Pro-rata Share of any increase in the Licensor's Operating Expenses over the Estimated Operating Expenses paid by Licensee for the prior calendar year;
- (2) A sum equal to one-twelfth of the Licensee's Pro-rata Share of such increase multiplied by the number of months then elapsed since January 1st of the then current calendar year;
- (3) Thereafter, until the next Additional License Fee invoice or statement of account shall be rendered, the monthly Additional Payment under this License shall be increased, by an amount equal to one twelfth of the Licensee's share of such increase in the Additional License Fee.

In the case of a decrease in the Additional License Fee, the Licensee shall be entitled to:

- (1) Credit for any decrease due for Additional License Fee by reason of having paid for the same in excess in the monthly License Fee payment during the prior calendar year;
- (2) Credit against the monthly License Fee payment a sum equal to one twelfth of the Licensee's share of such decrease multiplied by the number of months then elapsed since January 1st of the then current calendar year;

To this effect, any such amounts to be reimbursed by Licensor to Licensee under one (1) and two (2) above, shall be deducted from Licensee's next monthly License Fee payment and if the credit was larger than said monthly License Fee payment, any balance shall be deducted from the following License Fee payments, and

(1) Thereafter, until the next Additional License Fee invoice or statement of account shall be rendered, the monthly Additional Payment under this License shall be decreased, by an amount equal to one twelfth of the Licensee's share of such decrease in the Additional License Fee.

3.05 Final Year Adjustment. If this License terminates on any day other than the thirty-first (31st) day of December, the Additional License Fee payable for the year of License Termination shall be prorated. During the year of the License Termination, Licensor may, in lieu of an end-of-year accounting, bill Licensee for the year's Additional License Fee based upon the previous year's increase or decrease in the Operating Expenses. Licensor shall, in that event, send the Invoice to Licensee at least thirty (30) days prior to the License Termination,

3.06 License Fee is Net. Licensee agrees that all charges in respect of the Premises are absolutely net to Licensor after payment of all expenses and charges, and that Licensee is responsible to pay for all costs and expenses of every kind or nature whatsoever associated with the Premises, which shall be borne by Licensee, except for debt service of Licensor and as otherwise specifically set forth herein.

3.07 Security Deposit.

(a) If so stated in the Memorandum of License, Licensee shall deposit with Licensor at the time of the execution of this License Agreement, the Security Deposit to insure the faithful performance and observance by Licensee of the terms and conditions of this License Agreement. Licensor may, but shall not be required to, use, apply or retain the whole or any part of the Security Deposit to the extent required for the payment of the whole or any part of the Full License Fee, or for any sum which Licensor may expend or may be required to expend by reason of Licensee's default of any of the terms and conditions of this License Agreement, including the repair of damages caused by Licensee to the property.

(b) In the event that Licensor should apply any part of the Security Deposit to cure any default of Licensee, Licensee shall, upon demand, deposit with Licensor the amount so applied so that Licensor shall have the full Security Deposit on hand at all times during the License Term.

(c) In the event that Licensee shall fully and faithfully comply with all of the terms and conditions of this License Agreement, the balance of the Security Deposit shall be returned to Licensee, without interest, within 30 days after the Termination Date and after delivery to and acceptance of the Premises by Licensor.

In the event of a sale of the land or the Building, or leasing of the Building, Licensor shall have the right to transfer the Security Deposit to the vendee or lessee and Licensor shall thereupon be released from all liability for the return of the Security Deposit. In such event, Licensee shall look solely to the new Licensor, under the same terms and conditions of this License Agreement, for the return of the Security Deposit. Licensee shall not assign or encumber the Security Deposit and, neither Licensor, nor its successors or assigns, shall be bound by any such assignment or encumbrance.

4. OPERATING EXPENSES

4.01 Definition of Operating Expenses. The term "Operating Expenses" as used in this License, means all reasonable expenses incurred by Licensor with respect to the maintenance and operation of the Building, as determined by generally accepted accounting principles consistently applied, as set forth below (an estimate of which is attached as Exhibit []):

(a) Costs of maintenance, including the obligations set forth in Section 5.01, subject to the provisions of Section 4.02 below

(b) Costs of services and utilities of Common Areas, as set forth in Section 6 below;

(c) management fees, wages and fringe benefits payable to employees of Licensor whose duties are connected with the operation and maintenance of the Building, to be reduced pro-rata if such employees devote less than 100 of their time to work at the Building;

(d) Real property taxes which accrue against the Building during the Term, subject to the provisions of Section 7 below;

(e) Premiums for the types and amounts of insurance coverage Licensor is required to carry as set forth in Section 11.02 below;

(f) Any amortized costs of capital improvements or expenditures that will create or generate a saving in the Operating Expenses, such as energy saving devices.

(g) The cost of compliance with all applicable laws and regulations.

4.02 Exclusion from Operating Expenses. "Operating Expenses" do not include:

(a) any capital improvements as classified according to generally accepted accounting principles or other capital expenditure, any replacement of a capital item, or any extraordinary repair or leased payment on rented equipment of a capital nature provided that the cost of any repairs or replacements which are classified as capital improvements under generally accepted accounting principles shall be amortized with interest over the lesser of the useful life of the improvement or ten (10) years and included in Operating Expenses only to the extent of the amortized amount for the respective calendar year;

(b) restoration work occasioned by any casualty pursuant to Section 11 below, or any other items for which Licensor is reimbursed by insurance or otherwise compensated, including direct reimbursement by any other licensee in the Building;

- (c) expenses incurred in leasing to or procuring licensees, including leasing commissions, advertising expenses, attorney's fees, concessions or allowances, and renovation costs;
- (d) interest, principal payments, or other costs related to any mortgage, ground rent under any ground Licenses or other indebtedness of Licensor;
- (e) any depreciation allowance or expense as well as any compensation paid to any employee of Licensor above the grade of building manager;
- (f) cost of maintenance obligations set forth in Section 5.03 below (Repair of Premises);
- (g) amounts paid for legal, arbitration, accounting, brokerage or other professional services in connection with the leasing of space or in connection with relationship or disputes with Licensees, former Licensees, or other occupants of the Building;
- (h) the cost of any work or services performed for, or facilities furnished to, any licensee (including Licensee) at such licensee's cost or at no cost (where such free work, services or facilities are not available to Licensee or not usable by Licensee);
- (i) any costs, fines, or penalties incurred due to violation by Licensor of any governmental rule or authority.

5. MAINTENANCE AND REPAIRS

5.01 Licensor's Obligations. Licensor shall maintain in good condition the:

- (a) structural parts of the Building, including, without limitation, the foundations, load bearing and exterior walls, painting of the Building and its common areas, subflooring, roof and roofing;
- (b) electrical, elevators, plumbing and sewage servicing of the Premises and of the Building;
- (c) windows and frames, gutters, and downspouts of the Building;
- (d) sidewalks, curbs, parking lots, and other common areas of the Building; and
- (e) ventilation, air-conditioning, conveyance, emergency power plant(s) and any other equipment and other support systems servicing the Premises and/or the Building.

5.02 Repair of Premises by Licensor. Licensor shall, at its cost and not as an Operating Expense, repair the Premises if they are damaged by:

- (a) any cause over which Licensee has no control, such as, condemnation or casualty;
- (b) any event or occurrence covered under the all risk insurance required under Section 10.02 of this License;
- (c) any act or omission of Licensor or its agents or employees; or
- (d) Licensor's failure to perform its obligations under this Section.

5.03 Repair of Premises by Licensee. Except as otherwise provided in this Section and in Section 9 below, Licensee shall:

- (a) At its cost maintain the interior of the Premises in good condition (normal wear and tear excepted). Licensee shall maintain the Premises in a clean and orderly condition that is consistent with the use and appearance of the Building.
- (b) All damage or injury to the Premises, or to the Building or the Building Systems outside of the Premises, caused by or arising from acts or omissions of Licensee, or of Persons Within Licensee's Control, including those which are structural, extraordinary and unforeseen, shall be promptly repaired, restored or replaced by Licensee, at Licensee's own cost and expense.
- (c) Licensee shall immediately, with no more than eight (8) hours of the event (or three (3) hours of being aware of the event), give Licensor verbal and written notice of any damage or injury to the Premises, or any defective condition in any plumbing, air conditioning system or electrical lines located in, servicing or passing through the Premises.
- (d) Licensee agrees to cooperate with all of Licensor's efforts related to achieving building efficiency and minimizing the Building's negative impact on the environment and human health; such as, but not limited to, energy saving initiatives and water conservation.

5.04 Common Areas. The Common Areas shall be subject to the exclusive control and management of Licensor, and Licensor may at any time redesign, re-designate, change, use or temporarily close any Common Areas to make repairs or changes, and may do such other acts in and to the Common Areas as in its judgment may be desirable. Licensee, its licensees, employees, agents, clients and invitees shall not interfere with the rights of Licensor or other Licensees or invitees to use any part of the Common Areas. Notwithstanding the above, if Licensor's work, change, redesign or use of the Common Areas shall affect the Permitted Use and quiet enjoyment of the Premises, then Licensee shall be entitled to notice in order to minimize the disruption to the quiet enjoyment of the Premises. Furthermore, in the event the Premises are substantially affected for more than ten (10) consecutive days, Licensor will make a reasonable and proper adjustment on Base License Fee.

6. SERVICES

6.01 Common Areas. Licensor shall, as an Operating Expense, maintain the public and non-exclusive common areas of the Building, including parking, lobbies, stairs, elevators, corridors, restrooms, the windows in the Building, the mechanical, plumbing and electrical equipment serving the Building, and the structure itself in reasonably good order and condition except for damage occasioned by the act of Licensee, which damage shall be repaired by Licensor at Licensee's expense, and shall be billed as Additional License Fee.

6.02 Services. Licensor shall, as an Operating Expense, provide to the Building several services, such as: guard and security services, janitor and exterminating services for Common Areas, window cleaning, regular garbage and trash removal.

6.03 Licensee Areas. Licensor shall furnish the Premises, and invoice the Licensee directly, with:

- (a) Electricity for lighting and the operation of office machines and water.
- (b) Air conditioning.
- (c) Exterminating service.
- (d) Daily janitor service, five (5) days a week during the times and in the manner that such services are customarily furnished in comparable office buildings in the area.

6.04 Utilities. The Electricity and Water Charges may be revised by Licensor at any time to reflect changes in: (i) public utility company rates, including charges of any kind; or (ii) Licensee's consumption or demand. Any increase or decrease in the rate shall be effective as to Licensee on the same date it is effective as to Licensor.

6.05 Licensee Furnished Services. Licensor shall not be in default hereunder, nor be liable for any damages directly or indirectly resulting from, nor shall the License Fee herein reserved be abated by reason of, the installation, use or interruption of use of any equipment in connection with the furnishing of any of the foregoing services. Licensor shall not be liable to Licensee for any loss, damage or expense which Licensee may sustain or incur if either the quantity or character of electrical service shall be changed or shall no longer be available or suitable for Licensee's requirements, unless, and to the extent, that they have been caused by the negligence or willful misconduct of Licensor. Licensor reserves the right to stop the furnishing of the Building Services and to stop service of the Building Systems, when necessary, by reason of accident, emergency or for Repairs and Alterations in the good faith business judgment of Licensor desirable or necessary to be made, until said Repairs and Alterations have been completed; and Licensor shall have no responsibility or liability for failure to supply water, elevator, plumbing, electric or other services during said period or, when prevented from so doing by strikes, lockouts, difficulty of obtaining materials, accidents or by any cause beyond Licensor's reasonable control, or by Legal Requirements or failure of electricity, water, or inability by exercise of reasonable diligence to obtain such services. No diminution or abatement of License Fee or other compensation, shall or will be claimed by Licensee, nor shall this License or any of the obligations of Licensee be affected or reduced, by reason of such interruption, curtailment or suspension, nor shall the same constitute an actual or constructive eviction. Licensor shall use its best efforts to diligently remedy any interruption in the furnishing of such services. Notwithstanding the above, any interruption of the Building Services that substantially affects the office's operations for more than ten (10) days, in circumstances wholly attributable to Licensor shall result in an adjustment on Base License Fee for the period that said interruption takes place.

6.06 Licensee's Cooperation. Licensee shall, at Licensee's own cost and expense, abide by all requirements which Licensor may reasonably prescribe for the proper protection and functioning of the Building Systems and the furnishing of the Building Services; provided that Licensor agrees not to enforce such requirements against Licensee in a discriminatory manner. Licensee also shall cooperate with Licensor in any energy or water conservation effort. At Licensor's election, Licensor shall furnish and install all replacement lighting tubes, lamps, bulbs and ballasts required in the Premises, and Licensee shall pay to Licensor or Licensor's designated contractor, upon demand, the then established reasonable charges of Licensor or said contractor, as the case may be.

6.07 Building's Special Services. Licensor's employees and subcontractors shall not perform any work or do anything outside of their regular duties unless under special instructions from the office of the Licensor or its Representative (as used in this Office License, "Representative" shall mean a representative, which has been duly authorized in writing by the applicable party to the other party until such time as notice is provided that such representative is no longer so authorized. The requirements of Licensees for special services will be attended, only, upon written application to Licensor or its Representative, at the Building's administration office. The Licensee requesting a special service shall be solely responsible for its actual expense and its corresponding fifteen percent (15) management fee; this charge will be Additional License Fee and due within ten (10) days of its invoice.

7. TAXES

7.01 Taxes. From and after the Commencement Date, and until the expiration or earlier termination of this License, Licensee shall pay its proportionate share of all Impositions, at Licensee's sole cost and expense, when due, as Additional License Fee. "Impositions" shall mean any and all taxes related to the Premises including, without limiting the foregoing, concession fees, ad valorem and use and occupancy or similar taxes, levies, assessments or every kind and character, whether general, ordinary or extraordinary, special, foreseen or unforeseen, which may be taxed, assessed, levied or imposed upon or against the Premises, the Building, the Land thereunder, any other structure or improvement within the Land or newly acquired adjacent land which becomes part of the Common Areas or Building Systems, and the leasehold estate created hereby, or which may arise out of Licensee's use, development, and operation of the Premises and its business conducted thereon, or any special service district charges imposed on the Premises or any part thereof (all such real estate taxes, general or special assessments, water and sewer License Fees, rates and charges, connection fees, impact fees, charges for public utilities, excises levies, license and permit fees, and other federal, Commonwealth, state, or local governmental charges imposed on the Premises, whether general, special, ordinary or extraordinary).

(a) Licensee's share of Impositions, due and payable during the Term, shall commence on the Commencement Date and shall be determined as follows:

- i. If, and for so long as, the Premises shall be listed as a separate and independent tax parcel on the governmental tax rolls, Licensee shall pay all Imposition for the Premises on or before the due date thereof directly to the applicable taxing authorities, and upon Licensor's request, provide proof of payment of such Impositions to Licensor. In addition Licensee shall pay to Licensor, as Additional License Fee, its share of all Impositions on the Land, Common Areas and Building Systems; which shall be determined by multiplying the amount of each Imposition by Licensee's Occupancy Share.
- ii. If, and for so long as the Premises are not listed as a separate and independent tax parcel on the governmental tax rolls, Licensee shall pay to Licensor, on the first day of each month in advance, an amount equal to $1/12$ of all the Impositions corresponding to the Premises, as follows:
 1. Licensee shall pay all the Impositions on the Premises (which includes all alterations, structures and improvements). If the Impositions or assessed valuation for the Premises alone is shown on the governmental tax bill, or if said assessed value or Impositions on the Premises is readily determinable from the assessor's records so that the known tax rate can be applied to said assessed value, the Premises Impositions shall be so computed. However, if the Premises Impositions or assessed value is not separately shown on the tax bill, or is not readily determinable from the assessor's records, then the Impositions allocable to the Premises for purposes of this paragraph shall be determined by multiplying the amount of Impositions on all of the buildings and improvements located in the Building by Licensee's Occupancy Share. The result determined thereby shall be Licensee's Imposition relating to Licensee's Building; and
 2. Licensee shall pay all Impositions on the Land. Licensee's Impositions on the Land shall be determined by multiplying the amount of Impositions on the Land by Licensee's Occupancy Share.

(b) Impositions shall not include late payment penalties or interest due as a result of Licensor's late payment of any Impositions. In the event Licensee has paid punctually its pro rata share of the property taxes applicable to the Premises, it shall not be responsible for any penalties or interest, assessed to the Premises, Building and/or the Licensor for late payment, nor shall such penalties or interest be included in the computation of Operating Expenses and shall include all available discounts for early payment.

(c) Notwithstanding anything to the contrary contained herein, Licensee shall be responsible for paying any impact or connection fees imposed by Internet and telecommunication providers, PRASA, PREP A or DTOP as a result of, or in connection with, Licensee's Work, which are assessed, levied or imposed on Licensee or on the Premises by said public utilities and government agencies.

(d) Licensee shall be responsible for paying its share of any tax or charge levied for fire protection, streets, sidewalks, road maintenance, or other services provided to the Premises or the Building by any governmental agency. Licensee's Impositions on this tax shall be determined by multiplying the amount of Impositions by Licensee's Occupancy Share.

7.02 Payment of Impositions. To the extent applicable, Licensee shall pay to Licensor within thirty (30) days following receipt of invoice from Licensor the Impositions pursuant to Section 7.01 hereof. In the event Impositions are directly assessed against Licensee, Licensee shall pay such Impositions as directed by the taxing authority. Licensee shall deliver to Licensor a copy of the tax bill provided by the government, within thirty (30) days of receipt of the same, and shall provide evidence satisfactory to Licensor of the payment therefor within five (5) days of the due date of such Impositions.

7.03 Personal Property Taxes. Licensee shall pay before any fine, penalty or interest accrues, and in any event before delinquency, every tax, assessment, license fee, excise, fine or penalty for violation of the Commonwealth of Puerto Rico Closing Laws and other charge, however described, which is separately imposed on or levied, assessed or charged against Licensee by any governmental or quasi-governmental authority having jurisdiction, including, without limitation, upon or on account of Licensee's:

- (a) Operations at, occupancy of, or conduct of business in or from, the Premises; and
- (b) Fixtures or personal property in or on the Premises.

If the assessment, fine, penalty, tax or other charge relating to items (a) or (b), above, is imposed or levied on Licensor, Licensee shall pay to or reimburse Licensor such portion of any amounts payable under this section, within thirty (30) days after receipt of a written statement setting forth the applicable taxes, and Licensor shall remit such amounts to the appropriate authorities as the same become due and payable.

- 7.04 Sales or Use Tax on License Fee. Licensee covenants and agrees to pay Licensor, as Additional License Fee hereunder, any present or future sales, use or commercial rental tax imposed on Licensor's receipt of License Fee or income from the Premises or the Building (excluding Licensor's federal or state income, inheritance, or estate taxes).
- 7.05 Contesting Taxes. Licensee shall have the right to contest or review by legal proceedings, as permitted under applicable law, any assessed valuation, real estate tax, or assessment; provided that, unless Licensee has paid such tax or assessment under protest, Licensee shall furnish to Licensor (i) proof, reasonably satisfactory to Licensor, that such protest or contest may be maintained without payment under protest; and (ii) a surety bond, or other security reasonably satisfactory to Licensor, securing the payment of such contested item or items and all interest, penalty, and cost in connection therewith upon the final determination of such contest or review. Licensor will, if it determines it is reasonable to do so, and if so requested by Licensee, join in any proceeding for contest or review of such taxes or assessments, but the entire cost of such joinder in the proceedings (including all costs, expenses, and attorney's fees reasonable sustained by Licensor in connection therewith) shall be borne by Licensee. Any amount already paid by Licensee and subsequently recovered as the result of such contest or review, shall be for the account of Licensee.
- 7.06 Tax Adjustment. It is agreed by the parties herein that in the event the amount paid for Taxes by Licensor as herein defined is changed by the pertinent governmental authorities before the end of the calendar year, the Licensor shall have the right to increase Licensee's Estimated Operating Expense's payments so as to include this additional expense.

8. **USE OF THE PREMISES**

- (a) Licensee shall use and occupy the Premises only for the Permitted Use stated in the Memorandum of License.
- (b) Without limiting the restrictions on use contained in this Section, Licensee specifically agrees not to use or permit any other person to use the Premises for any of the purposes, or for the manufacture, storage, shipping or receiving (except for supplies and stock for, and other activities ancillary to, Licensee's own business); or for any purpose other than the Permitted Use as defined in the Memorandum of License, the License Agreement and its Exhibits.
- (c) Licensee shall not commit any waste or allow any nuisance on the Premises.
- (d) Licensee shall not place a load upon any floor of the Premises exceeding the lesser of the floor load per square foot for which it was designed to carry or, that which is permitted. Pursuant to the above, Licensor agrees to provide Licensee within ten (10) days from the information request with a list of the possible alternatives for the safe location of all safes, business machines and mechanical equipment to be located at the Premises, and Licensee agrees not to place any of the aforementioned equipment in a location other than any of the alternatives suggested by Licensor. Such installations shall be placed and maintained at Licensee's expense, in settings sufficient, in Licensor's reasonable judgment, to absorb and prevent vibration, noise, and annoyance.
- (e) Licensee, and all Persons Within Licensee's Control, shall faithfully observe and comply with all existing Licensor rules and regulations as stated in Exhibit B, as well as any other that Licensor may reasonably make and may communicate in writing to Licensee, which, in the reasonable judgment of Licensor, shall be necessary or desirable for the, reputation, safety, care or appearance of the Building and the Building Systems, or the preservation of good order therein, or the operation or maintenance of the Building and Building Systems, or the comfort of Licensees or others in the Building. Notwithstanding, in the case of any conflict between the provisions of this License and any such rules or regulations, the provisions of this License shall control. Nothing contained in this License shall be construed to impose upon Licensor any duty or obligation to enforce the Rules and Regulations or the terms, covenants or conditions in any other License as against any other Licensee, and provided further that Licensor shall not be liable to Licensee for violation of the same by any other Licensee, its servants, employees, agents, visitors, invitees, sub Licensees or licensees. The right to dispute the reasonableness of any additional rule or regulation upon Licensee's part shall be deemed waived unless the same shall be asserted by service of a notice in writing upon Licensor within ten (10) days after the giving of notice of the making of the rule or regulation to Licensee. Notwithstanding the foregoing, Licensor agrees not to enforce the Rules and Regulations against Licensee in a discriminatory manner and to use commercially reasonable efforts to enforce compliance by other Licensees in the Building with the rules and regulations contained in their respective Licenses to the extent that the failure of Licensor to enforce such compliance, shall have a material adverse impact on Licensee with respect to Licensee's use of the Premises. Any amendment or new regulations shall become effective six (6) days after notice to Licensee.
- (f) Licensee acknowledges that Licensor will suffer irreparable injury in the event of a breach of any of the covenants it makes in this Section and agrees that, in the event of such breach, Licensor shall be entitled, in addition to any other remedies, to an injunction to restrain the violation thereof. A breach by Licensee of the covenants under this Section (after notice and the expiration of the applicable cure period) shall also constitute an Event of Default.
- (g) Licensee shall have non-exclusive use of the Common Areas, in common with others, subject to reasonable terms and conditions of this License Agreement and to the Rules and Regulations.

9. **ALTERATIONS AND FIXTURES**

- 9.01 Alterations or Improvements. Licensee may, at any time during the Term, at its cost, make alterations, improvements or additions to the Premises (collectively "Alteration" or "Alterations") with the prior written consent of Licensor, which consent shall not be unreasonably withheld or delayed. Licensor expressly reserves the right to exclude from the Building any person, firm or corporation attempting to perform any work or act as construction contractor or manager without Licensor's prior written consent. Licensor shall have, at its option, the right to enter the Premises to inspect and to insure that the work is being or has been performed in compliance with the plans and specifications approved by Licensor. Licensee shall be obligated at the License Termination to remove any Alterations.

All Alterations: (i) shall be made at Licensee's own cost and expense and at such times and in such manner as Licensor may from time to time designate; (ii) shall comply with all Legal Requirements; (iii) shall be made promptly and in a good and workmanlike manner using Building standard or higher quality materials; and (iv) shall not affect the appearance of the Building, or be visible from the exterior of the Building, it being Licensor's intention to keep the exterior appearance of the Building reasonably uniform (and, in pursuance thereof, Licensor shall have the right to approve the appearance of all such Alterations, including ceiling heights, blinds, lighting, signs and other decorations).

In the event that Licensor submits the plans and specifications referred to above to Licensor's architects and/or engineers for review, Licensee shall reimburse Licensor as additional License Fee for Licensor's reasonable, actual out-of-pocket expenses incurred with respect to review by bona fide third parties in connection with such review within thirty (30) days after written notice to Licensee of the amount of such expense.

Before construction. Prior to commencing the performance of any Alterations, Licensee shall furnish to Licensor: (i) plans and specifications (to be prepared by a licensed architect or engineer engaged by Licensee, at its sole cost and expense), in sufficient detail to be accepted for filing with appropriate governmental agencies. Licensee shall not commence the performance thereof, unless and until Licensor has given written consent to said plans and specifications; (ii) a certificate evidencing that Licensee (or Licensee's contractors) has (have) procured and paid for worker's compensation insurance, as required by law, covering all persons employed in connection with the work who might assert claims for death or bodily injury against Licensor, Licensee, the Land and/or the Building; (iii) such additional personal injury and property damage insurance (over and above the insurance required to be carried by Licensee pursuant to the provisions of Section 22 below), and builder's risk, fire and other casualty insurance, as Licensor may reasonably require in connection with the work to be done for Licensee, provided that the same is commercially reasonable and consistent with that required by Licensors of comparable buildings; (iv) at Licensee's expense, all permits, approvals and certificates required by any governmental body; and (v) if Licensor so requests, a surety company performance bond in form and substance satisfactory to Licensor (procured at Licensee's own cost and expense), issued by a surety company acceptable to Licensor, or other security satisfactory to Licensor, in an amount equal to, at least one hundred (100) percent of the estimated cost of such Alterations, guaranteeing to Licensor the completion thereof and payment within a reasonable time, free and clear of all liens, encumbrances, chattel mortgages, security interests, conditional bills of sale and other charges, and in accordance with the plans and specifications approved by Licensor.

After construction. Within fifteen (15) days after completion of construction work, Licensee shall provide Licensor with: (1) a copy of all permits, including use permits; (2) additional insurance, if required by Licensor; (3) guarantees and warranties of all equipment attached to the Premises; (4) certificate of completion from architects and/or engineers and licensed electricians and plumbers; and (5) a copy of all construction costs and expenses as evidenced by paid invoices or a final itemized report of the cost of the improvements certified by an independent public accountant. Licensee shall be liable to Licensor, or to any other person, for any failure or diminution of any Building Systems or Services, caused by Alterations or repairs made by Licensee or by Persons within Licensee's Control, notwithstanding Licensor's consent thereto or to the plans and specifications therefore. Licensee shall promptly correct any faulty or improper Alteration or repairs made by Licensee or by Persons within Licensee's Control, and shall repair any and all damage caused thereby. If Licensee fails to make such corrections and repairs within thirty (30) days' notice from Licensor to Licensee (except in an emergency, in which case no notice shall be required), Licensor may make such corrections and repairs and charge Licensee for the reasonable and actual cost thereof. Such charge shall be deemed Additional License Fee, and shall be paid by Licensee to Licensor within ten (10) days after written bill to Licensee for the amount thereof.

9.02 Mechanic's Liens. Licensee shall pay, when due, all charges for labor or materials furnished to Licensee for Alterations and Fixtures. Licensee shall not allow any mechanic's liens to be filed against the Premises or the Building, unless Licensee provides to Licensor a bond or other surety in the amount required by law to re-License the lien, or Licensee discharges such lien within thirty (30) days after such lien or encumbrance is filed against the Premises.

9.03 Fixtures and Personal Property. Licensee may install in the Premises such trade fixtures, equipment, furniture, and personal property (collectively "Fixtures") as it may consider advisable or necessary for the conduct of its business. All Fixtures, installed by or at the expense of Licensee, shall remain the property of Licensee. Licensee shall, by the Surrender Date, remove all of Licensee's property from the Premises and shall immediately repair any material damage to the Premises caused by the installation and/or removal of such property. If Licensee fails to do so, Licensor may do so at Licensee's cost, and Licensee shall reimburse Licensor for such reasonable and actual costs, within ten (10) business days following delivery of a bill therefore to Licensee.

9.04 Improvements by Licensor. Licensor reserves the right, at any time and from time to time (without thereby creating an actual or constructive eviction or incurring any liability to Licensee therefore), to place such structures and to make such relocations, Alterations, repairs, maintenance and replacements on the Land, to the Building (including the Premises), the Building Systems, and the operation of the Building Systems, as well as in or to the Common Areas and other parts thereof, and to erect, maintain and use pipes, ducts and conduits in and through the Premises, all as Licensor may reasonably, in its good faith business judgment, deem necessary or desirable. However, Licensor shall use commercially reasonable efforts to minimize interference with Licensee's use and occupancy of the Premises or access thereto arising from the making of such repairs, maintenance and Alterations. Notwithstanding the above, any interruption of access to the Premises that substantially affects the office's operations for more than ten (10) consecutive days, due to controllable events by the Licensor, will require an adjustment on Base License Fee.

10. INDEMNIFICATION

10.01 The Licensee shall, upon timely receipt of notice, defend, indemnify, and hold Licensor harmless from and against any and all suits, claims, losses, damages, and demands (hereinafter, "Claims") arising out of injury or damage occurring at the Premises to the extent it is adjudicated such Claims arose from or out of the negligence, omissions or acts of Licensee, its agents, servants, and/or employees.

In the event Licensor is notified of a claim, action or proceeding which may result in indemnification by Licensee of Licensor as provided above, the Licensor shall give prompt written notice to Licensee and provide all of the complete particulars known by the Licensor. The Licensor shall immediately forward to the Licensee every demand, notice, summons or other process received by Licensor or Licensor's Representatives.

Licensee has the exclusive right and obligation to defend any claim, action or proceeding wherein Licensor is entitled to indemnification under the provisions of this Section, and Licensee may settle any such claim, action, or proceeding without Licensor's consent or approval; provided that Licensee has placed cash in escrow sufficient to settle such claim, action, or proceeding, and has obtained a full unconditional release of Licensor from any further obligation thereto.

Subject to the requirements of its insurance policies, the Licensor will fully cooperate with the Licensee in the defense or settlement of any claim, action, or proceeding.

The Licensee shall be entitled to seek indemnity or contribution from Licensor for any defense costs paid under this Section 10.01 to the extent that it is adjudicated that Licensor was wholly or partially responsible for the Claims. Licensor shall pay, within thirty (30) days of Licensee's statement, the actual expenses to the extent responsible. Unless authorized in writing by Licensor, Licensee shall not abate any expenses payable by Licensor under this paragraph.

- 10.02 The Licensor shall, upon timely receipt of notice, defend, indemnify, and save the Licensee harmless from and against any and all suits, claims, losses, damages, and demands (hereinafter, "Claims") arising out of injury or damage occurring at the Premises to the extent it is adjudicated such Claims arose from or out of the negligence, omissions or acts of Licensor, its agents, servants, employees, in an amount not to exceed in the aggregate the amounts paid by Licensee to Licensor hereunder.

In the event Licensee is notified of a claim, action or proceeding which may result in indemnification by Licensor of Licensee as provided above, the Licensee shall give prompt written notice to Licensor and provide all of the complete particulars known by the Licensee. The Licensee shall immediately forward to the Licensor every demand, notice, summons or other process received by Licensee or Licensee's Representatives.

Licensor has the exclusive right and obligation to defend any claim, action, or proceeding wherein Licensee is entitled to indemnification under the provisions of this Section, and Licensor may settle any such claim, action, or proceeding without Licensee's consent or approval provided that Licensor has placed cash in escrow sufficient to settle such claim, action, or proceeding, and has obtained a full unconditional release of Licensor from any further obligation thereto.

The Licensee will fully cooperate with the Licensor in the defense or settlement of any claim, action, or proceeding. The Licensor shall be entitled to seek indemnity or contribution from Licensee for any defense costs paid under this Section to the extent that it is adjudicated that Licensee was wholly or partially responsible for the Claims. Licensee shall pay within 30 days of Licensor's statement, as additional License Fee, the actual expenditures, costs, fees, expenses, judgments, penalties, damages and fines sustained or incurred by Licensor (including reasonable counsel and other professional fees and disbursements incurred in connection with any action or proceeding) when applicable under this paragraph.

11. **INSURANCE**

- 11.01 Public Liability Insurance. Licensee shall, at its cost, maintain a Comprehensive General Liability and Property Damage Insurance, including bodily injury, property damage, personal injury and advertising injury with a minimum limit of insurance of \$1,000,000.00 per occurrence and \$2,000,000 aggregate; and with a Fire Legal Liability coverage in the minimum amount of One Hundred Thousand Dollars (\$100,000.00) for loss or damage due to fire and other casualties covered within the classification of fire and extended coverage. Legal Liability coverage covering the Premises and License hold improvements in the Premises and all Licensee's equipment, trade fixtures, appliances, furnishings and personal property, also protection against all perils included in the classification of fire, earthquake, windstorm, vandalism, flood, theft and sprinkler leakage.
- 11.02 Licensor's Insurance. Licensor shall, as an Operating Expense, maintain on the Premises and the Building a \$1,000,000 public liability insurance policy as well as a policy of standard fire and extended coverage (hurricane and earthquake included) insurance, with vandalism and malicious mischief endorsement, to the extent of at least ninety percent (90) of full replacement value. Licensee acknowledges and agrees that Licensor will not carry insurance on Licensee's furniture and/or furnishings or any fixtures or equipment, improvements, or appurtenances of Licensee, and agrees that Licensor will not be obligated to repair any damage thereto or replace the same.
- 11.03 General Requirements. All insurance required under this License shall:

- (a) Be issued by insurance companies authorized to do business in the Commonwealth of Puerto Rico; and
- (b) Contain an endorsement requiring thirty (30) day's written notice from the insurance company to both parties before cancellation or change in the coverage, scope, or amount of any policy.

- 11.04 Waiver of Subrogation Rights. Anything in this License to the contrary, notwithstanding, Licensor and Licensee each hereby waives any and all rights of recovery, claim, action, or cause of action, against the other, its agents, officers or employees, for any loss or damage that may occur to the Premises, or any improvements thereto, or the complex of which the Premises are a part, or any other tangible property of Licensor or Licensee when such loss is caused by reason of fire, the elements, or any other cause which could be insured against under the terms of standard fire and extended coverage insurance policies referred to herein or is otherwise insured against under an insurance policy maintained by the party suffering such loss or damage, regardless of cause or origin, including any negligence of the other party hereto and/or its agents, officers, or employees, and each party covenants that no insurer shall hold any right of subrogation against such other party. This waiver of subrogation provision shall be effective to the full extent, but only to the extent, that it does not impair the effectiveness of insurance policies of Licensor and Licensee.
- 11.05 Certificates. All policies shall name Licensor, Licensor's mortgagees and other interested parties designated by Licensor as additional insured, with a properly executed Waiver of Subrogation and Hold Harmless favorable to the Licensor. The policies shall also provide by endorsement that any loss shall be payable to Licensee, Licensor or other parties additionally insured, as their interest may appear. A certificate of insurance for each insurance policy required by this License shall be deposited with the other party at the commencement of the Term, and, if the policy is renewed, not less than ten (10) days before the expiration of the term of the policy.
- 11.06 Increases in Insurance. Licensee shall not use or occupy the Premises, or any part thereof, or suffer or permit the same to be used or occupied for any business or purpose deemed to be extra hazardous on account of fire or otherwise, and if by reason of the use and occupancy of the Premises, the rate of the fire insurance on the Building and/or in the premises of other Licensees in the Building shall be increased, then Licensee shall pay the amount of such increase, but it shall not be deemed as a breach of this covenant by Licensee. At the request of Licensor, Licensee shall remedy the condition which caused the increase in the Insurance Premiums within thirty (30) calendar days after such request. Licensee shall not do or cause to be done, or permit on the Premises, anything deemed hazardous on account of fire or other casualty, or anything that may risk or cause the cancellation of Licensor's insurance policies. Licensee shall not do or permit any act or thing to be done, in or to the Premises, which is contrary to law, or which will invalidate or be in conflict with public liability, fire or other policies of insurance at any time carried by or for the benefit of Licensor with respect to the Premises or the Building or which shall or might subject Licensor to any liability or responsibility to any person or for property damage.

If any other Licensee in the Building or the Licensor, shall engage in any business or use of a part of the Building or other premises in the Building for any purpose deemed extra hazardous on account of fire or otherwise, and such activity shall cause the Licensee's insurance to increase, then Licensor and/or the other Licensee or Licensees causing such increase shall pay to Licensee and/or Licensor, as the case may be, an amount equal to the increased cost of Licensee's insurance attributable to such activity.

- 11.07 Incident Report – Notice. Licensee shall give immediate written notice to Licensor in case of any kind of injury to any person, accident or damage to or in the Premises or in the Building.
- 11.08 Business Interruption. This License Agreement and the obligation of Licensee to pay Base License Fee and Additional License Fee and to perform all of the other covenants and agreements hereunder on the part of Licensee to be performed shall in no way be affected, impaired or excused because Licensor is unable to:
- (a) perform or is delayed in the performance of any of its obligations under this License Agreement,
 - (b) supply or is delayed in supplying, Licensor Furnished Services or any other service expressly or impliedly to be supplied, or
 - (c) make or is delayed in making any repair, additions, alterations or decorations, or
 - (d) supply or is delayed in supplying any equipment or fixtures; if Licensor is prevented or delayed from so doing by reason of: (i) strike or labor troubles (ii) any cause whatsoever beyond the reasonable control of Licensor, including government preemption in connection with national emergency, or (iii) any rule order or regulation of any government agency, or (iv) the conditions supply and demand which have been or are affected by war or other emergency, or (v) when, in the judgment of Licensor, temporary interruption of such services is necessary by reason of accident, mechanical breakdown, or to make repairs, alterations or improvements, it being understood and agreed that such failure to perform or delay in performance by Licensor shall not give rise to any claim against the Licensor for damages or constitute a partial or total eviction, constructive or otherwise. Licensee shall, at its option, procure business interruption insurance to cover these losses.

12. **DAMAGE OR DESTRUCTION**

- 12.01 Restoration by Licensor. If, at any time after the execution of this License, the Premises or the Building are damaged in whole or in part, by fire, the elements, or any other cause whatsoever (fire, hurricane and earthquake included) herein named collectively the "Casualty", Licensor shall, at its cost, immediately restore the Premises and/or the Building to the existing condition they had prior to the Casualty; the restoration shall be completed within a reasonable time, taking into consideration the extent and nature of the damage. Licensor shall have the right to use in connection with the restoration, all proceeds of insurance paid pursuant to Section 11 above by reason of such Casualty. If Licensor is required or elects to repair and/or rebuild the Premises, Licensor shall not be obligated to expend for such repair and/or rebuilding, an amount in excess of the insurance proceeds recovered as a result of such damage. Licensor's obligation to repair and/or rebuild shall in any event be limited to restoring Licensor's work in the Premises to substantially the condition in which the same existed prior to the casualty.
- 12.02 Cooperation. After any such Casualty, Licensee shall cooperate with Licensor's restoration by promptly removing from the Premises all of Licensee's property, when so required.

12.03 Termination of License. If for any reason, the Premises or the Building are not or cannot be restored pursuant to Subsection 12.01 within ninety (90) days, or if Licensor does not substantially complete repair and restoration, as required within a reasonable period after the date of the Casualty, which period shall not exceed one hundred and eighty (180) days after the occurrence of the Casualty, either party may terminate this License upon written notice to the other. Licensor may notify at any moment after the casualty; Licensee may terminate after one hundred and eighty (180) days of the Casualty. In such event, Licensee agrees to vacate the Premises and to surrender and deliver the same to Licensor as if the date of the Casualty was the Termination Date, provided however, that any Full License Fee owed shall be paid up to such date of termination.

13. CONDEMNATION

13.01 If any part of the Premises is taken as a result of condemnation or expropriation proceedings and as a result of which the normal use by Licensee of the Premises is substantially impaired, then Licensee may terminate this License upon thirty (30) days prior written notice to Licensor.

If the use of the Building as an office building is substantially impaired as a result of condemnation or expropriation proceedings, the Licensor may terminate this License upon a thirty (30) days prior written notice to Licensee.

Licensor shall be entitled to receive the entire award without deduction, for any estate vested in Licensee. The Licensee shall be entitled only to receive from Licensor the undepreciated value of Licensee's improvements and Alterations, being understood that the same shall be depreciated by the number of years included in the Term. Nevertheless, Licensee shall have the right to file a separate action against condemnor to be compensated for any relocation expenses.

In the event Licensee effects additional improvements and/or Alterations during the Term of the License, the same shall be depreciated by the remaining number of years in the Term of the License.

13.02 Taking by condemnation or eminent domain hereunder shall include the exercise of any similar government action and any sale, transfer or other disposition of the Building or the Land in lieu of or under threat of condemnation. The word "Building" as used in this Section, shall only mean, the Premises, parking area and access ways thereto and common Building facilities.

If for reason of the condemnation, the Building is affected in such a way that it cannot substantially serve for its intended use, then either party may terminate this License upon written notice to the other.

14. ASSIGNMENT

Any related or affiliated company, future or in existence, who informs the Premises as its designated physical office to at present or in the future, that designates in the Department of State of Puerto Rico the Premises as its office, shall be considered as an assignee under this License Agreement and shall become jointly and severally liable ("solidariamente responsable") to Licensor for the strict performance of the terms and conditions of this License Agreement herein contained. Licensee may also assign or sublet the Premises, or a portion thereof, only with Licensor's previous written consent, which shall be granted or withheld upon its sole discretion. Sub- Licensee or Assignee, as the case may be, shall keep the same use of the Premises as herein permitted and which in no manner shall contravene that of any other License entered by Licensor with another Licensee. In such event, Licensee, jointly with the assignee or sub lessee, as the case may be, shall remain liable to Licensor for the strict performance of the terms and conditions of this License Agreement.

15. DEFAULT

15.01 Licensee's Default - Definition. Licensee shall be in default under this License if Licensee (or any affiliated entity):

- (a) Fails to pay any License Fee or Additional License Fee within ten (10) days from the date when the same becomes due.
- (b) Fails to pay when and as due any License Fee or Additional License Fee three (3) times during any twelve month period.
- (c) Fails to perform any other provision of this License, if the failure is not cured within thirty (30) days, after written notice thereof, is given by Licensor to Licensee; if the default cannot reasonably be cured within thirty (30) days, Licensee shall not be in default if such default can be cured in sixty (60) days, and Licensee commences to cure it within the aforesaid period and diligently continues thereafter to cure the default.
- (d) Fails to abide by the Rules and Regulations as they may be adopted or modified from time to time.
- (e) The License Agreement is assigned or transferred in any manner or shall, by operation of law, pass to or devolved upon any party without the prior written consent of Licensor, except as provided on Section 14 of the License.
- (f) Is in default with respect to any other agreement with Licensor or any of its affiliates.

15.02 Nature of Notice. Licensor shall not be required to issue notice for non-payment of License Fee. Notices given under Sections 15.01 (c) and 15.04 shall specify the alleged default and the applicable License provisions.

- 15.03 Licensee's Default - Remedies. Licensor may, if Licensee does not cure a default pursuant to Section 15.01 above, and in addition to any other remedies provided at law and in equity, cure the default at Licensee's expense. In addition, Licensor may terminate this License. If Licensor pays any reasonable sum because of a Licensee's default, such sum shall be reimbursed by Licensee to Licensor as Additional License Fee, within fifteen (15) days of its receipt of invoice.
- 15.04 Licensor's Default- Definition. Licensor shall be in default of this License if it fails to perform any provision of this License, and if such failure is not cured within thirty (30) days, after written notice thereof is given by Licensee to Licensor. If the default cannot reasonably be cured within thirty (30) days, then Licensor shall not be in default of this License if it commences to cure the default within the thirty-day-period and diligently continues to cure the same. In the event Licensor is in default, Licensee shall have the right to terminate this License and to file the appropriate action in the pertinent court of justice, to seek whichever remedy it might deem appropriate.
- 15.05 Interest. In the event that any sum owed under this License is not paid when due, then the same shall bear interest at the rate of Late Payment Charge specified in the Memorandum of License.
- 15.06 Utilities and Services. Upon occurrence of any Event of Default under this License Agreement, Licensor shall not be obligated to continue providing Licensee with any services, including utilities, if after proper written notice; Licensee has not cured such Event of Default. Thus, Licensor reserves the right to cut or interrupt such services after the curing period ends, without any additional notice.
- 15.07 Early Termination. In the event of any termination of this License pursuant to the provisions of this section, or if Licensor shall re-enter the Premises, Licensee shall thereupon pay to Licensor: the Monthly Base License Fee, Additional License Fee and any other charges payable hereunder by Licensee to Licensor up to the time of such termination of this License, plus the unamortized License Fee Rebates and/or Construction Allowance (if any), and the actual expenses incurred or paid by Licensor in terminating this License or of re-entering the Premises and securing possession thereof, including reasonable attorney's fees and costs of removal and storage of Licensee's property, and Licensee shall also pay to Licensor damages as provided in this contract.
- 15.08 Re-letting. Licensor will be entitled to retain all monies, if any, paid by Licensee to Licensor, whether as advance License Fee, security deposit or otherwise, but Licensor will credit such monies against any Monthly Base License Fee, Additional License Fee or any other charge due from Licensee at the time of such termination or re-entry. In the event Licensor re-enters the Premises and if this License is not terminated, Licensor may (but shall have absolutely no obligation to do so), as agent for Licensee, re-let the whole or any part of the Premises for any period equal to, greater or less than the remainder of the original term of this License, for any sum which Licensor may deem suitable, including License Fee concessions, and for any use and purpose which Licensor may deem appropriate. Such re-letting may include any improvements, personal and trade fixtures remaining in the Premises. License Fee received by Licensor pursuant to this section, shall be credited to the balance of License Fee payable by Licensee under this License Agreement, less Licensor's reasonable expenses in re-letting the Premises (which shall include, among others: broker fees, remodeling expenses, and all legal costs). Nothing contained herein shall be construed as limiting or precluding the recovery by Licensor against Licensee of any payments or damages to which, in addition to the damages particularly provided above, Licensor may lawfully be entitled by reason of any default hereunder on the part of Licensee. The failure or refusal of Licensor to re-let the Premises or any part or parts thereof, or the failure of Licensor to collect the License Fee thereof under such re-letting, shall not re-License or affect Licensee's liability for damages.
- 15.09 Bankruptcy. If during the License Term Licensee shall: (i) apply for or consent to the appointment of a receiver, trustee or liquidator of Licensee, or of all or substantially all of its assets; or (ii) file a voluntary petition in bankruptcy; or (iii) make a general assignment for the benefit of creditors; or (iv) file a petition or an answer seeking reorganization (other than a reorganization not involving the liabilities of Licensee) or arrangement with creditors, or take advantage of any insolvency law; or (v) file an answer admitting the material allegations of a petition filed against it in any bankruptcy, reorganization or insolvency proceeding; or (vi) if an order, judgment or decree shall be entered by any court of competent jurisdiction on the application of a creditor adjudicating Licensee a bankrupt or insolvent, or approving a petition seeking reorganization of Licensee (other than a reorganization not involving the liabilities of Licensee) or appointment of a receiver, trustee or liquidator of Licensee, or of all or substantially all its assets, and such order, judgment or decree shall continue in effect for sixty (60) calendar days, the terms of this License Agreement and all rights, title and interest of Licensee hereunder shall expire as fully and completely as if that day were the date herein specifically fixed for the Termination Date, and Licensee will then quit and surrender the Premises to Licensor, but Licensee shall remain liable as hereinafter provided. Notwithstanding any provisions in any applicable law or in this License Agreement to the contrary, in no event shall this License Agreement be considered an asset of Licensee's estate in bankruptcy or insolvency under any applicable law, or of any Receiver or Trustee with respect thereto.
- 15.10 Cross-Default. If the term of this License shall be terminated or terminable because of a default by the Licensee, such fact shall empower Licensor, at Licensor's sole option, to hold Licensee in default of this License and to terminate any License for any space in the Building or any other property owned and operated by Licensor or its affiliate under which Licensee, subsidiaries or affiliates is now or hereafter the party identified as the Licensee or lessee ("Other License") and to terminate such Other License by notice to Licensee or to exercise any of the rights or remedies set forth in Section 15.03. The term Default is defined in Section 15.01. A Default by Licensee under this License shall be deemed to be a default by Licensee under any other agreement between Licensee (or its affiliates) and Licensor (or its affiliates).
- 15.11 Licensee to Remain Liable. No expiration or termination of this License pursuant to Section 15.07 (early termination), or by operation of law or otherwise, and no repossession of the Premises or any part thereof pursuant to Section 15.08 or otherwise, and no relating of the Premises or any part thereof pursuant to Section 15.08, shall relieve Licensee of its liabilities and obligations hereunder, all of which shall survive such expiration, termination, repossession or relating.

16. SUBORDINATION

This License, and all of the rights of the Licensee hereto, are hereby made subject and subordinate at all times to all concessions, ground or underlying leases, including any ground lease entered into by the Licensor as tenant thereunder, and to all mortgages which may now or

hereafter affect the real property from which the Premises are a part, and to all renewals, modifications, consolidations, replacements and extensions thereof. Licensee agrees that this License is subject in all respects to the concession held by Licensor and Licensee will never take any action, assert any claim, or attempt either of the foregoing, that could compromise such concession.

This clause shall be self-operative, and no further instrument of subordination shall be required to subordinate to any ground or underlying lease or leases, mortgages, now or hereafter in effect. In confirming of such subordination, Licensee shall execute promptly any reasonable certificate, document or deed that the Licensor may request.

The use and occupancy of the Licensee shall not be disturbed by Licensor, or Licensor's mortgagee or Licensor's lessor, so long as Licensee is not in default under the License. Licensor shall use reasonably commercial efforts to obtain a non-disturbance agreement from any current Licensee or future mortgagee of Licensor.

17. NOTICES

Any notice pursuant to this License shall be either personally delivered or sent by prepaid, first class mail, or by fax and shall be in writing and delivered by a nationally recognized overnight air courier service (such as Federal Express) or by United States Postal Service, registered or certified mail, return receipt requested. Any notice shall be addressed to the address stated in the first page of the Memorandum of License. Either party may change its address by written notice to the other party. Any notice shall be deemed to have been delivered and received on the earlier of the date actually received, or on the date of the first business day after having been delivered to a nationally recognized overnight air courier service for "next business day" delivery or on the third business day after having been deposited with the United States Postal Service registered or certified *mail*, return receipt requested.

18. SURRENDER OF PREMISES

18.01 Surrender. Upon the expiration or sooner termination of the Term, Licensee shall surrender the Premises to Licensor broom clean and in good order and condition except for:

- (a) Ordinary wear and tear;
- (b) As otherwise provided in Section 7 above; and
- (c) Damage or destruction by any casualty not covered by insurance.

18.02 Removal of Personal Property. Upon the License Termination, Licensee shall remove any Fixtures it may deem desirable, provided it shall repair any damage to the Premises caused by such removal. In the event Licensee does not remove its personal property from the Premises within ten (10) days after Licensee has vacated or abandoned the premises, then such property shall be deemed abandoned by Licensee and at Licensor's option, shall be conclusively deemed to have been conveyed by Licensee to Licensor as by bill of sale without any payment or credit by Licensor to Licensee; thus Licensor may dispose of the same without liability to Licensee, at Licensee's cost and expense. For this section "vacated" shall mean when Licensee gives Licensor the keys to the Premises, and "abandoned" shall mean when Licensee fails to open to the public the Premises for twenty (20) consecutive days.

18.03 Holding Over. If Licensee does not surrender the Premises on or before the Termination Date specified in Licensor's Termination Notice, Base License Fee shall be automatically increased to one hundred and fifty percent (150) of the then current market License Fee License Fee (the "Occupancy Payment"), and in addition Licensee must continue to pay all Additional License Fee. The Holding Over shall not be deemed a renewal of the License, but all the applicable Terms of this License shall continue to govern the relation between the parties. Licensee shall make the Occupancy Payment, without notice or previous demand therefore, on the first day of each and every month during the Hold Over Period. The receipt and acceptance by Licensor of all or any portion of the Occupancy Payment shall not be deemed a waiver or acceptance by Licensor of Licensee's breach of Licensee's covenants and agreements or a waiver by Licensor of Licensor's right to institute any summary holdover proceedings against Licensee, or a waiver by Licensor of Licensor's rights to enforce any of Licensor's rights, or pursue any of Licensor's remedies against Licensee in such event as provided for in this License or under law.

18.04 Damages. In addition to making all required Occupancy Payments, Licensee shall, in the event of Licensee's failure to surrender the Premises on the Surrender Date as and in the manner aforesaid, also indemnify and hold Licensor harmless from and against any and all cost, expense, damage, claim, loss or liability directly resulting from any delay or failure by Licensee in so surrendering the Premises, including any consequential damages suffered by Licensor and any claims made by any succeeding occupant founded on such delay or failure, and any and all reasonable attorneys' fees, disbursements and court costs incurred by Licensor in connection with any of the foregoing.

19. LEGAL REQUIREMENTS

- (a) Licensee, at its sole cost and expense, shall at all times timely comply with all present and future Legal Requirements with respect to the Premises, whether or not arising out of Licensee's use or manner of use thereof, or with respect to the Building if arising out of Licensee's use or manner of use of the Premises or the Building, including the Permitted Use under this License Agreement.
- (b) Licensee shall not do, and shall make all reasonable efforts not to permit Persons within Licensee's Control to do, any act or thing in or upon the Premises or the Building which will violate any Legal Requirements. Licensee shall, at Licensee's cost and expense, comply with all Legal Requirements, whether now in effect or hereafter enacted or issued, and whether or not any work required shall be ordinary or extraordinary or foreseen or unforeseen at the date hereof.

- (c) Licensee shall be responsible for the cost of all present and future compliance with The Americans with Disabilities Act of 1990, Public Law 101-336, 42 U.S.C. § 12101 et seq. (herein called the "Disabilities Act") in respect of the Premises, except to the extent that it would require Licensee to make any Structural Alterations within the Premises (i.e., alterations to the slab, support columns and facade) or to make any modifications to Building Systems located within the Premises.
- (d) Licensee shall only be obligated to comply with the performance of any Legal Requirements requiring any Structural Alteration of the Premises or any modification to the Building Systems located within the Premises if such Alteration or modification to the Building Systems shall be required by reason of a condition which has been created by, or at the instance of, Licensee or Persons Within Licensees Control or a breach of any of Licensee's covenants and agreements hereunder.
- (e) Licensee may, after securing Licensor to Licensor's satisfaction against all damages, interest, penalties and expenses, including, but not limited to, reasonable attorneys' fees, contest and appeal any such laws, ordinances, orders, rules, regulations or requirements provided that Licensee files such contest or appeal with reasonable promptness and, should the outcome of the appeal be unfavorable to Licensee, it may be remedied monetarily and shall not subject Licensor to prosecution for a criminal offense, constitute a default under any agreement or mortgage under which Licensor may be obligated, or cause the Premises or any part thereof to be condemned or vacated.
- (f) OFAC Compliance
- i. Licensee represents and warrants that: (a) Licensee and each person or entity owning an interest in Licensee is (i) not currently identified on the Specially Designated Nationals and Blocked Persons List maintained by the Office of Foreign Assets Control, Department of the Treasury ("OF AC") and/or on any other similar list maintained by OF AC, pursuant to any authorizing statute, executive order or regulation (collectively, the "List"); and (ii) not a person or entity with whom a citizen of the United States is prohibited to engage in transactions by any trade embargo, economic sanction, or other prohibition of United States law, regulation, or Executive Order of the President of the United States; (b) none of the funds or other assets of Tenant constitute property of, or are beneficially owned, directly or indirectly, by any Embargoed Person (as hereinafter defined); (c) no Embargoed Person has any interest of any nature whatsoever in Licensee (whether directly or indirectly); (d) none of the funds of Licensee have been derived from any unlawful activity with the result that the investment in Licensee is prohibited by law or that this License is in violation of law; and (e) Licensee has implemented procedures, and will consistently apply those procedures, to ensure the foregoing representations and warranties remain true and correct at all times. The term "Embargoed Person" means any person, entity or government subject to trade restrictions under U.S. Law, including but not limited to, the International Emergency Economic Powers Act, 50 U.S.C. § 1701 et seq., The Trading with the Enemy Act, 50 U.S.C. App. I et seq., and any Executive Orders or regulations promulgated thereunder with the result that the investment in Licensee is prohibited by law or Licensee is in violation of law.
 - ii. Licensee covenants and agrees to: (a) comply with all requirements of law relating to money laundering, anti-terrorism, trade embargos and economic sanctions, now or hereafter in effect; (b) to immediately notify Licensor in writing if any of the representations, warranties or covenants set forth in this paragraph or the preceding paragraph, are no longer true or have been breached or if Licensee has a reasonable basis to believe that they may no longer be true or have been breached; (c) not to use funds from any "Prohibited Person" (as such term is defined in the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism) to make any payment due to Licensor under this License; and (d) at the request of Licensor, to provide such information as may be requested by Licensor to determine Licensee's compliance with the terms hereof.
 - iii. Licensee hereby acknowledges and agrees that Licensee's inclusion on the List at any time during the term, shall be an Event of Default under this License Agreement. Notwithstanding anything herein to the contrary, Licensee shall not permit the Premises or any portion thereof, to be used or occupied by any person or entity on the List or by any Embargoed Person (on a permanent, temporary or transient basis), and any such use or occupancy of the Premises by any such person or entity shall be an Event of Default of this License Agreement. Licensee shall indemnify and hold Licensor harmless and against from all losses, damages, liabilities, cost and expenses (including, without limitation, reasonable attorneys' fees and expenses) that are incurred by Licensor and/or its affiliates that derive from a claim made by a third party against Licensor and/or its affiliates arising or alleged to arise from a misrepresentation made by Licensee hereunder or a breach of any covenant to be performed by Licensee hereunder.

20. DEFINITIONS

The terms defined in the Memorandum of License are incorporated into this License Agreement. The following additional terms shall have the meaning stated in this Section and in other parts of this License.

- 20.01 Alterations- shall include all installations, changes, modifications, restorations, renovations, decorations, replacements, additions, improvements and betterments (such as removal or installation of partitions, doors, electrical installations, plumbing installations, water coolers, heating, ventilating and air conditioning or cooling systems, units or parts thereof or other apparatus of like or other nature) made in or to the Premises or the Building whether structural or non-structural. The term "Structural Alterations" shall include any Alterations involving or affecting: (i) the exterior, roof or foundation of the Building; (ii) any supporting members or structural elements of the Building; (iii) any Building Systems outside (or serving parts of the Building outside) of the Premises; or (iv) any Common Areas of the Building.
- 20.02 Additional License Fee- shall refer to all payments required as detailed in this License, by any concept other than Base License Fee.
- 20.03 Affiliated Company- shall refer to any corporation or company duly constituted and registered to do business in the Department of State of the Commonwealth of Puerto Rico which is under Licensee's control, since Licensee owns outright at least 75 of its stock or member's participation.

- 20.04 Building - shall mean and include the structure and other improvements constructed, or as may in the future be constructed, in the Common Areas, on the Land, and related plazas (if any), curbs, sidewalks and appurtenances known by the address and Building Name stated in the Memorandum of License.
- 20.05 Building Systems - shall mean and include ventilation, air conditioning systems, elevators, water, sewerage, toilet, plumbing, sprinkler, electric, wiring and mechanical systems, now or hereafter installed in the Building, and the fixtures, equipment and appurtenances thereof, and all other mechanical devices, fixtures, equipment, appurtenances and systems installed by Licensor in the Building.
- 20.06 Business Days- shall mean all days other than Saturdays, Sundays and Holidays. The term "Holidays" shall be deemed to mean all dates in Exhibit C.
- 20.07 Calendar Year - shall mean the period from January 1 through December 31 of each year.
- 20.08 Common Areas - shall mean all areas and facilities in and about the Building which are provided and designated from time to time by Licensor for the general non-exclusive use and convenience of Licensees, their employees, invitees, licensees, and visitors in general, including such portions of the halls, stairs, lobbies, elevators, street entrances and other public portions of the Building as may be necessary for access to the Premises.
- 20.09 Default Rate- shall be the rate specified as the *Late Payment Charge* in the Memorandum of License.
- 20.10 Expected Operating Expense - shall include all costs and expenses projected to be incurred by Licensor as an Operating Expense.
- 20.11 Event(s) of Default- is defined in Section 15.
- 20.12 Full License Fee or License Fee - shall mean the Base License Fee, Additional License Fee, Late Charges and any and all other sums payable by Licensee to Licensor as provided in this License Agreement.
- 20.13 Guarantor – shall mean Jeff Thompson.
- 20.14 Guaranty – is defined in Section 21.02
- 20.15 Initial Work - shall mean any remodeling done prior to Licensee opening for business, if any, its terms and specifications are defined in Exhibit A-I. If there is no Exhibit A-I, or it is empty of contents, it shall be understood that Licensee accepts the Premises in "as is" condition and Licensor shall not be responsible for any prior remodeling.
- 20.16 Insurance Premiums - shall mean any and all premiums and costs paid or payable by Licensor or Licensee for fire, earthquake, windstorm and extended coverage, property casualty insurance covering the Building, elevators, machinery, equipment, air conditioning system, and any other machinery and equipment, public liability, License Fee insurance, and any other insurance coverage which Licensor in its reasonable judgment considers necessary or convenient to maintain the Building or the Premises adequately insured.
- 20.17 Land- shall mean the underlying land where the Building is erected.
- 20.18 Legal Requirements - shall mean and include all laws, orders, ordinances, directions, notices, rules and regulations of the federal government and of the Commonwealth of Puerto Rico or its municipalities, and of any division, agency, subdivision, bureau, office, commission, board, authority and department thereof, and of any public officer or official, and of any quasi-governmental officials and authorities having or asserting jurisdiction over the Land, Building and/or the Premises.
- 20.19 Material Changes- shall mean an unforeseen event that affects or modifies adversely the industry (be it by war, terrorism, and change in law or policy) by causing increases on utility rates and/or Taxes due to factors outside of Licensor's control.
- 20.20 Monthly Base License Fee - shall mean the amount of Annual Base License Fee expressed in monthly terms agreed to between Licensor and Licensee, as stated in the Memorandum of License, for the use of the Premises.
- 20.21 Operating Expense(s) - shall include all costs and expenses paid or incurred by Licensor or on Licensor's behalf, whether supplied by Licensor or by another person or entity in connection with the ownership, management, repair, maintenance, replacement, restoration or operation of the Building, the Land and any plazas, sidewalks, curbs and appurtenances thereto, as defined in Section 4 of this License Agreement.
- 20.22 Permitted Use- shall be the purpose for which the Licensee is authorized to use the Premises as stated in the Memorandum of License, but subject to the provisions of this License Agreement, including the compliance with all Legal Requirements, and no other use.
- 20.23 Persons Within Licensee's Control- shall mean Licensee's Representatives, employees, officers, directors, contractors, successors, Representatives, licensees, agents, suppliers, clients, visitors, invitees, and sub-licensees.
- 20.24 Pro-rata Share - shall mean the product of the Estimated Operating Expenses multiplied by the "Occupancy Share," as defined in the Memorandum of License.
- 20.25 Ready for Occupancy- the Premises shall be considered ready for occupancy when all construction, installation and other Initial Work required to be done by Licensor and Licensee, shall have been substantially completed, as determined by Licensor.

20.26 Rules and Regulations - shall mean all those rules and regulations for the operation of the Building as may be adopted, changed or modified from time to time by Licensor.

20.27 Substantial Completion of Construction- shall mean when "Licensor Work" as defined in Exhibit A-I, if any, has been substantially completed, except for certain details of construction, decoration, and mechanical or electrical adjustments which, in the aggregate, are minor in character and do not materially interfere with Licensee's use or enjoyment of the Building in accordance with the provisions of this License.

21. MISCELLANEOUS PROVISIONS

21.01 Licensor's Warranties. Licensor covenants and warrants that:

- (a) It has possession of the Land and the Building pursuant to a concession and the right to enter into this License;
- (b) It will, subject to the provisions of this License, maintain Licensee in full and exclusive possession of the Premises; and
- (c) If Licensee performs all the agreements, covenants and conditions of this License, Licensee may peaceably and quietly occupy and enjoy the Premises and all rights, easements, appurtenances and privileges according to this License, without interference, lawful or unlawful, of Licensor or any person claiming through Licensor.
- (d) It is a duly organized and validly existing partnership under the laws of the Commonwealth of Puerto Rico and the execution of this License is not a violation of any organizational documents and that said execution has been duly authorized by the partners of the partnership and is binding upon Licensor.
- (e) Licensor covenants, agrees and warrants that, neither the execution nor provisions of this License, violate or breach, or will violate or breach, any term or provision of any agreement, written or oral, with any other person, and that in the event legal proceedings are instituted by any person or entity to prohibit the use, operation or enjoyment of the Property, or any part thereof, as provided in this License.

21.02 Guarantor(s) - Joint and Several Liability. Licensor has required, as a condition to its execution and performance of the License that Guarantor guarantees all obligations of Licensee arising and all sums due by Licensee under the License. This Guaranty is a material inducement to Licensor for the execution and performance of the License. Whereas the Guarantor(s) are the sole shareholders of Licensee and, having a financial interest in Licensee will be benefitted by the License. Accordingly, Guarantor has agreed to execute, deliver and perform this Guaranty. If there are any Guarantors of this License, their names and notification addresses are stated in the Memorandum of License.

(I) therefore each Guarantor individually covenants and agrees to absolutely, unconditionally and irrevocably guarantee Licensor:

- (a) The full and prompt payment when due, whether upon acceleration or otherwise, and at all times thereafter, of any and all License Fees, debts and obligations of Licensee for the payment of money, however created, arising or evidenced, whether direct or indirect, absolute or contingent, now or hereafter existing, due or to become due, known or unknown to Guarantor at the time of the execution of this Guaranty, including without limitation, all License Fees, late fees, License Fee adjustments, payments in respect to Operating Expenses, Attorney's Fees, and any other sums which may now be or hereafter become due by Licensee under the License.
- (b) The full, complete and punctual observance, performance and satisfaction of all covenants, terms, conditions, obligations, duties and agreements of Licensee under the License.

(II) This Guaranty is an absolute, irrevocable, present and continuing guaranty of payment and performance and not merely a guaranty of collection. In the event of any default by Licensee under the License, after the expiration of any cure period applicable thereto, Guarantor agrees, on demand by Licensor, to pay all Liabilities then due hereunder, regardless of any defense, right of setoff or claim which Licensee or Guarantor may have against Licensor. In the event that there shall be any default by Licensee, Guarantor in the due and timely performance and observance of the Obligations, shall perform them within five (5) days of Licensor's written notice demanding the performance of Guarantor. Notwithstanding anything to the contrary herein contained, in any action to enforce any of the liabilities or obligations of the Guarantor under this Guaranty, Licensor, at its election, may proceed against the Guarantor with or without: (i) joining Licensee in any such action; (ii) commencing any action against or obtaining any judgment against Licensee; or (iii) commencing any proceeding to enforce or realize upon any collateral or other security which may be given to secure Licensee's obligations under the License, or to obtain any judgment, decree or foreclosure sale with respect thereto. Guarantor agrees that the obligations, covenants and agreements of Guarantor under this Guaranty shall not be affected or impaired by any act of Licensor, or any event or condition except the full, final and unavoidable performance of all Obligations and payment of all Liabilities and any other sums due hereunder.

(III) All of the covenants, agreements and obligations of the undersigned herein contained are joint and several ("solidarias"). The obligations hereunder are independent of the obligations of Licensee, and a separate action or actions may be brought or prosecuted against the undersigned, or any of the undersigned independently (if there is more than one Guarantor), whether any action is brought against Licensee or whether Licensee is joined in any action or actions.

(IV) In the event that the License Agreement is modified, renewed or extended in any respect by agreement between Licensor and Licensee either pursuant to an option granted in the License Agreement or otherwise, or in an event that Licensee holds over beyond the Term of the License Agreement (with or without Licensor's consent), then the obligations hereunder of Guarantors shall extend to the full and faithful

performance and observance of all of the covenants, terms and conditions of the License Agreement and of any such modification, renewal or extension thereof Guarantors intend that Guarantors shall remain liable hereunder as principal until the full, final and unavoidable performance of all the obligations and the full, final and unavoidable payment of all amounts due by the License Agreement, notwithstanding any fact, act, event or occurrence which might otherwise operate as a legal or equitable discharge of a surety or guarantor.

- 21.03 Time of the Essence. Time is of the essence of each provision of this License. Any reference in this License to "days" shall mean calendar days.
- 21.04 Force Majeure. If any casualty or unforeseeable cause beyond the control of the party with a performance obligation; including, without limitation, acts of God, fires, floods, epidemics, quarantine restrictions, terrorist acts, strikes, failure of public utilities, or unusually severe weather, prevents the performance of this Agreement by said party, then the parties release one another from any damage so caused thereby and any cure time period shall be extended one day for each day the force majeure situation exists.
- 21.05 Successors and Assigns. This License shall be binding on and inure to the benefit of the parties and their respective successors and assigns.
- 21.06 Real Estate Brokers. The parties warrant and represent that no brokers intervened in this transaction, unless so stated in the Memorandum of License. If a broker intervened, the Broker's commission shall be paid by the Licensor; the commission's percentage and time of payment shall be stated clearly in the Memorandum of License. The commission will be calculated from the Base License Fee specified in Section 3.01.
- 21.07 Applicable Laws and Jurisdiction. This License shall be construed and interpreted in accordance with the laws of the Commonwealth of Puerto Rico. In the event of any judicial action by any of the parties herein, they submit themselves to the jurisdiction of the Court of First Instance, San Juan Section of the Commonwealth of Puerto Rico.
- 21.08 Modification. This License Agreement contains all of the agreements the parties have reached, it supersedes any and all previous accords or agreements, verbal or written. This License Agreement cannot be amended or modified except by a written instrument signed by the authorized Representatives of both Licensor and Licensee.
- 21.09 The captions of this License shall have no effect on the interpretation of this License.
- 21.10 Severability. The unenforceability or illegality of any provision of this License shall not render the other provisions unenforceable, invalid, or illegal.
- 21.11 Exhibits. All exhibit(s) and rider(s), if any, specified in the Memorandum of License shall be deemed incorporated herein and a part of this License as though set forth in full in its body.
- 21.12 Attorney's Fees. If either party commences an action against the other in connection with this License or the Premises, the prevailing party shall be entitled to recover from the losing party, reasonable attorney's fees and the costs of suit.
- 21.13 Hazardous Substances. Licensor warrants and represents that, to the best of its knowledge, the Building of which the Premises is a part, is entirely free of asbestos and asbestos containing material and/or any dangerous, toxic or hazardous pollutants, contaminant chemicals, waste, materials or substances, as defined in or governed by the provisions of any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating thereto, as such provisions may be amended from time to time ("Hazardous Materials").
- If at any time during the initial Term of this License any Hazardous Materials are found within the Premises or within a part of the Building and, in the event any applicable governmental regulation requires the removal or abatement of any such Hazardous Materials from any part of the Building of which the Premises is a part, Licensor shall be entirely responsible for all such cost and expenses and shall indemnify and hold Licensee harmless from and against any and all claims made by any party (including, without limitation, those from any employee, invitee, or licensee of Tenant, or from any governmental authority) relating to or arising out of, or in any way connected with Hazardous Materials which are found within a part of the Building, which shall include any cost related to any such claim or claims (including reasonable attorney's fees).
- 21.14 Licensee's Signs. Licensee may place its sign on the entrance door to the Premises and/or in the hallways and elevator lobbies on floors which are let by Licensee in its entirety. On floors partially Licensed by Licensee, it may place its sign on the entrance door to the Premises.
- 21.15 Directory Board. Licensor, at its expense, shall place a directory board in the Building lobby and, at Licensee's option, to be exercised in its sole discretion, shall affix thereto the Licensee's name and the name of each division, subsidiary, affiliate, partner or sub-licensee of Licensee that is located in the Building.
- 21.16 Limitations on Licensor's Rights. Neither Licensee nor Licensor shall install or permit the installation of any signs, sculptures and/or graphics which adversely reflect on the dignity or character of the Building as a first-class office building.
- 21.17 Views. If at any time any windows of the Premises shall be temporarily or permanently closed, darkened or covered for any reason whatsoever, including Licensor's own acts, Licensor shall not be liable for any compensation or damage sustained.

- 21.18 Building Name. Licensee shall not, except to designate Licensee's business address (and then only without emphasis or display) use the name of the Building or any simulation or abbreviation of such name for any purpose whatsoever. Licensor shall have the absolute right at any time, and from time to time upon ninety (90) days' notice to Licensee, to name and change the name of the Building and to change the designated address of the Building. Licensee will discontinue using the name of the Building within one hundred twenty (120) calendar days after Licensor notifies Licensee that the Building is no longer known by such name. Licensor shall not be responsible for any expenses incurred by Licensee in connection with a change in the name of the Building. The Building may be named after any person, or otherwise, whether or not such name shall be, or shall resemble, the name of a Licensee of space in the Building.
- 21.19 Confidentiality Agreement. The information contained herein this License Agreement shall be deemed confidential, and Licensee agrees that it will keep this information as such. Licensee agrees that he will not, directly or indirectly: (a) disclose or permit the disclosure of the Information to, or discuss with or otherwise reveal, the existence or content of the information to any person or entity, except to its employees, agents or Representatives on a need to know basis who are bound to observe the terms hereof; or (b) use or permit the use of the information (1) in any way detrimental to the Property or Licensor or any of its affiliates, successors and/or assigns; or (2) for any purpose other than evaluating negotiations regarding the Premises. In any event, Licensee shall be responsible for any breach of this Agreement by any of its employees, agents or Representatives and Licensee agrees, at its sole cost and expense, to take all necessary measures (including, but not limited to, court proceedings) to restrain its employees, agents and Representatives from prohibited or unauthorized disclosure or to use the information in any manner not authorized herein.
- 21.20 Estoppel Certificate. Licensee shall, at any time and from time to time, within ten (10) days of written notice by Licensor, execute, acknowledge and deliver to Licensor, and/or to any other person, firm or corporation specified by Licensor, a statement certifying among other things, that this License Agreement is in full force (or, if there have been modifications, that the same is in full force and effect as modified), stating the dates which the Monthly Base License Fee and Additional License Fee have been paid, and indicating any uncured defaults by Licensor, if any, under this License Agreement.
- 21.21 Survival. Each and every one of Licensee's obligations set forth in Sections: #3 (License Fee), #4 (Operating Expenses), #9 (Alterations and Fixtures), #10 (Indemnification), #14 (Assignment), #15 (Default), #18 (Surrender of Premises), #21.02, #21.12, and 21.19 shall survive the expiration or sooner termination of this License, whereupon any and all monetary obligations of Licensee pursuant thereto shall be deemed damages recoverable by Licensor.
- 21.22 Other Provisions. If after exercising due diligence in obtaining the requisite permits, licenses or authorizations necessary to operate the business in the Premises, Licensee fails to obtain the same from the corresponding governmental agencies Licensee may terminate this License provided it provides Licensor with a thirty (30) day notification of its intention to terminate this License for failure to obtain the necessary permits, licenses or authorizations to operate. At such time, Licensor shall reimburse Licensee for its security deposit as provided herein and all contract obligations shall be terminated.

[Remainder of Page Intentionally Left Blank. Signature Page Follows.]

IN WITNESS WHEREOF, the parties have executed this License as of the day and year written above.

By: _____

The Yacht Club LLC

by its manager EMSL LLC

by Alex Lemond, its Authorized Representative

By: _____

by _____, its President

By: _____

Guarantor

LEASE AGREEMENT

THIS LEASE AGREEMENT is made this 15th day of January, 2019, between Gamh Properties Inc ("Landlord"), and the Tenant named below.

Tenant: Rotor Riot LLC
Tenant's Representative, Chad Kapper
Address and Telephone: 8861 Day Avenue SW Navarre Oh 44662

Premises: That portion of the Building, containing approximately 3,635sqft, as determined by Landlord, as shown on Exhibit A.

Project: The Building, land, pavement and common areas of the property listed as Exhibit "B" attached hereto.

Building: The Building located at 6457 Hazeltine National Drive Suite 105 Orlando, FL 32822

Lease Term: Beginning on the Commencement Date and ending on the last day of the 36th full calendar month thereafter.

Commencement date: February 1st, 2019

Rent Schedule: see Addendum 1

Security Deposit: First month's rent plus security deposit
 (\$4,091.99 + \$3,853.10) = \$7,945.09

Tenant's Broker: Orlando Montero – Alpha Real Estate of Central Florida

Addenda: Addendum 1- Rent Schedule and Landlords Work
 Addendum 2- HVAC Service agreement
 Addendum 3- Signage
 Addendum 4- Move Out Conditions
 Addendum 5- Rent Commencement Agreement

Exhibits: Exhibit A- Premises Depiction
 Exhibit B- Legal Description

1. **Granting Clause.** In consideration of the obligation of Tenant to pay rent as herein provided and in consideration of the other terms, covenants, and conditions hereof, Landlord leases to Tenant, and Tenant takes from Landlord, the Premises, to have and to hold for the Lease Term, subject to the terms, covenants and conditions of this Lease.

2. **Acceptance of Premises.** Tenant shall accept the Premises in its condition as the Commencement Date, subject to all applicable laws, ordinances, regulations, covenants and restrictions. Landlord has made no representation or warranty as to the suitability of the Premises for the conduct of Tenant's business, and Tenant waives any implied warranty that the Premises are suitable for Tenant's intended purposes. Except as provided in Paragraph 10, in no event shall Landlord have any obligation for any defects in the Premises or any limitation on its use. The taking of possession of the Premises shall be conclusive evidence that Tenant accepts the Premises and that the Premises were in good condition at the time possession was taken except for items that are Landlord's responsibility under Paragraph 10 and any punch list items agreed to in writing by Landlord and Tenant.

3. **Use.** The Premises shall be used only for the purpose of Office/warehouse provided, however, with Landlord's prior written consent, Tenant may also use the Premises for light manufacturing. Tenant shall not conduct or give notice of

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any auction, liquidation, or going out of business sale on the Premises. Tenant will use the Premises in a careful, safe and proper manner and will not commit waste, overload the floor or structure of the Premises or subject the Premises to use the would damage the Premises. Tenant shall not permit any objectionable or unpleasant odors, smoke, dust, gas, noise, or vibrations to emanate from the Premises, or take any other action that would constitute a nuisance or would disturb, unreasonably interfere with, or endanger Landlord or any tenants of the Project. Outside storage, including without limitation, storage of trucks and other vehicles is prohibited without Landlord's prior written consent. Tenant, at its sole expense, shall use and occupy the Premises in compliance with all laws, including, without limitation, the American With Disabilities Act, orders, judgments, ordinances, regulations, codes, directives, permits, licenses, covenants and restrictions now or hereafter applicable to the Premises (collectively, "Legal Requirements"). The Premises shall not be used as a place of public accommodation under the Americans With Disabilities act or similar state statutes or local ordinances or any regulations promulgated thereunder, all as may be amended from time to time. Tenant shall, at its expense, make any alterations or modifications, within or without the Premises, that are required by Legal Requirements related to Tenant's use or occupation of the Premises. Tenant will not use or permit the Premises to be used for any purpose or in any manner that would void Tenant's or Landlord's insurance, increase the insurance risk, or cause the disallowance of any sprinkler credits. If any increase in the cost of any insurance on the Premises or the Project is caused by Tenant's use or occupation of the Premises, or because Tenant vacates the Premises, the Tenant shall pay the amount of such increase to Landlord. Any occupation of the Premises by Tenant prior to the Commencement Date shall be subject to all obligations of Tenant under this Lease.

4. **Base Rent.** Tenant shall pay Base Rent in the amount set forth above. The first months' Base Rent, the Security Deposit, and the first monthly installment of estimated Operating Expenses (as hereafter defined) shall be due and payable on the date hereof, and Tenant promises to pay to Landlord in advance, without demand, deduction or set-off, monthly installments of Base Rent on or before the first day of each calendar month succeeding the Commencement Date. Payments of Base Rent for any fractional calendar month shall be prorated. All payments required to be made by Tenant to Landlord hereunder (or to such other party as Landlord may from time to time specify in writing) shall be made by immediately available federal funds, at such place, within the continental United States, as Landlord may from time to time designate to Tenant in writing. The obligation of Tenant to pay Base Rent and other sums to Landlord and the obligations of Landlord under this Lease are independent obligations. Tenant shall have no right at any time to abate, reduce, or set-off any rent due hereunder except as may be expressly provided in this Lease. If Tenant is delinquent in any monthly installment of Base Rent or of estimated Operating Expenses for more than 5 days, Tenant shall pay to Landlord on demand a late charge equal to 8 percent of such delinquent sum. The provision for such late charge shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as a penalty. Tenant shall pay as "Additional Rent" Tenant's prora share of all Taxes and Operating Expenses (as such terms are defined below). The term "Additional Rent" shall also include all other sums and charges required to be paid by Tenant pursuant to the terms of this Lease

5. **Security Deposit.** The Security Deposit shall be held by Landlord as security for the performance of Tenant's obligations under this Lease. The Security deposit is not an advance rental deposit or a measure of Landlord's damages in case of Tenant's default. Upon each occurrence of any Event of Default (hereinafter defined), Landlord may use all or part of the Security Deposit to pay delinquent payments due under this Lease, and the cost of any damage, injury, expense or liability caused by such Event of Default, without prejudice to any other remedy provided herein or provided by law. Tenant shall pay Landlord on demand the amount that will restore the Security Deposit to its original amount. Landlord's obligation respecting the Security Deposit is that of a debtor, not a trustee; no interest shall accrue thereon. The Security Deposit shall be the property of Landlord, but shall be paid to Tenant when Tenant's obligations under this Lease have been completely fulfilled. Landlord shall be released from any obligation with respect to the Security Deposit upon transfer of this Lease and the Premises to a person or entity assuming Landlord's obligation under this Paragraph 5.

6. **Operating Expense Payments.** During each month of the Lease Term, on the same date that Base Rent is due, Tenant shall pay Landlord an amount equal to 1/12 of the annual cost, as estimated by Landlord from time to time, of Tenant's Proportionate Share (hereinafter defined) of Operating Expenses for the Project. Payments thereof for any fractional calendar month shall be prorated. The term "Operating Expenses" means all costs and expenses incurred by Landlord with respect to the ownership, maintenance, and operation of the Project including, but not limited to costs of: RE Taxes, Insurance, utilities; fire sprinklers and fire protection systems, maintenance, repair and replacement of all portions of the Project, including without limitation, paving and parking areas, roads, roofs (including the roof membrane), alleys, and driveways, mowing, landscaping, exterior painting, utility lines, lighting, electrical systems and other mechanical and building systems; amounts paid to contractors and subcontractors for work or services performed in connection with any of

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the foregoing; charges or assessments of any association to which the Project is subject; fees payable to tax consultants and attorneys for consultation and contesting taxes; property management fees payable to a property manager, water, sewer, sprinkler services, refuse and trash collection including any affiliate of Landlord, or if there is no property manager, an administration fee of 15 percent of Operating Expenses payable to Landlord; security services, if any; trash collection, sweeping and removal; and additions or alterations made by Landlord to the Project or the Building in order to comply with Legal Requirements (other than those expressly required herein to be made by Tenant) or that are appropriate to the continued operation of the Project or the Building, provided that the cost of additions or alterations that are required to be capitalized for federal income tax purposes shall be amortized on a straight line basis over a period equal to the lesser of the useful life thereof for federal income tax purposes or 10 years.

For purposes of calculating Tenant's Proportionate Share of Operating Expenses, a year shall mean a calendar year except the first year, which shall begin on the Commencement Date, and the last year, which shall end on the expiration of this Lease. With respect to Operating Expenses which Landlord allocates to the entire Project, Tenant's "Proportionate Share" shall be the percentage set forth on the first page of this Lease as Tenant's Proportionate Share of the Building as reasonably adjusted by Landlord in the future for changes in the physical size of the Premises or the Building. Landlord may equitably increase Tenant's Proportionate Share for any item of expense or cost reimbursable by Tenant that relates to a repair, replacement, or service that benefits only the Premises or only a portion of the Project or Building that includes the Premises or that varies with occupancy or use. The estimated Operating Expenses for the Premises set forth on the first page of this Lease are only estimates, and Landlord makes no guarantee or warranty that such estimates will be accurate.

Within ninety (90) days of the end of each calendar year ("Accounting Year"), Landlord shall deliver to Tenant an itemized breakdown certified as true and correct by an authorized representative of Landlord showing the actual costs for Taxes and Operating Expenses, and a "cost breakdown" of Operating Expenses (broken down by major categories as described in section (the "Annual Statement"). If Tenant's pro rata share of the actual costs for Taxes and/or Operating Expenses exceeds the amount paid by Tenant in any Accounting Year, then within thirty (30) days after receipt of said Annual Statement, Tenant shall pay to Landlord such excess amounts. If Tenant's pro rata share of the actual costs for Taxes and/or Operating Expenses is less than Tenant's payments for any Accounting Year, Tenant shall receive a credit against Tenant's estimated share payable in the first month after receipt by Tenant of the Annual Statement, and such subsequent months as required to exhaust said credit, or if there is no time remaining in the Term to exhaust such credit, such excess shall be refunded to Tenant.

Tenant, within thirty (30) days after receiving the Annual Statement, may give Landlord written notice ("Review Notice") that Tenant intends to review Landlord's records of the Operating Expenses and or taxes for the Annual Year to which the statement applies. Within a reasonable time after receipt of the Review Notice, Landlord shall make all pertinent records available for inspection that are reasonably necessary for Tenant to conduct its review. If any records are maintained at a location other than the management office for the Project, Tenant may either inspect the records at such other location or pay for the reasonable cost of copying and shipping the records. If Tenant retains an agent to review Landlord's records, the agent must be with a CPA firm licensed to do business in the state or commonwealth where the Premises is located. Tenant shall be solely responsible for all costs, expenses and fees incurred for the audit. Within 90 days after the records are made available to Tenant, Tenant shall have the right to give Landlord written notice (an "Objection Notice") stating in reasonable detail any objection to Landlord's statement of Operating Expenses for that year. If Tenant fails to give Landlord an Objection Notice within the 90 day period or fails to provide Landlord with a Review Notice within the 30 day period described above, Tenant shall be deemed to have approved Landlord's statement of Operating Expenses and shall be barred from raising any claims regarding the Operating Expenses for that year. If Tenant provides Landlord with a timely Objection Notice, Landlord and Tenant shall work together in good faith to resolve any issues raised in Tenant's Objection Notice. If Landlord and Tenant determine that Operating Expenses for the Lease Year are less than reported, Landlord shall provide Tenant with a credit against the next installment of Rent in the amount of the overpayment by Tenant. Likewise, if Landlord and Tenant determine that Operating Expenses for the Lease Year are greater than reported, Tenant shall pay Landlord the amount of any underpayment within 30 days. The records obtained by Tenant shall be treated as confidential.

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7. **Utilities.** Tenant shall pay for all, gas, electricity, heat, light, power, telephone, , and other utilities and services used on the Premises, all maintenance charges for utilities, and any storm sewer charges or other similar charges for utilities imposed by any governmental entity or utility provider, together with any taxes, penalties, surcharges or the like pertaining to Tenant's use of the Premises. Landlord may cause at Tenant's expense any utilities to be separately metered or charged directly to Tenant by the provider. Tenant shall pay its share of all charges for jointly metered utilities based upon consumption, as reasonably determined by Landlord. No interruption or failure of utilities shall result in the termination of this Lease or the abatement of rent. Tenant agrees to limit use of water and sewer for normal restroom use.

8. **Taxes.** Landlord shall pay all taxes, assessments and governmental charges (collectively referred to as "Taxes") that accrue against the Project during the Lease Term. Landlord may contest by appropriate legal proceedings the amount, validity, or application of any Taxes or liens thereof. All capital levies or other taxes assessed or imposed on Landlord upon the rents payable to Landlord under this Lease and any franchise tax, any excise, transaction, sales or privilege tax, assessment, levy or charge measured by or based, in whole or in part, upon such rents from the Premises and/or the Project or any portion thereof shall be paid by Tenant to Landlord monthly in estimated installments or upon demand, at the option of Landlord, as Additional Rent; provided, however, in no event shall Tenant be liable for any net income taxes imposed on Landlord unless such net income taxes are in substitution for any Taxes payable hereunder. If any such tax or excise levied or assessed directly against Tenant, the Tenant shall be responsible for and shall pay the same at such times and in such manner as the taxing authority shall require. Tenant shall be liable for all taxes levied or assessed against any personal property or fixtures placed in the Premises, whether levied or assessed against Landlord or Tenant.

9. **Insurance.** Landlord shall maintain all risk property insurance covering the full replacement cost of the Building, which shall be included as an Operating Cost in Tenant's Proportionate Share. Landlord may, but is not obligated to, maintain such other insurance and additional coverage's as it may deem necessary, including, but not limited to, commercial liability insurance and rent loss insurance, which shall also be included as an Operating Cost in Tenant's Proportionate Share. The Project or Building may be included in a blanket policy (in which case the cost of such insurance allocable to the Project or Building will be determined by Landlord based upon the insurer's cost calculations). Tenant shall also reimburse Landlord for any increased premiums or additional insurance which Landlord reasonably deems necessary as a result of Tenant's use of the Premises.

Tenant, at its expense, shall maintain during the Lease Term: all risk property insurance covering the full replacement cost of all property and improvements installed or placed in the Premises by Tenant at Tenant's expense; worker's compensation insurance with no less than the minimum limits required by law; employer's liability insurance with such limits as required by law; and commercial liability insurance, with a minimum of \$1,000,000 per occurrence and minimum umbrella limit of \$1,000,000, for a total minimum combined general liability and umbrella limit of \$2,000,000 (together with such additional umbrella coverage as Landlord may reasonably require) for property damage, personal injuries, or deaths or persons occurring in or about the Premises. Landlord may from time to time require reasonable increases in any such limits. The commercial liability policies shall name Landlord as an additional insured, insure on an occurrence and not a claims-made basis, be issued by insurance companies which are reasonably acceptable to Landlord, not be cancelable unless 30 days' prior written notice shall have been given to Landlord, contain hostile fire endorsement and a contractual liability endorsement and provide primary coverage to Landlord (any policy issued to Landlord providing duplicate or similar coverage shall be deemed excess over Tenant's policies). Such policies or certificates thereof shall be delivered to Landlord by Tenant upon commencement of the Lease Term and upon each renewal of said insurance.

The all risk property insurance obtained by Landlord and Tenant shall include a waiver of subrogation by the insurers and all rights based upon an assignment from its insured, against Landlord or Tenant, their officers, directors, employees, managers, agents invitees and contractors, in connection with any loss or damage thereby insured against. Neither party nor its officers, directors, employees, managers, agents, invitees or contractors shall be liable to the other for loss or damage caused by any risk coverable by all risk property insurance, and each party waives any claims against the other party, and its officers, directors, employees, managers, agents, invitees and contractors for such loss or damage. The failure of a party to insure its property shall not void this waiver. Landlord and its agents, employees and contractors shall not be liable for, and Tenant hereby waives all claims against such parties for, business interruption and losses occasioned thereby sustained by Tenant or any person claiming through Tenant resulting from any accident or occurrence in or upon the Premises or the Project from any cause whatsoever, including without limitation, damage caused in whole or in part, directly or indirectly, by the negligence of Landlord or its agents, employees or contractors.

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10. **Landlord's Repairs.** Landlord shall maintain, at its expense, the structural soundness of the roof, foundation, and exterior walls of the Building in good repair, reasonable wear and tear and uninsured losses and damages caused by Tenant, its agents and contractors excluded. The term "walls" as used in this Paragraph 10 shall not include windows, glass or plate glass, doors or overhead doors, special store fronts, dock bumpers, dock plates or levelers, or office entries. Tenant shall promptly give Landlord written notice of any repair required by Landlord pursuant to this Paragraph 10, after which Landlord shall have a reasonable opportunity to repair.

11. **Tenant's Repairs.** Landlord, at Tenant's expense as provided in Paragraph 6, shall maintain in good repair and condition the parking areas and other common areas of the Building, including, but not limited to driveways, alleyways, landscape and grounds surrounding the Premises. Subject to Landlord's obligation in Paragraph 10 Tenant, at its expense, shall repair, replace and maintain in good condition all portions of the Premises and all areas, improvements and systems exclusively serving the Premises including, without limitation, dock and loading areas, truck doors, plumbing, water and sewer lines up to points of common connection, entries, doors, ceilings, windows, interior walls, and the interior side of demising walls, and heating, ventilation and air conditioning systems. Such repair and replacements include capital expenditures and repairs whose benefits may extend beyond the Term. Heating, ventilation and air conditioning systems and other mechanical and building systems serving the Premises shall be maintained at Tenant's expense pursuant to maintenance service contract entered into by Tenant or, at Landlord's election, by Landlord. The scope of services and contractors under such maintenance contracts shall be reasonably approved by Landlord. If Tenant fails to perform any repair or replacement for which it is responsible, Landlord may perform such work and be reimbursed by Tenant within 10 days after demand therefore. Tenant shall bear the full cost of any repair or replacement to any part of the Building or Project that results from damage caused by Tenant, its agents, contractors, or invitees and any repair that benefits only the Premises.

12. **Tenant-Made Alterations and Trade Fixtures.** Any alterations, additions, or improvements made by or on behalf of Tenant to the Premises ("Tenant-Made Alterations") shall be subject to Landlord's prior written consent. Tenant shall cause, at its expense, all Tenant-Made Alterations to comply with insurance requirements and with Legal Requirements and shall construct at its expenses any alteration or modification required by Legal Requirements as a result of any Tenant-Made Alterations. All Tenant-Made Alterations shall be constructed in a good and workmanlike manner by contractors reasonably acceptable to Landlord and only good grades of materials shall be used. All plans and specifications for any Tenant-Made Alterations shall be submitted to Landlord for its approval. Landlord may monitor construction of the Tenant-Made Alterations. Tenant shall reimburse Landlord for its cost in reviewing plans and specifications and in monitoring construction. Landlord's right to review plans and specifications and to monitor construction shall be solely for its own benefit, and Landlord shall have no duty to see that such plans and specifications or constructions comply with applicable laws, codes, rules and regulations. Tenant shall provide Landlord with the identities and mailing addresses of all persons performing work or supplying materials, prior to beginning such construction, and Landlord may post on and about the Premises notices of non-responsibility pursuant to applicable law. Tenant shall furnish security or make other arrangements satisfactory to Landlord to assure payment for the completion of all work free and clear of liens and shall provide certificates of insurance for worker's compensation and other coverage in amounts and from an insurance company satisfactory to Landlord protecting Landlord against liability for personal injury or property damage during construction. Upon completion on any Tenant-Made Alterations, Tenant shall deliver to Landlord sworn statements setting forth the names of all contractors and subcontractors who did work on the Tenant-Made Alterations and final lien waivers from all such contractors and subcontractors. Upon surrender of the Premises, all Tenant-Made Alterations and leasehold improvements constructed by landlord or Tenant shall remain on the Premises as Landlord's property, except to the extent Landlord requires removal at Tenant's expense of any Tenant-Made Alterations. Tenant shall repair any damage caused by such removal.

Tenant, at its own cost and expense and without Landlord's prior approval, may erect such shelves, bins, machinery and trade fixtures (collectively "Trade Fixtures") in the ordinary course of its business provided that such items do not alter the basic character of the Premises, do not overload or damage the Premises, and may be removed without injury to the Premises, and the construction, erection, and installation thereof complies with all Legal Requirements and with Landlord's requirements set forth above. Tenant shall remove its Trade Fixtures and shall repair any damage caused by such removal.

13. **Signs.** Tenant shall not make any changes to the exterior of the premises, install any exterior lights, decorations, balloons, flags, pennants, banners, or painting, or erect or install any signs, windows or door lettering, placards, decorations, or advertising media of any type which can be viewed from the exterior of the premises, without Landlord's prior consent. Upon surrender or vacation of the Premises, Tenant shall have removed all signs and repair, paint, and/or replace the building fascia surface to which its signs are attached. Tenant shall obtain all applicable governmental permits and approvals for sign and exterior treatments. All signs, decorations, advertising media, blinds, draperies and other window treatments or bars or

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other security installations visible from outside the Premises shall be subject to Landlord's approval and conform in all respects to Landlord's requirements.

14. **Parking.** Tenant shall be entitled to park in common with other tenants of the Project in those areas designated for nonreserved parking. Landlord may allocate parking spaces among Tenant and other tenants in the Project if Landlord determines that such parking facilities are becoming crowded. Landlord shall not be responsible for enforcing Tenant's parking rights against any third parties.

15. **Restorations.** If at any time during the Lease Term the Premises are damaged by a fire or other casualty, Landlord shall notify Tenant within 60 days after such damage as to the amount of time Landlord reasonably estimates it will take to restore the Premises. If the restoration time estimated to exceed 6 months, either Landlord or Tenant may elect to terminate this Lease upon notice to the other party given no later than 30 days after Landlord's notice. If neither party elects to terminate this Lease or if Landlord estimates that restoration will take 6 months or less, then, subject to receipt of sufficient insurance proceeds, Landlord shall promptly restore the Premises excluding the improvements installed by Tenant or by Landlord and paid by Tenant, subject to delays arising from the collection of insurance proceeds or from Force Majeure events. Tenant at Tenant's expense shall promptly perform, subject to delays arising from the collection of insurance proceeds, or from Force Majeure events, all repairs or restoration not required to be done by Landlord and shall promptly re-enter the Premises and commence doing business in accordance with this Lease. Notwithstanding the foregoing, either party may terminate this Lease if the Premises are damaged during the last year of the Lease Term and Landlord reasonably estimates that it will take more than two (2) months to repair such damage. Base Rent and Operating Expenses shall be abated for the period of repair and restoration in the proportion which the area of the Premises, if any, which is not usable by Tenant bears to the total area of the Premises. Such abatement shall be the sole remedy of Tenant, and except as provided herein, Tenant waives any right to terminate the Lease by reason of damage or casualty loss.

16. **Condemnation.** If any part of the Premises or the Project should be taken for any public or quasi-public use under governmental law, ordinance, or regulation, or by right of eminent domain, or by private purchase in lieu thereof (a "Taking" or "Taken"), and the Taking would prevent or materially interfere with Tenant's use of the Premises or in Landlord's judgment would materially interfere with or impair its ownership or operation of the Project, then upon written notice by Landlord this Lease shall terminate and Base Rent shall be apportioned as of said date. If part of the Premises shall be Taken, and this Lease is not terminated as provided above, the Base Rent payable hereunder during the unexpired Lease Term shall be reduced to such extent as may be fair and reasonable under the circumstances. In the event of any such Taking, Landlord shall be entitled to receive the entire price or award from any such Taking without any payment to Tenant, and Tenant hereby assigns to Landlord Tenant's interest, if any, in such award. Tenant shall have the right, to the extent that same shall not diminish Landlord's award, to make a separate claim against the condemning authority (but not Landlord) for such compensation as may be separately awarded or recoverable by Tenant for moving expenses and damage to Tenant's Trade Fixtures, if a separate award for such items is made to Tenant.

17. **Assignment and Subletting.** Without Landlord's prior written consent, Tenant shall not assign this Lease or sublease the Premises or any part thereof or mortgage, pledge, or hypothecate its leasehold interest or grant any concession or license within the Premises and any attempt to do any of the foregoing shall be void and of no effect. For purposes of this paragraph, a transfer of the ownership interests controlling Tenant shall be deemed an assignment of this Lease unless such ownership interests are publicly traded. Notwithstanding the above, tenant may assign or sublet the Premises, or any part thereof, to any entity controlling Tenant, controlled Tenant or under common control with Tenant (a "Tenant Affiliate"), without the prior written consent of Landlord. Tenant shall reimburse Landlord for all of Landlord's reasonable out-of-pocket expenses in connection with any assignment or sublease. Upon Landlord's receipt of Tenant's written notice of a desire to assign or sublet the Premises, or any part thereof (other than to a Tenant Affiliate), Landlord may, by giving written to Tenant within 30 days after receipt of Tenant's notice, terminate this Lease with respect to the space described in Tenant's notice, as of the date specified in Tenant's notice for the commencement of the proposed assignment or sublease.

Notwithstanding any assignment or subletting, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at all times remain fully responsible and liable for the payment of the rent and for compliance with all of Tenant's other obligations under this Lease (regardless of whether Landlord's approval has been obtained for any such assignments or subletting). In the event that the rent due and payable by a sublessee or assignee (or a combination of the rental payable under such sublease or assignment plus any bonus or other consideration therefore or incident thereto) exceeds the rental payable under this Lease, then Tenant shall be bound and obligated to pay Landlord as Additional Rent hereunder all such excess rental and other excess consideration within 10 days following receipt thereof by Tenant.

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If this Lease be assigned or if the Premises be subleased (whether in whole or in part) or in the event of the mortgage, pledge, or hypothecation of Tenant's leasehold interest or grant of any concession or license within the Premises or if the Premises be occupied in whole or in part by anyone other than Tenant, then upon a default by Tenant hereunder Landlord may collect rent from the assignee, sublessee, mortgagee, pledge, party to whom the leasehold interest was hypothecated, concessionee or licensee or other occupant and, except to the extent set forth in the preceding paragraph, apply the amount collected to the next rent payable hereunder; and all such rentals collected by Tenant shall be held in trust for Landlord and immediately forwarded to Landlord. No such transaction or collection of rent or application thereof by Landlord, however, shall be deemed a waiver of these provisions or a release of Tenant from the further performance by Tenant of its covenants, duties, or obligations hereunder.


18. **Indemnification.** Except for the gross negligence of Landlord, its agents, employees or contractors, and to the extent permitted by law, Tenant agrees to indemnify, defend and hold harmless Landlord, and Landlord's agents, employees and contractors, from and against any and all losses, liabilities, damages, costs and expenses (including attorneys' fees) resulting from claims by third parties for injuries to any person and damage to or theft or misappropriation or loss of property occurring in or about the Project and arising from the use and occupancy of the Premises or from any activity, work, or thing done, permitted or suffered by Tenant in or about the Premises or due to any other act or omission of Tenant, its subtenants, assignees, invitees, employees, contractors and agents. The furnishing of insurance required hereunder shall not be deemed to limit Tenant's obligations under this Paragraph 18.


19. **Inspection and Access.** Landlord and its agents, representatives, and contractors may enter the Premises at any reasonable time to inspect the Premises and to make such repairs as may be required or permitted pursuant to this Lease and for any other business purpose. Landlord and Landlord's representatives may enter the Premises during business hours for the purpose of showing the Premises to prospective purchasers and, during the last year of the Lease Term, to prospective tenants. Landlord may enter the Premises at any time in the case of an emergency. Landlord may erect a suitable sign on the Premises stating the Premises are available to let or that the Project is available for sale. Landlord may grant easements, make public dedications, designate common areas and create restrictions on or about the Premises, provided that no such easement, dedication, designation or restriction materially interferes with Tenant's use or occupancy of the Premises. At Landlord's request, Tenant shall execute such instruments as may be necessary for such easements, dedications or restrictions.

20. **Quiet Enjoyment.** If Tenant shall perform all of the covenants and agreements herein required to be performed by Tenant, Tenant shall, subject to the terms of this Lease, at all times during the Lease Term, have peaceful and quiet enjoyment of the Premises against any person claiming by, through or under Landlord.

21. **Surrender.** Upon termination of the Lease Term or earlier termination of Tenant's right of possession, Tenant shall surrender the Premises to Landlord in the same condition as received; broom clean, ordinary wear and tear and casualty loss and condemnation covered by Paragraphs 15 and 16 excepted. Any Trade Fixtures, Tenant-Made Alterations and property not so removed by Tenant as permitted or required herein shall be deemed abandoned and may be stored, removed, and disposed of by Landlord at Tenant's expense, and Tenant waives all claims against Landlord for any damages resulting from Landlord's retention and disposition of such property. All obligations of Tenant hereunder not fully performed as of the termination of the Lease Term shall survive the termination of the Lease Term, including without limitation, indemnity obligations, payment obligations with respect to Operating Expenses and obligations concerning the condition and repair of the Premises.

22. **Holding Over.** If Tenant retains possession of the Premises after the termination of the Lease Term, unless otherwise agreed in writing, such possession shall be subject to immediate termination by Landlord at any time, and all of the other terms and provisions of this Lease (excluding any expansion or renewal option or other similar right or option) shall be applicable during such holdover period, except that Tenant shall pay Landlord from time to time, upon demand, as Base Rent for the holdover period, an amount equal to double the Base Rent in effect on the termination date, computed on a monthly basis for each month or part thereof during such holding over. All other payments shall continue under the terms of the Lease. In addition, Tenant shall be liable for all damages incurred by Landlord as a result of such holding over. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend this Lease except as otherwise expressly provided, and this Paragraph 22 shall not be construed as consent for Tenant to retain possession of the Premises.

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23. **Events of Default.** Each of the following events shall be an event of default ("Event of Default") by Tenant under this Lease:

- i. Tenant shall fail to pay any installment of Base Rent, Operating Expenses, Taxes, Insurance or any other payment required herein when due, and such failure shall continue for a period of 5 days from the date such payment was due.
- ii. Tenant or any guarantor or surety of Tenant's obligations hereunder shall (A) make a general assignment for the benefit of creditors; (B) commence any case, proceeding or other action seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or of any substantial part of its property (collectively a "proceeding for relief"); (C) become the subject of any proceeding for relief which is not dismissed within 60 days of its filing or entry; or (D) die or suffer a legal disability (if Tenant, guarantor, or surety is an individual) or be dissolved or otherwise fail to maintain its legal existence (if Tenant, guarantor or surety is a corporation, partnership or other entity).
- iii. Any insurance required to be maintained by Tenant pursuant to this Lease shall be cancelled or terminated or shall expire or shall be reduced or materially changed, except, in each case, as permitted in this Lease.
- iv. Tenant shall not occupy or shall vacate the Premises or shall fail to continuously operate its business at the Premises for the permitted use set forth herein, whether or not Tenant is in monetary or other default under this Lease.
- v. Tenant removes, attempts to remove, or permits to be removed from the Premises, except in the usual course of trade, any of the goods, furniture, effects or other property of the Tenant brought thereon, other than de minimis items; or
- vi. Tenant shall attempt or there shall occur any assignment, subleasing or other transfer of Tenant's interest in or with respect to this Lease except as otherwise permitted in this Lease.
- vii. Tenant shall fail to discharge any lien placed upon the Premises in violation of this Lease within 30 days after any such lien or encumbrance is filed against the Premises.
- viii. Tenant shall fail to comply with any provision of this Lease other than those specifically referred to in this Paragraph 23, and except as otherwise expressly provided herein, such default shall continue for more than 30 days after Landlord shall have given Tenant written notice of such default.

24. **Landlord's Remedies.** If any Event of Default occurs, the Landlord shall have the right, at the option of Landlord, to:

- i. Declare the entire balance of all forms of Rent, including, but not limited to, Operating Expenses, Taxes and Insurance, due hereunder for the remainder of the term of this Lease to be due and payable and may collect the same by distress or otherwise;
- ii. Terminate this Lease and any right of renewal thereof, and retake possession of the Premises; or
- iii. Without terminating this Lease, re-enter and re-let the Premises, or any part thereof, with or without legal process, as the agent and for the account of Tenant, upon such terms and conditions as Landlord may deem advisable or satisfactory, in which event the rents received on such re-letting shall be applied first to the expenses of such re-letting and collection including but not limited to, necessary renovation and alterations of the Premises, reasonable attorney's fees, any real estate commissions paid, and thereafter toward payment of all sums due or to become due Landlord hereunder, and if a sufficient sum

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shall not be thus realized or secured to pay such sums and other charges, (i) at Landlord's option, Tenant shall pay Landlord any deficiency immediately upon demand therefor, notwithstanding Landlord may have received periodic rental in excess of the periodic rental stipulated in this Lease in previous or subsequent rental periods, and Landlord may bring an action therefor as such deficiency shall arise, or (ii) at Landlord's option, the entire deficiency, which is subject to ascertainment for the remaining term of this Lease, shall be immediately due and payable by Tenant. Nothing herein, however, shall be construed to require Landlord to re-enter and re-let in any event. Landlord shall not, in any event, be required to pay Tenant any surplus of any sums received by Landlord on a re-letting of said Premises in excess of the rent provided in this Lease.

iv. If any Event of Default occurs, Landlord, in addition to other rights and remedies it may have, shall have the right to remove all or any part of Tenant's property from the Premises and any property removed may be stored in any public warehouse or elsewhere at the cost of, and for the account of Tenant and the Landlord shall not be responsible for the care or safekeeping thereof whether in transport, storage or otherwise, and Tenant hereby waives any and all claim against Landlord for loss, destruction and/or damage or injury which may be occasioned by any of the aforesaid acts.

v. No such re-entry or taking possession of the Premises by Landlord shall be construed as an election on Landlord's part to terminate this Lease unless a written notice of such intention is given to Tenant. Notwithstanding any such re-letting without termination, Landlord may at all times thereafter elect to terminate this Lease for such previous default. Any such re-entry shall be allowed by Tenant without hindrance, and Landlord shall not be liable in damages for any such re-entry, or guilty of trespass or forcible entry.


vi. In the event of a breach or threatened breach of any covenant of this Lease, Landlord shall have the right of injunction. Any and all rights, remedies and options given in this Lease to Landlord shall be cumulative and in addition to and without waiver of, or in derogation of, any right or remedy given to it under any law now or hereafter in effect or in equity.

vii. If Tenant shall default in the performance of any provision of this Lease on Tenant's part to be performed, Landlord may perform the same for the account of Tenant and Tenant shall promptly reimburse Landlord for any expense incurred therefore, which expenses shall be deemed to be deemed Additional Rent.

viii. It is expressly agreed that the forbearance on the part of the Landlord in the institution of any suit or entry of judgment for any part of the Rent herein reserved to the Landlord, shall in no way serve as a defense against nor prejudice a subsequent action for such Rent. The Tenant hereby expressly waives Tenant's right to claim a merger or waiver of such subsequent action in any previous suit or in the judgment entered therein. Furthermore, it is expressly agreed that claims for liquidated Basic Rent may be regarded by the Landlord, if it so elects, as separate and independent claims capable of being separately assigned.

25. **Tenant's Remedies/Limitations of Liability.** Landlord shall not be in default hereunder unless Landlord fails to perform any of its obligations hereunder within 30 days after written notice from Tenant specifying such failure (unless such performance will, due to the nature of the obligation, require a period of time in excess of 30 days, then after such period of time as is reasonably necessary). All obligations of Landlord hereunder shall be construed as covenants, no conditions; and, except as may be otherwise expressly provided in this Lease, Tenant may not terminate this Lease for breach of Landlord's obligations hereunder. All obligations of Landlord under this Lease will be binding upon Landlord only during the period of its ownership of the Premises and not thereafter. The term "Landlord" in this Lease shall mean only the owner, for the time being of the Premises, and in the event of the transfer by such owner of its interest in the Premises, such owner shall thereupon be released and discharged from all obligations of Landlord thereafter accruing, but such obligations shall be binding during the Lease Term upon each new owner for the duration of such owner's ownership. Any liability of Landlord under this Lease shall be limited solely to its interest in the Project, and in no event shall any personal liability be asserted against Landlord in connection with this Lease nor shall any recourse be had to any other property or assets of Landlord.

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26. **Waiver of Jury Trial.** TENANT AND LANDLORD WAIVE ANY RIGHT TO TRIAL BY JURY OR TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE BETWEEN LANDLORD AND TENANT ARISING OUT OF THIS LEASE OR ANY OTHER INSTRUMENT, DOCUMENT, OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED HERETO.

27. **Subordination.** This Lease and Tenant's interest and rights hereunder are and shall be subject and subordinate at all times to the lien of any first mortgage, now existing or hereafter created on or against the Project or the Premises, and all amendments, restatements, renewals, modifications, consolidations, refinancing, assignments and extensions thereof, without the necessity of any further instrument or act on the part of Tenant. Tenant agrees, at the election of the holder of any such mortgage, to attorn to any such holder. Tenant agrees upon demand to execute, acknowledge and deliver such instruments, confirming such subordination and such instruments of attornment as shall be requested by any such holder. Tenant hereby appoints Landlord attorney in fact for Tenant irrevocably (such power of attorney being coupled with an interest) to execute, acknowledge and deliver any such instrument and instruments for and in the name of the Tenant and to cause any such instrument to be recorded. Notwithstanding the foregoing, any such holder may at any time subordinate its mortgage to the Lease, without Tenant's consent, by notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such mortgage without regard to their respective dates of execution, delivery or recording and in that event such holder shall have the same rights with respect to this Lease as though this Lease had been executed prior to the execution, delivery and recording of such mortgage and had been assigned to such holder. The term "mortgage" whenever used in this Lease shall be deemed to include deeds of trust, security assignments and any other encumbrances, and any reference to the "holder" of a mortgage shall be deemed to include the beneficiary under a deed of trust.

28. **Mechanics' Liens.** Tenant has no express or implied authority to create or place any lien or encumbrance of any kind upon, or in any manner to bind the interest of Landlord or Tenant in, the Premises or to charge the rentals payable hereunder for any claim in favor of any person dealing with Tenant, including those who may furnish materials or perform labor for any construction or repairs. Tenant covenants and agrees that it will pay or cause to be paid all sums legally due and payable by it on account of any labor performed or materials furnished in connection with any work performed on the Premises and that it will save and hold Landlord harmless from all loss, cost or expenses based on or arising out of asserted claims or liens against the leasehold estate or against the interest of Landlord in the Premises or under the Lease. Tenant shall give Landlord immediate written notice of the placing of any lien or encumbrance against the Premises and cause such lien or encumbrance to be discharged within 30 days of the filing or recording thereof; provided, however, Tenant may contest such liens or encumbrances as long as such contest prevents foreclosure of the lien or encumbrance and Tenant causes such lien or encumbrance to be bonded or insured over in a manner satisfactory to Landlord within such 30 day period.

29. **Estoppel Certificates.** Tenant agrees, from time to time, within 10 days after request of Landlord, to execute and deliver to Landlord, or Landlord's designee, any Estoppel certificate requested by Landlord, stating that this Lease is in full force and effect, the date to which rent has been paid, that Landlord is not in default hereunder (or specifying in detail the nature of Landlord's default), the termination date of this Lease and such other matters pertaining to this Lease may be requested by Landlord. Tenant's obligation to furnish each Estoppel certificate in a timely fashion is a material inducement for Landlord's execution of this Lease. No cure or grace period provided in this Lease shall apply to Tenant's obligations to timely deliver an Estoppel certificate. Tenant hereby irrevocably appoints Landlord as its attorney in fact to execute on its behalf and in its name any such Estoppel certificate if Tenant fails to execute and deliver the Estoppel certificate within 10 days after Landlord's written request thereof. In addition to any other remedy set forth herein, if Tenant fails to execute and deliver the Estoppel certificate within 10 days after Landlord's written request thereof, Tenant shall pay to Landlord a \$500 per day liquidated damages amount to Landlord for each day beyond said 10 day period, it being understood that Landlord would be irreparably harmed by such delay and damages in connection therewith are difficult to ascertain.

30. **Environmental Requirements.** Except for Hazardous Material contained in products used by Tenant in de minimis quantities for ordinary cleaning and office purposes, Tenant shall not permit or cause any party to bring any Hazardous Material upon the Premises or transport, store, use, generate, manufacture or release any Hazardous Material in or about the Premises without Landlord's prior written consent. Tenant, at its sole cost and expense, shall operate its business in the Premises in strict compliance with all Environmental Requirements and shall remediate in a manner satisfactory to Landlord any Hazardous Materials released on or from the Project by Tenant, its agents, employees, contractors, subtenants or invitees. Tenant shall complete and certify to disclosure statements as requested by Landlord from time to time relating to Tenant's transportation, storage, use generation, manufacture or release of Hazardous Materials on the Premises. The term "Environmental Requirements" means all applicable present and future statutes, regulations ordinances, rules, codes,

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judgments, orders or other similar enactments of any governmental authority or agency regulating or relating to health, safety or environmental conditions on, under, or about the Premises or the environment, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; and all state and local counterparts thereto, and any regulations or policies promulgated or issued thereunder. The term "Hazardous Materials" means and includes any substance, material, waste pollutant, or contaminant listed or defined as hazardous or toxic, under any Environmental Requirements, Tenant is and shall be deemed to be the "operator" of Tenant's "facility" and the "owner" of all Hazardous Materials brought on the Premises by Tenant, its agents, employees, contractors or invitees, and the wastes, by-products, or residues generated, resulting, or produced therefrom.

Tenant shall indemnify, defend, and hold Landlord harmless from and against any and all losses (including, without limitation, diminution in value of the Premises or the Project and loss of rental income from the Project), claims, demands, actions, suits, damages (including, without limitation, punitive damages), expenses (including, without limitation, remediation, removal, repair, corrective action, or cleanup expenses), and costs (including, without limitation, actual attorneys' fees, consultant fees or expert fees and including, without limitation, removal or management of any asbestos brought into the property or disturbed in breach of the requirements of this Paragraph 30, regardless of whether such removal or management is required by law) which are brought or recoverable against, or suffered or incurred by Landlord as a result of any release of Hazardous Materials for which Tenant is obligated to remediate as provided above or any other breach of the requirements under this Paragraph 30 by Tenant, its agents, employees, contractors, subtenants, assignees or invitees, regardless of whether Tenant had knowledge of such noncompliance. The obligations of Tenant under this Paragraph 30 shall survive any termination of this Lease.

Landlord shall have access to, and a right to perform inspections and test of, the Premises to determine Tenant's compliance with Environmental Requirements, its obligations under this Paragraph 30, or the environmental condition of the Premises. Access shall be granted to Landlord upon Landlord's prior notice to Tenant and at such times so as to minimize, so far as may be reasonable under the circumstances, any disturbance to Tenant's operations. Such inspections and tests shall be conducted at Landlord's expense, unless such inspections or tests reveal that Tenant has not complied with any Environmental requirement, in which case Tenant shall reimburse Landlord for the reasonable cost of such inspection and test. Landlord's receipt of or satisfaction with any environmental assessment in no way waives any rights that Landlord holds against Tenant.


31. **Rules and Regulations.** Tenant shall, at all times during the Lease Term and any extension thereof, comply with all reasonable rules and regulations at any time or from time to time established by Landlord covering use of the Premises and the Project. The current rules and regulations are attached hereto. In the event of any conflict between said rules and regulations and other provisions of this Lease, the other terms and provisions of the Lease shall control. Landlord shall not have any liability or obligation for the breach of any rules or regulations by other tenants in the Project.


32. **Security Service.** Tenant acknowledges and agrees that, while Landlord may patrol the Project, Landlord is not providing any security services with respect to the Premises and the Landlord shall not be liable to Tenant for, and Tenant waives any claim against Landlord with respect to, any loss by theft or any other damage suffered or incurred by Tenant in connection with any unauthorized entry into the Premises or any other breach of security with respect to the Premises.

33. **Force Majeure.** Landlord shall not be held responsible for delays in the performance of its obligations hereunder when caused by strikes, lockouts, labor disputes, acts of God, inability to obtain labor or materials or reasonable substitutes therefore, governmental restrictions, governmental regulations, governmental controls, delay in issuance of permits, enemy or hostile governmental action, civil commotion, fire or other casualty, and other causes beyond the reasonable control of Landlord ("Force Majeure").

34. **Entire Agreement.** This Lease constitutes the complete agreement of Landlord and Tenant with respect to the subject matter hereof. No representations, inducements, promises or agreements, oral or written, have been made by Landlord or Tenant, or anyone acting on behalf of Landlord or Tenant, which are not contained herein, and any prior agreements, promises, negotiations, or representations are superseded by this Lease. This Lease may not be amended except by an instrument in writing signed by both parties hereto.

35. **Severability.** If any clause or provision of the Lease is illegal, invalid or unenforceable under present or future laws, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby. It is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal,

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invalid or unenforceable, there be added, as part of this Lease, a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

36. **Brokers.** Tenant represents and warrants that it has dealt with no broker, agent or other person in connection with this transaction and that no broker, agent or other person brought about this transaction, other than the broker, if any, set forth on the first page of this Lease, and Tenant agrees to indemnify and hold Landlord harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with Tenant with regard to this leasing transaction.

37. **Miscellaneous.**

- (a.) Any payments or charges due from Tenant to Landlord hereunder shall be considered rent for all purposes of this Lease.
- (b.) If and when included within the term "Tenant," as used in this instrument, there is more than one person, firm or corporation; each shall be jointly and severally liable for the obligations of Tenant.
- (c.) All notices required or permitted to be given under this Lease shall be in writing and shall be sent by registered or certified mail, return receipt requested, or by a reputable national overnight courier service, postage prepaid, or by hand delivery addressed to the parties at their addresses below, and with a copy sent to Landlord at **7500 TPC Blvd Orlando, FL 32822**. Either party may by notice given aforesaid change its address for all subsequent notices. Except where otherwise expressly provided to the contrary, notice shall be deemed given upon delivery.
- (d.) Except as otherwise expressly provided in this Lease or as otherwise required by law, Landlord retains the absolute right to withhold any consent or approval.
- (e.) At Landlord's request from time to time tenant shall furnish Landlord with true and complete copies of its most recent annual and quarterly financial statements prepared by Tenant or Tenant's accountants and any other financial information or summaries that Tenant typically provides to its lenders or shareholders.
- (f.) The normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Lease or any exhibits or amendments hereto.
- (g.) The submission by landlord to Tenant of this Lease shall have no binding force or effect, shall not constitute an option for the leasing of the Premises, nor confer any right or impose any obligations upon either party until execution of this Lease by both parties.
- (h.) Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires. The captions inserted in this Lease are for convenience only and in no way define, limit or otherwise describe the scope or intent of this Lease, or any provision hereof, or in any way affect the interpretation of this Lease.
- (i.) Any amount not paid by Tenant within 5 days after its due date in accordance with the terms of this Lease shall bear interest from such due date until paid in full at the lesser of the highest rate permitted by applicable law or 15 percent per year. It is expressly the intent of Landlord and Tenant at all times to comply with applicable law governing the maximum rate or amount of any interest payable on or in connection with this Lease. If applicable law is ever judicially interpreted so as to render usurious any interest called for under this Lease, or contracted for, charged, taken, reserved, or received with respect to this Lease, then it is Landlord's and Tenant's express intent that all excess amounts theretofore collected by Landlord be credited on the applicable obligation (or, if the obligations has been or would thereby be paid in full, refunded to Tenant), and the provisions of this Lease immediately shall be deemed reformed and the amounts thereafter collectible hereunder reduced, without the necessity of the execution of any new

Tenant Initials AC

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Landlord Initials VP


document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder.


- (j.) Construction and interpretation of the Lease shall be governed by the laws of the state in which the Project is located, excluding any principles of conflicts of laws.
- (k.) Time is of the essence as to the performance of Tenant's obligations under this Lease.
- (l.) All exhibits and addenda attached hereto are hereby incorporated into this Lease and made a part hereof. In the event of any conflict between such exhibits or addenda and the terms of this Lease, such exhibits or addenda shall control.
- (m.) In the event Landlord is required to retain legal counsel to enforce the terms and provisions of this Lease, the Tenant in such action shall reimburse Landlord for any and all costs incurred by Landlord in connection therewith, including (without limitation) attorney's fees, filing fees, and court costs.

38. **Landlord's Lien/Security Interest.** Tenant hereby grants Landlord a security interest, and this Lease constitutes a security agreement, within the meaning of and pursuant to the Uniform Commercial Code of the state in which the Premises are situated as to all of tenant's property situated in, or upon, or used in connection with the Premises (except merchandise sold in the ordinary course of business) as security for all of Tenant's obligations hereunder, including, without limitation, the obligation to pay rent. Such personally thus encumbered includes specifically all trade and other fixtures for the purpose of this Paragraph and inventory, equipment, contract rights, accounts receivable and the proceeds thereof. In order to perfect such security interest, Tenant shall execute such financing statements and file the same at Tenant's expense at the state and county Uniform Commercial Code filing offices as often as Landlord in its discretion shall require; and Tenant hereby irrevocably appoints Landlord shall deem necessary. Notwithstanding the foregoing, Landlord hereby expressly subordinates any and all claim, right, lien (including, without limitation, any common law or statutory Landlord's lien), title and security interest in and to all furniture, goods, equipment and personal property of Tenant to the security interest of Tenant's purchase money lender for any such items listed in the previous sentence, if any, either existing as of the execution date of this Lease or thereafter.

39. **Liens.** Tenant shall have no power to subject Landlord's interest in the Premises to construction, mechanic's or materialmen's liens of any kind nor shall Landlord have the power to subject Tenant's interest in the Premises to any construction, mechanic's or materialmen's liens of any kind. The existence of any such lien, which lien is not discharged by Tenant or Landlord, as the case may be, or bonded off within thirty (30) days of such parties receipt of notice of filing, shall be a breach of this Lease. All contracts for work on the Premises performed on behalf of Tenant or Landlord must contain a waiver of lien by such party's contractor against the other party's interest in the Premises. All persons performing work, labor or supplying materials at the Premises on behalf of Tenant or Landlord shall look solely to the interest of such party and not to that of the other party for sums owed. Tenant and Landlord shall have the right, but not the obligation to discharge or transfer to bond any lien filed against the Premises by the other party's contractor that has not been discharged or transferred to bond within thirty (30) days from the other party's receipt of notice of the filing thereof and any reasonable cost or expense, including reasonable attorney's fees, incurred by Tenant or Landlord as a result thereof shall be due and payable within fifteen (15) days of demand therefore.

Pursuant to Section 713.10, Florida Statutes, this Lease expressly provides that the interest of Landlord shall not be subject to liens for improvements made by the Tenant, and the Tenant shall notify all contractors making any such improvements of this provision. Tenant, at the request of Landlord, agrees to execute and record among the public records of Orange County, Florida, a notice, in form and content required by Landlord, acknowledging that this Lease expressly provides that the interest of Landlord shall not be subject to liens for improvements made by Tenant and setting forth: (a) the name of the Landlord, (b) the legal description of the Premises, (c) the specific language contained in this Lease prohibiting such liability, (d) a statement that this Lease contains the language set forth above, and (e) such other provisions as Landlord may reasonably request.

Tenant Initials 

Landlord Initials 

40. **Radon Gas.** Radon is a naturally occurring radioactive gas, that when it has accumulated in a building in sufficient quantities, may present health risks to persons who are exposed to it over time. Levels of radon that exceed federal and state guidelines have been found in buildings in Florida. Additional information regarding radon and radon testing may be obtained from your county public health unit.

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Landlord Initials SR

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the day and year first above written.

TENANT: Rotor Riot, LLC

LANDLORD: Gamh Properties Inc

By: [Signature]
Name: Andrew Camden
Title: President

By: [Signature]
Name: Gustavo Andra
Title: President

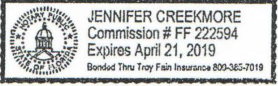
WITNESS #1 AS TO TENANT:
[Signature]
Cole W. Kala

WITNESS # 1 AS TO LANDLORD:

WITNESS #2 AS TO TENANT:
[Signature]
ORLANDO MONTELO

WITNESS # 2 AS TO LANDLORD:

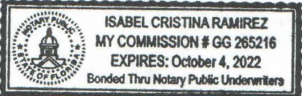
STATE OF FL
COUNTY OF Orange
The foregoing instrument was acknowledged before me this 16 day of January 2019, by Andrew Camden as Manager for Rotor Riot LLC.



[Signature]
Signature of Notary Public
Print, Type/Stamp Name of Notary

(Seal)
Personally known: _____
OR Produced Identification:
Type of Identification Produced: MI DL

STATE OF FL
COUNTY OF Orange
The foregoing instrument was acknowledged before me this 18 day of 2019, by Gustavo Andra as President for Gamh Properties LLC.



[Signature]
Signature of Notary Public
Print, Type/Stamp Name of Notary

(Seal)
Personally known: _____
OR Produced Identification:
Type of Identification Produced: FL DL

Tenant Initials [Signature]

Landlord Initials [Signature]

Rules and Regulations

1. The sidewalk, entries, and driveways of the Project shall not be obstructed by Tenant, or its agents, or used by them for any purpose other than ingress and egress to and from the Premises.
2. Tenant shall not place any objects, including antennas, outdoor furniture, etc., in the parking areas, landscaped areas or other areas outside of its Premises, or on the roof of the Project.
3. Except for seeing-eye dogs, no animals shall be allowed in the offices, halls, or corridors in the Project.
4. Tenant shall not disturb the occupants of the Project or adjoining buildings by the use of any radio or musical instrument or by the making of loud or improper noises.
5. If Tenant desires telegraphic, telephonic or other electric connections in the Premises, Landlord or its agent will direct the electrician as to where and how the wires may be introduced; and, without such direction, no boring or cutting of wires will be permitted. Any such installation or connection shall be made at Tenant's expense.
6. Tenant shall not install or operate any steam or gas engine or boiler, or other mechanical apparatus in the Premises, except as specifically approved in the Lease. The use of oil, gas or inflammable liquids for heating, lighting or any other purpose is expressly prohibited. Explosives or other articles deemed extra hazardous shall not be brought into the Project.
7. Parking any type of recreational vehicles is specifically prohibited on or about the Project. Except for the overnight parking of operative vehicles, no vehicle of any type shall be stored in the parking areas at any times. In the event that a vehicle is disabled, it shall be removed within 48 hours. There shall be no "For Sale" or other advertising signs on or about any parked vehicle. All vehicles shall be parked in the designated parking areas in the conformity with all signs and other markings. All parking will be open parking, and no reserved parking, numbering or lettering of individual spaces will be permitted except as specified by Landlord.
8. Tenant shall maintain the Premises free from rodents, insects and other pests.
9. Landlord reserves the right to exclude or expel from the Project any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs or who shall in any manner do any act in violation of the Rules and Regulations of the Project.
10. Tenant shall not cause any unnecessary labor by reason of Tenant's carelessness or indifference in the preservation of good order and cleanliness. Landlord shall not be responsible to Tenant for any loss of property on the Premises, however occurring, or for any damage done to the effects of Tenant by the janitors or any other employee or person.
11. Tenant shall give Landlord prompt notice of any defects in the water, lawn sprinkler, sewage, gas pipes, electrical lights and fixtures, heating apparatus, or any other service equipment affecting the Premises.
12. Tenant shall not permit storage outside the Premises, including without limitation, outside storage of trucks and other vehicles, or dumping of waste or refuse or permit any harmful materials to be placed in any drainage system or sanitary system in or about the Premises.
13. All moveable trash receptacles provided by the trash disposal firm for the Premises must be kept in the trash enclosure areas, if any, provided for that purpose.
14. No auction, public or private, will be permitted on the Premises or the Project.
15. No awnings shall be placed over the windows in the Premises except with the prior written consent of Landlord.

Tenant Initials *br*

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Landlord Initials *SB*

16. The Premises shall not be used for lodging, sleeping or cooking or for any immoral or illegal purposes or for any purposes or for any purpose other than that specified in the Lease. No gaming devices shall be operated in the Premises.
17. Tenant shall ascertain from Landlord the maximum amount of electrical current which can safely be used in the Premises, taking into account the capacity of the electrical wiring in the Project and the Premises and the needs of other tenants, and shall not use more than such safe capacity. Landlord's consent to the installation of electric equipment shall not relieve Tenant from the obligation not to use more electricity than such safe capacity.
18. Tenant assumes full responsibility for protecting the Premises from theft, robbery and pilferage.
19. Tenant shall not install or operate on the Premises any machinery or mechanical devices of a nature not directly related to Tenant's ordinary use of the Premises and shall keep all such machinery free of vibration, noise and air waves which may be transmitted beyond the Premises.

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Landlord Initials JS

ADDENDUM 1

Rent Schedule and Tenant Improvements

ATTACHED TO AND A PART OF THE LEASE AGREEMENT

1. **Base Rent.** The Base Rent shall equal the following amounts for the respective periods:

SF	CAM***	Sales Tax				
3,635	\$3.72	6.20%				
term	PPSF	Monthly Rent	EST CAM	Rent & CAM	Sales Tax	Total Monthly Payment
2/1/19-1/31/20	\$9.00	\$2,726.25	\$1,126.85	\$3,853.10	\$238.89	\$4,091.99
2/1/20-1/31/21	\$9.27	\$2,808.04	\$1,126.85	\$3,934.89	\$243.96	\$4,178.85
2/1/21-1/31/22	\$9.55	\$2,892.28	\$1,126.85	\$4,019.13	\$249.19	\$4,268.31
***CAM is estimated and subject to change per lease						

2. **Tenant Improvements:**

Based on a mutually agreeable interior design plan, Tenant Shall utilize building standard materials a outlined on agreed upon interior design plan and shall be responsible for all interior remodeling costs.

Landlord agrees to give the Tenant an Improvement Allowance of \$2,000 to install LED lighting in the Warehouse.

Tenant Initials AB

Landlord Initials JB

ADDENDUM 2

HVAC MAINTENANCE CONTRACT

ATTACHED TO AND A PART OF THE LEASE AGREEMENT

Paragraph 11, captioned "TENANT REPAIRS," is revised to include the following:

Landlord agrees to enter into and maintain through the term of the Lease, a regularly scheduled preventative maintenance/service contract for servicing all hot water, heating and air conditioning systems and equipment within the Premises. Landlord requires a qualified HVAC contractor perform this work. A certificate must be provided to the Landlord upon occupancy of the leased Premises.

The service contract must become effective within thirty (30) days of occupancy, and service visits should be performed on a quarterly basis. Landlord suggests that Tenant send the following list to a qualified HVAC contractor to be assured that these items are included in the maintenance contract:

1. Adjust belt tension;
2. Lubricate all moving parts, as necessary;
3. Inspect and adjust all temperature and safety controls;
4. Check refrigeration system for leaks and operation;
5. Check refrigeration system for moisture;
6. Inspect compressor oil level and crank case heaters;
7. Check head pressure, suction pressure and oil pressure;
8. Inspect air filters and replace when necessary;
9. Check space conditions;
10. Check condensate drains and drain pans and clean, if necessary;
11. Inspect and adjust all valves;
12. Check and adjust dampers;
13. Run machine through complete cycle.

Landlord will enter into the service contract with the HVAC company for the routine maintenance of the leased premises and the Tenant will be invoiced separately for those costs as well as the filters four times per year..

*****Service Contract will be on a semi annual or annual basis and billed to Tenant when received

Any repairs outside of the maintenance agreement, including service calls, shall be paid by the Tenant. Any major repair, meaning any repair over \$250.00 for each instance or replacement of the system shall be paid by the Landlord

Tenant Initials *AS*

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Landlord Initials *JH*

ADDENDUM 3
SIGN SPECIFICATIONS

ATTACHED TO AND A PART OF THE LEASE AGREEMENT

Per Paragraph 13, signage at the Project is subject to restrictions as noted below.

All Tenant signage must be approved by Landlord prior to installation

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ADDENDUM 4

MOVE-OUT CONDITIONS

Per Paragraph 21, Tenant is obligated to check and address prior to move-out of the Premises the following items. Landlord expects to receive the Premises in a well maintained condition, with normal wear and tear of certain areas acceptable. The following list is designed to assist Tenant in the move-out procedures but is not intended to be all inclusive.

1. All lighting is to be placed into good working order. This includes replacement of bulbs, ballasts, and lenses as needed.
2. All truck doors and dock levelers should be serviced and placed in good operating order. This would include the necessary replacement of any dented truck door panels and adjustment of door tension to insure proper operation. All door panels which are replaced need to be painted to match the Building standard.
3. All structural steel columns in the warehouse and office should be inspected for damage. Repairs of this nature should be pre-approved by the Landlord prior to implementation.
4. Heating/air-conditioning systems should be placed in good working order, including the necessary replacement of any parts to return the unit to a well maintained condition. This includes warehouse heaters and exhaust fans. Upon move-out, Landlord will have an exit inspection performed by a certified mechanical contractor to determine the condition.
5. All holes in the sheet rock walls should be repaired prior to move-out.
6. The carpets and vinyl tiles should be in a clean condition and should not have any holes or chips in them. Landlord will accept normal wear on those items provided they appear to be in a maintained condition.
7. Facilities should be returned in a clean condition which would include cleaning of the coffee bar, restroom areas, windows, and other portions of the space.
8. The warehouse should be in broom clean condition with all inventories and racking removed. There should be no protrusion of anchors from the warehouse floor and all holes should be appropriately patched. If machinery/equipment is removed, the electrical lines should be properly terminated at the nearest junction box.
9. All Exterior windows with cracks or breakage should be replaced.
10. The Tenant shall provide keys for all locks on the Premises, including front doors, rear doors, and interior doors.
11. Items that have been added by the Tenant and affixed to the Building will remain the property of Landlord, unless agreed otherwise. This would include but not limited to mini-blinds, air conditioners, electrical, water heaters, cabinets, flooring, etc. Please note that if modifications have been made to the space, such as the addition of office areas, Landlord retains the right to have the Tenant to remove these at Tenant's expense.
12. All electrical systems should be left in a safe condition that conforms to code. Bare wires and dangerous installations should be corrected prior to move-out.
13. All plumbing fixtures should be in good working order, including the water heater. Faucets and toilet should not leak
14. All dock bumpers must be left in place and well secure.

Tenant Initials



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Landlord Initials



ADDENDUM 5

RENT COMMENCEMENT DATE AGREEMENT


This Rent Commencement Date Agreement ("Agreement") is made this 15th day of January, 2019, by and between Gamh Properties Inc, a Florida incorporated company (hereinafter referred to as "Landlord") and Rotor Riot LLC, (hereinafter referred to as "Tenant"). WHEREAS, Landlord and Tenant entered into that certain Lease Agreement dated 1/15/2019 (hereinafter referred to as the "Lease"), for certain Premises more particularly described therein; NOW, THEREFORE, Landlord and Tenant mutually agree as follows:

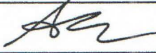
1. Tenant is in possession of, and has accepted, the Premises demised by the Lease.
2. The first Lease Year shall mean the period from February 1st, 2019 to January 31st, 2020, and each Lease Year thereafter shall be from February 1st to January 31st.
3. The Rent Commencement Date of the Lease is February 1st.
4. The Effective Date of the Lease and the first day of the Term is February 1st 2019, and the Original Term of the Lease shall expire on January 31st, 2022.
5. Capitalized terms used but not otherwise defined herein shall have the meaning set forth in the Lease.

IN WITNESS WHEREOF, Landlord and Tenant have signed and sealed this Agreement as of the date first set forth above.

LANDLORD: Gamh Properties Inc

TENANT: Rotor Riot LLC


 By: _____
 Print Name: Gustav Adler
 Its: _____


 By: _____
 Print Name: Andrew Camden
 Its: _____

Tenant Initials GA

Landlord Initials SA

EXHIBIT "A"

Premesis

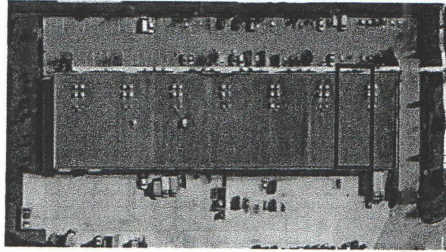


EXHIBIT "B"

Legal Description of Project:

LEE VISTA POINTE, A CONDOMINIUM 8572/4285 UNIT 2

Tenant Initials *h*

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Landlord Initials *GA*

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the reference to our firm under the caption "Experts", and the inclusion of our report dated December 2, 2020, for the years ended and as of December 31, 2018 and 2019, related to the financial statements of Fat Shark Ltd., included in the Registration Statement on Form S-1/A (Amendment No. 1) of Red Cat Holdings, Inc., SEC File No. 333-249776 filed on or about December 4, 2020.

/s/ BF Borgers CPA PC
BR Borgers CPA PC
Lakewood, CO
December 4, 2020