

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

**FORM 8-K/A
(Amendment No. 1)**

**CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): November 2, 2020

Red Cat Holdings, Inc.

(Exact name of registrant as specified in its charter)

Nevada
(State or Other Jurisdiction of Incorporation)

000-31587
(Commission File Number)

86-0490034
(I.R.S. Employer Identification Number)

**370 Harbour Drive
Palmas del Mar
Humacao, PR 00791**
(Address of principal executive offices) (zip code)

(833) 373-3228
(Registrant's telephone number, including area code)
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities Registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None		

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

EXPLANATORY NOTE

The purpose of this Amendment No. 1 (the "Amendment") on Form 8-K/A to Red Cat Holdings, Inc.'s (the "Company") Current Report on Form 8-K filed with the Securities and Exchange Commission on November 6, 2020 (the "Form 8-K") is to include Exhibit 23.1, 99.1, 99.2, 99.3, and 99.4.

No other changes have been made to the Form 8-K. This Amendment speaks as of the original filing date of the Form 8-K, as amended, does not reflect events that may have occurred subsequent to the original filing date and does not modify or update in any way disclosures made in the Form 8-K, except as otherwise set forth above.

ITEM 2.01 COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS.

On November 2, 2020 the transactions contemplated by the Share Purchase Agreement dated as of September 30, 2020 by and among Red Cat Holdings, Inc., a Nevada corporation (the "Company"), FS Acquisition Corp., a Nevada corporation and wholly-owned subsidiary of the Company ("FS") and Greg French were completed and the Company closed on its previously announced acquisition of Fat Shark Holdings, Ltd., a Cayman Islands Exempted Company ("Fat Shark") from Greg French, its founder.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Business Acquired.

The Audited Financial Statements of Fat Shark Holdings, Ltd. and subsidiaries for the periods ended December 31, 2019 and 2018 are attached as Exhibit 99.1.

The Unaudited Financial Statements of Fat Shark Holdings, Ltd. and subsidiaries for the period ended September 30, 2019 are attached as Exhibit 99.2.

(b) Pro Forma Financial Information.

The Unaudited Pro Forma Condensed Balance Sheets and Condensed Consolidated Statements of Operations and Cash Flow of Fat Shark Holdings, Ltd as of September 30, 2020 and 2019 and December 31, 2019 and 2018 are attached as Exhibit 99.3.

(d) Exhibits.

The exhibits listed in the following Exhibit Index are furnished as part of this Current Report on Form 8-K.

Exhibit No.	Description
23.1*	Consent of Independent Registered Accounting Firm
99.1*	Audited Consolidated Financial Statements of Fat Shark Holdings, Ltd. and subsidiaries for the periods ended December 31, 2019 and 2018
99.2*	Unaudited Consolidated Financial Statements of Fat Shark Holdings, Ltd. and subsidiaries for the nine-months ended September 30, 2020.
99.3*	Pro Forma Financial Information

*Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

RED CAT HOLDINGS, INC.

Date: December 4, 2020

By: /s/ Jeffrey Thompson
Name: Jeffrey Thompson
Title: Chief Executive Officer

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 Current Report on Form 8K/A (Amendment No. 1) of Red Cat Holdings, Inc., SEC File No. 000-31587 filed on or about December 4, 2020.

/s/ BF Borgers CPA PC
BR Borgers CPA PC
Lakewood, CO
December 4, 2020

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	<u>\$ 130,538</u>	<u>\$ 83,722</u>
	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	<u>(405,963)</u>	<u>(656,205)</u>
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.

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	105,000	\$ 55,000
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	40,249	\$ 0
	<u>347,241</u>	<u>827,684</u>
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	(98,336)	(416,529)
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

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Equity
	Shares	Amount	Shares	Amount			
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.

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	<u>23,853</u>	<u>105,000</u>	<u>\$ 0</u>	<u>\$ 128,853</u>
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.