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): July 13, 2021

Red Cat Holdings, Inc.
(Exact name of registrant as specified in its charter)

Nevada	000-31587	86-0490034
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(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
Common Stock, Par Value $0.001	RCAT	Nasdaq Stock Exchange

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") to Red Cat Holdings, Inc.'s (the "Company") Current Report on Form 8-K filed with the Securities and Exchange Commission on July 14, 2021 (the "Form 8-K") is to include 99.1, 99.2, and 99.3.

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 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Business Acquired.

The Audited Financial Statements of Teal Drones for the year ended December 31, 2020 are attached as Exhibit 99.1.

The Unaudited Financial Statements of Teal Drones for the eight months ended August 31, 2021 are attached as Exhibit 99.2.

(b) Pro Forma Financial Information.

The unaudited Pro Forma Condensed Balance Sheet of Red Cat Holdings, Inc. as of July 31, 2021 and the Unaudited Pro Forma Statement of Operations of Red Cat Holdings for the fiscal year ended April 30, 2021 and for the three months ended July 31, 2021 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
99.1*	Audited Consolidated Financial Statements of Teal Drones for the year ended December 31, 2020
99.2*	Unaudited Consolidated Financial Statements of Teal Drones for the eight-months ended August 31, 2021.
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: November 16, 2021

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

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of Teal Drones, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheet of Teal Drones, Inc. (the "Company") as of December 31, 2020, the related statement of operations, stockholders' equity (deficit), and cash flows for the year 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, 2020, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

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's significant operating losses 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.

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.

/s BF Borgers CPA PC
BF Borgers CPA PC

We have served as the Company's auditor since 2021
Lakewood, CO
November 16, 2021

Teal Drones, Inc.
CONDENSED BALANCE SHEET

		As of December 31, 2020
Assets		
Current Assets		
Cash	$	1,040,179
Prepaid expenses		9,230
Inventory		70,373
Total Current Assets		1,119,782
Property and equipment, net		93,498
Other assets		2,300
Total Assets	$	1,215,580
Liabilities		
Current Liabilities		
Accounts payable	$	241,682
Accrued expenses		249,939
Unearned revenue		14,100
Current portion of long term debt		816,625
Other liabilities		2,400
Total Current Liabilities		1,324,746
Long term debt		1,900,710
Total Liabilities		3,225,456
Stockholders' Equity		
Preferred stock, $0.00001 par value, 81,520,284 shares authorized:		
Series Seed, 7,600,000 shares authorized, 6,350,000 outstanding		64
Series Seed Prime, 5,454,545 shares authorized, 5,000,000 outstanding		50
Series A, 17,745,697 shares authorized, 16,782,000 outstanding		168
Series A-1, 5,050,990 shares authorized, 5,040,990 outstanding		50
Series A-2, 5,337,344 shares authorized and outstanding		53

Common stock, $0.001 par value, 79,000,000 shares authorized, 12,380,203 issued and outstanding		124
Equity receivable		(36,146)
Additional paid-in capital		23,243,969
Accumulated deficit		(25,218,208)
Total Stockholders' Deficit		(2,009,876)
Total Liabilities and Stockholders' Deficit	$	1,215,580

See accompanying notes to financial statements

Teal Drones, Inc.
CONDENSED STATEMENT OF OPERATIONS

		For the Year Ended December 31, 2020
Revenues	$	1,314,550
Operating Expenses		
General and administrative		3,741,343
Research and development		754,403
Sales and marketing		78,040
Total Operating Expenses		4,573,786
Loss from operations		(3,259,236)
Other Income (Expense)		
Other income, net		1,079,158
Interest expense		(64,858)
Total Other Income (Expense)		1,014,300
Loss before Income Taxes		(2,244,936)
Provision for income taxes		—
Net Loss	$	(2,244,936)

See accompanying notes to financial statements

Teal Drones, Inc.
CONDENSED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEAR ENDED December 31, 2020

	Series Seed Preferred Stock		Series Seed Prime Preferred Stock		Series A Preferred Stock		Series A-1 Preferred Stock		Series A-2 Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2019	**7,600,000**	**$ 76**	**5,454,545**	**$ 55**	**17,745,697**	**$ 178**	**5,040,990**	**$ 50**	—	**$ —**	**9,711,961**	**$ 97**	**$ 20,082,905**	**$ (22,973,272)**	**$ (2,889,911)**
Conversion of Series Seed Preferred Stock	(1,250,000)	(12)	—	—	—	—	—	—	—	—	1,250,000	12	—	—	—
Conversion of Series Seed Prime Preferred Stock	—	—	(454,545)	(5)	—	—	—	—	—	—	454,545	5	—	—	—
Conversion of Series A Preferred Stock	—	—	—	—	(963,697)	(10)	—	—	—	—	963,697	10	—	—	—
Issuances of Series A-2 Preferred Stock, net of issuance costs	—	—	—	—	—	—	—	—	5,337,344	53	—	—	3,129,312	—	3,129,365
Issuances of Decathlon warrant	—	—	—	—	—	—	—	—	—	—	—	—	6,140	—	6,140
Series A-2 Receivable	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(36,146)
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	—	—	—	25,612	—	25,612
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(2,244,936)	(2,244,936)
Balance at December 31, 2020	**6,350,000**	**$ 64**	**5,000,000**	**$ 50**	**16,782,000**	**$ 168**	**5,040,990**	**$ 50**	**5,337,344**	**$ 53**	**12,380,203**	**$ 124**	**$ 23,243,969**	**$ (25,218,208)**	**$ (2,009,876)**

See accompanying notes to financial statements

Teal Drones, Inc.
CONDENSED STATEMENT OF CASH FLOWS

		For the Year Ended December 31, 2020
Cash Flows from Operating Activities		
Net Loss	$	(2,244,936)
Adjustments to reconcile net loss from operations:		
Depreciation		52,757
Stock based compensation		25,612
Changes in Operating Assets and Liabilities		
Prepaid expenses		(2,734)
Inventory		479,627
Accounts payable		(1,511,992)
Accrued expenses		(327,715)
Unearned revenue		14,100
Net Cash Used in Operating Activities		**(3,515,281)**

Cash Flows Used in Investing Activities		
Purchases of property and equipment		(15,516)
Net Cash Used in Investing Activities		**(15,516)**
Cash Flows from Financing Activities		
Proceeds from issuance of Series A-2 Preferred stock		3,124,971
Proceeds from issuance of long term debt		2,219,460
Payments under long term debt		(1,262,194)
Net Cash Provided by Financing Activities		**4,082,237**
Net Increase in Cash		**551,440**
Cash at Beginning of Period		**488,739**
Cash at End of Period	**$**	**1,040,179**
Inventory conveyed in settlement of accounts payable	$	500,000
Cash paid for interest and taxes	$	49,890

See accompanying notes to financial statements

Teal Drones, Inc.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED December 31, 2020

Note 1 – The Business

Teal Drones, Inc. ("Teal," the 'Company", "us," "we," "our") was founded in November 2015 under the name iDrone, Inc. In July 2016, iDrone, Inc. changed its name to Teal Drones, Inc. The Company develops, produces and sells advanced drone systems in the unmanned aerial vehicle (UAV) industry. The Company's current product, the "Golden Eagle", includes advanced imaging technologies and is targeted at government and business entities.

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 in the normal course of business. As reflected in our accompanying financial statements, we had negative working capital of more than $200,000 at December 31, 2020 and have accumulated losses totaling more than $25 million since inception. Management recognizes that the Company will likely continue to incur losses and that its financial position raises substantial doubt about the Company's 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 the Company be unable to continue as a going concern.

In August 2021, the Company was acquired by Red Cat Holdings, a publicly traded company with more than $60 million in cash balances on the date of acquisition.

Note 3 - Summary of Significant Account 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. Significant estimates reflected in these financial statements include those used to (i) determine stock based compensation, (ii) evaluate inventory for excess and obsolescence, and (iii) calculate fair values for warrants issued with debt.

Cash – Cash balances at December 31, 2020 totaled $1,040,179, of which $50,000 is restricted as it is pledged as collateral for a credit facility. The Company maintains cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. The Company's bank balances at times may exceed the FDIC limit. To date, the Company has not experienced any losses on its invested cash.

Inventories – Inventories, which consist of raw materials, work-in-process, and finished goods, are stated at the lower of cost or net realizable value, with cost being determined by the average-cost method, which approximates the first-in, first-out method. Cost components include direct materials and direct labor, as well as in-bound freight. At each balance sheet date, the Company evaluates ending inventories for excess quantities and obsolescence.

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 the availability of goods ready for shipment. Customer deposits for future shipments of good totaled $14,100 at December 31, 2020.

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.

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 recognize forfeitures as they occur. We recognize compensation costs on a straight-line basis over the service period which is generally the vesting term.

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 financial statements.

Related Parties – Parties are considered to be related if they have control or significant influence, directly or indirectly, over Teal, including key management personnel and members of the Board of Directors.

Comprehensive Loss – During the year ended December 31, 2020, there were no differences between net loss and comprehensive loss.

Note 4 – Inventories

Inventories, consisting solely of raw materials, totaled $70,373 at December 31, 2020.

Note 5 – Property and Equipment

Property and equipment consist of assets with an estimated useful life greater than one year. Property and equipment are reported net of accumulated depreciation and the reported values are periodically assessed for impairment. Property and equipment as of December 31, 2020 was as follows:

Original cost	$	229,834
Accumulated depreciation	$	136,336
Net carrying value	$	93,498

Note 6 – Income Taxes

Since inception, we have incurred net losses in each year of operations. Our current provision for the year ended December 31, 2020 consisted of a tax benefit against which we applied a full valuation allowance, resulting in no current provision for income taxes.

As of December 31, 2020, we had an accumulated deficit of approximately $25 million. Deferred tax assets related to the future benefit of these net operating losses for tax purposes totaled approximately $6,300,000 based on a blended effective rate of 25%. 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 the deferred tax asset at December 31, 2020.

Note 7 – Long Term Debt

SBA Loan

On April 17, 2020, the Company received a loan of $219,460 from the Small Business Administration (SBA) as part of its Paycheck Protection Plan (PPP) program. The loan is unsecured, nonrecourse, accrues interest at one percent annually, and has a two year term. All or a portion of the loan is forgivable if the proceeds are used to fund qualifying payroll, rent and utilities during a designated twenty-four-week period following the disbursement of loan proceeds. In June 2021, the entire principal and accrued interest of $2,560 was forgiven.

Vendor Settlement

On May 28, 2020, the Company entered into a settlement agreement with a vendor that had been providing contract manufacturing services. Under the terms of the agreement, the Company conveyed title to inventory valued at $500,000 and agreed to make cash payments totaling $600,000. As of December 31, 2020, the inventory had been conveyed and $100,000 had been paid. The remaining balance of $500,000 is payable in 13 monthly installments of $37,500 beginning in June 2021 with a final installment of $12,500 due in July 2022.

The Company recognized a gain of $1,095,073 in connection with the settlement, representing the difference between the stated balance due of $2,195,073 and the settlement amount of $1,100,000.

Decathlon Capital

In December 2020, the Company entered into a loan agreement with Decathlon Capital for $2,000,000. Repayments commenced in January 2021 and the loan matured in May 2025. The amount of each monthly payment is based on a percentage of revenues, ranging from 4.25% to 4.75%, generated in the prior month. Based on an expected repayment schedule agreed to by the parties, the effective annual interest rate was approximately 27%.

In addition, the Company issued warrants to Decathlon Capital to purchase 195,211 shares of the Company's common stock at an exercise price of $0.01 per share. In accordance with ASC 470 and ASC 815, the Note and warrants were separately valued at $3,169,474 and $9,761, respectively. The net proceeds were then allocated pro rata to the Notes and Warrants at $1,993,860 and $6,140, respectively. The Note was classified as debt and the warrant was booked as an offset to the carrying value of the note. The discounted value of the note will be accreted over the remaining term of the Note. As of December 31, 2020, the net carrying amount of the Note, including accrued interest of $22,567, was $1,996,417.

Note 8 – Stockholders' Equity

Preferred Stock

The Company has issued several series of preferred stock, all with a $0.00001 par value. The number of shares authorized and outstanding for each series of preferred stock as of December 31, 2020 was as follows:

Series	Authorized	Outstanding
Seed	7,600,000	6,350,000
Seed Prime	5,454,545	5,000,000
Series A	17,745,697	16,782,000
Series A-1	5,050,990	5,040,990
Series A-2	5,337,344	5,337,344

Each share of preferred stock is entitled to one vote and is convertible to common stock on a one-to-one basis based on its stated conversion price. Each series has a liquidation preference before common stock with Series A-2 being the most senior preferred security, and all other series of preferred stock participating together.

Common Stock

There are 79,000,000 shares of common stock authorized for issuance, of which 12,380,203 are outstanding. The Company has reserved 41,188,576 shares of common stock for the potential conversion of preferred stock.

Share Based Awards

The 2015 Equity Incentive Plan (the "Plan") 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").

Options exercisable as of December 31, 2020 totaled 2,872,350. The remaining weighted average contractual term of the options outstanding at December 31, 2020 was 7.29 years. As of December 31, 2020, there was $18,929 of unrecognized stock-based compensation expense related to unvested stock options, net of estimated forfeitures, which is expected to be recognized over a weighted average period of 1.75 years.

The table below sets forth the assumptions used on the date of grant for estimating the fair value of options granted during the year ended December 31, 2020:

	December 31, 2020
Exercise price	$0.06
Fair value of stock on date of grant	$0.06
Volatility	47.31%
Risk-free interest rate	0.58%
Expected term (years)	6.00

Dividend yield	—

A summary of activity in 2020 is as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of December 31, 2019	3,429,726	$ 0.06		
Granted	166,425	0.06		
Exercised	—	—		
Forfeited or expired	(50,000)	0.06		
Outstanding as of December 31, 2020	3,546,151	0.06	7.29	—
Exercisable as of December 31, 2020	2,872,350	$ 0.06	6.95	$ —

Stock compensation expense for the year ended December 31, 2020 was $25,612.

Warrants

In December 2020, the Company issued a warrant to purchase 195,211 shares of common stock to Decathlon Capital as described in Note 7. The warrants are exercisable at $0.01 and have a 10-year term.

During the year, the Company issued warrants to purchase 5,337,344 shares of common stock to the investors in the Series A-2 financing. The warrants are exercisable at $0.23 per share and have a 10 year term.

As of December 31, 2020, there are outstanding warrants to purchase 17,815,662 shares of the Company's common stock with strike prices ranging from $0.01 to $0.23 per share.

Note 9 – Subsequent Events

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

On February 2, 2021, the Company received a second PPP loan from the SBA for $300,910. The Company intends to use the funds in the manner required to qualify for forgiveness. If not forgiven, the loan is repayable over a five-year term, beginning in August 2021, with interest accruing at one percent annually.

On April 22, 2021, the Company entered into an agreement under which it sold future customer payments to Forward Financing at a discount. In total, $91,200 of future customer payments were sold for an advance payment of $60,000 from Forward Financing. Beginning in April 2021, weekly payments of $2,280 will be remitted to Forward Financing until $91,200 of payments have been made.

On May 26, 2021, the Company entered into a convertible note agreement totaling $350,000 with one of its equity investors. The note bears interest at the applicable Federal Rate which was approximately 0.13% on the date of issuance. The note is repayable upon demand at any time after December 31, 2021.

On June 14, 2021, the SBA granted forgiveness of the PPP loan dated April 17, 2020. A total of $222,020 was forgiven, including $219,460 of principal and $2,560 of interest.

On August 31, 2021, Red Cat Holdings, Inc. ("Red Cat") acquired all of the issued and outstanding share capital of the Company for $14,000,000, reduced by debt assumed consisting of approximately $1.67 million payable to Decathlon Capital, approximately $1,457,000 in working capital deficit, resulting in a net purchase price of $10,872,753. Based on a volume weighted average share price of $2.908 per share, Red Cat issued 3,738,911 shares of its common stock. The purchase price may be increased if the Company reaches certain revenue targets during the 24 month period following the closing. The maximum increase in the purchase price would be $16 million if sales of the Golden Eagle, the Company's newly launched product, total $36 million. The minimum threshold provides that the purchase price will increase by $4 million if sales total $18 million. Any increase in the purchase price will be payable in shares of common stock of Red Cat.

Exhibit 99.2

Teal Drones, Inc.
CONDENSED BALANCE SHEET
(Unaudited)

		As of August 31, 2021
Assets		
Current Assets		
Cash	$	11,364
Accounts receivable		76,742
Prepaid expenses		15,085
Inventory		1,272,018
Total Current Assets		1,375,209
Property and equipment, net		64,683
Other assets		3,759
Total Assets	$	1,443,651
Liabilities		
Current Liabilities		
Accounts payable	$	523,598
Accrued expenses		237,006
Unearned revenue		1,768,282
Current portion of long term debt		4,495,754
Other liabilities		3,859
Total Current Liabilities		7,028,499
Long term debt		253,337
Total Liabilities		7,281,836
Stockholders' Equity		
Preferred stock, $0.00001 par value, 81,520,284 shares authorized:		
Series Seed, 7,600,000 shares authorized, 6,350,000 outstanding		64
Series Seed Prime, 5,454,545 shares authorized, 5,000,000 outstanding		50
Series A, 17,745,697 shares authorized, 16,782,000 outstanding		168
Series A-1, 5,050,990 shares authorized, 5,040,990 outstanding		50
Series A-2, 5,337,344 shares authorized, 5,337,344 outstanding		53
Common stock, $0.001 par value, 79,000,000 shares authorized, 12,380,203 issued and outstanding		124
Additional paid-in capital		23,254,220
Accumulated deficit		(29,092,914)
Total Stockholders' Deficit		(5,838,185)
Total Liabilities and Stockholders' Deficit	$	1,443,651

See accompanying notes to financial statements

Teal Drones, Inc.
CONDENSED STATEMENT OF OPERATIONS
(Unaudited)

		For the Eight Months Ended August 31, 2021
Revenues	$	832,125
Cost of goods sold		626,171
Gross Profit		205,954
Operating Expenses		
General and administrative		2,153,052
Research and development		356,113
Sales and marketing		85,589
Total Operating Expenses		2,594,754
Loss from operations		(2,388,800)
Other Income (Expense)		
Other income, net		253,098
Interest expense		(1,739,004)
Total Other Income (Expense)		(1,485,906)
Loss before Income Taxes		(3,874,706)
Provision for income taxes		—
Net Loss	$	(3,874,706)

See accompanying notes to financial statements

Teal Drones, Inc.
CONDENSED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE EIGHT MONTHS ENDED August 31, 2021
(Unaudited)

	Series Seed Preferred Stock		Series Seed Prime Preferred Stock		Series A Preferred Stock		Series A-1 Preferred Stock		Series A-2 Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2020	6,350,000	$ 64	5,000,000	$ 50	16,782,000	$ 168	5,040,990	$ 50	5,337,344	$ 53	12,380,203	$ 124	$ 23,243,969	$ (25,218,208)	$ (2,009,876)
Series A-2 Receivable	—	—	—	—	—	—	—	—	—	—	—	—	—	—	36,146
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	—	—	—	10,251	—	10,251
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(3,874,706)	(3,874,706)
Balance at August 31, 2021	6,350,000	$ 64	5,000,000	$ 50	16,782,000	$ 168	5,040,990	$ 50	5,337,344	$ 53	12,380,203	$ 124	$ 23,254,220	$ (29,092,914)	$ (5,838,185)

See accompanying notes to financial statements

Teal Drones, Inc.
CONDENSED STATEMENT OF CASH FLOWS
(UNAUDITED)

	For the Eight Months Ended August 31, 2021
Cash Flows from Operating Activities	
Net Loss	$ (3,874,706)
Adjustment to reconcile net loss from operations:	
Depreciation	33,949
Stock-based compensation	10,251
Forgiveness of PPP Loan	(222,020)
Changes in Operating Assets and Liabilities	
Accounts receivable	(76,742)
Prepaid expenses	(5,855)
Inventory	(1,201,645)
Accounts payable	281,916
Accrued expenses	1,704,374
Unearned revenue	1,754,182
Net Cash Used in Operating Activities	**(1,596,296)**
Cash Flows from Investing Activities	
Purchases of property and equipment	(5,134)
Net Cash Used in Investing Activities	**(5,134)**
Cash Flows from Financing Activities	
Issuance of Series A-2 preferred stock	36,146
Proceeds from issuance of long term debt	710,910
Payments under long term debt	(174,441)
Net Cash Provided by Financing Activities	**572,615**
Net (Decrease) in Cash	**(1,028,815)**
Cash at Beginning of Period	**1,040,179**
Cash at End of Period	**$ 11,364**
Cash paid for interest and taxes	**$ 20,402**

See accompanying notes to financial statements

Teal Drones, Inc.
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE EIGHT MONTHS ENDED AUGUST 31, 2021

Note 1 – The Business

Teal Drones, Inc. ("Teal," the 'Company", "us," "we," "our") was founded in November 2015 under the name iDrone, Inc. In July 2016, iDrone, Inc. changed its name to Teal Drones, Inc. The Company develops, produces and sells advanced drone systems in the unmanned aerial vehicle (UAV) industry. The Company's current product, the "Golden Eagle", includes advanced imaging technologies and is targeted at government and business entities.

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 in the normal course of business. As reflected in our accompanying financial statements, we had negative working capital of more than $5.6 million at August 31, 2021 and have accumulated losses totaling more than $29 million since inception. Management recognizes that the Company will likely continue to incur losses and that its financial position raises substantial doubt about the Company's 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 the Company be unable to continue as a going concern.

On August 31, 2021, the Company was acquired by Red Cat Holdings, a publicly traded company with more than $60 million in cash balances on the date of acquisition.

Note 3 - Summary of Significant Account 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. Significant estimates reflected in these financial statements include those used to (i) determine stock based compensation, (ii) evaluate inventory for excess and obsolescence, and (iii) calculate fair values for warrants issued with debt.

Cash – Cash balances at August 31, 2021 totaled $11,364. The Company maintains cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. The Company's bank balances at times may exceed the FDIC limit. To date, the Company has not experienced any losses on its invested cash.

Inventories – Inventories, which consist of raw materials, work-in-process, and finished goods, are stated at the lower of cost or net realizable value, with cost being determined by the average-cost method, which approximates the first-in, first-out method. Cost components include direct materials and direct labor, as well as in-bound freight. At each balance sheet date, the Company evaluates ending inventories for excess quantities and obsolescence.

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 the availability of goods ready for shipment. Customer deposits for future shipments of good totaled $1,768,282 at August 31, 2021.

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.

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 recognize forfeitures as they occur. We recognize compensation costs on a straight-line basis over the service period which is generally the vesting term.

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 financial statements.

Related Parties – Parties are considered to be related if they have control or significant influence, directly or indirectly, over Teal, including key management personnel and members of the Board of Directors.

Comprehensive Loss – During the eight months ended August 31, 2021, there were no differences between net loss and comprehensive loss.

Note 4 – Inventories

Inventories totaled $1,272,018 at August 31, 2021, and consisted of raw materials and finished goods totaling $1,253,755 and $18,263, respectively.

Note 5 – Property and Equipment

Property and equipment consist of assets with an estimated useful life greater than one year. Property and equipment are reported net of accumulated depreciation and the reported values are periodically assessed for impairment. Property and equipment as of August 31,2021 was as follows:

Original cost	$	234,968
Accumulated depreciation	$	170,285
Net carrying value	$	64,683

Note 6 – Income Taxes

Since inception, we have incurred net losses in each year of operations. Our current provision for the eight months ended August 31, 2021 consisted of a tax benefit against which we applied a full valuation allowance, resulting in no current provision for income taxes.

As of August 31, 2021, we had an accumulated deficit of approximately $29 million. Deferred tax assets related to the future benefit of these net operating losses for tax purposes totaled approximately $7,250,000 based on a blended effective tax rate of 25%. 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 the deferred tax asset at August 31, 2021.

Note 7 – Long Term Debt

SBA Loan

On April 17, 2020, the Company received a loan of $219,460 from the Small Business Administration (SBA) as part of its Paycheck Protection Plan (PPP) program. The loan is unsecured, nonrecourse, accrues interest at one percent annually, and has a two-year term. All or a portion of the loan is forgivable if the proceeds are used to fund qualifying payroll, rent and utilities during a designated twenty-four-week period following the disbursement of loan proceeds. In June 2021, the entire principal and accrued interest of $2,560 was forgiven.

On February 2, 2021, the Company received a second SBA PPP loan in the amount of $300,910. The loan is unsecured, non-recourse, and accrues interest at one percent annually. All or a portion of the loan is forgivable if the funds are used for the same qualified expenses as the first PPP loan. If not forgiven, the loan is payable over five years beginning in August 2021. Management intends to use the proceeds for the purposes required to secure forgiveness.

Vendor Settlement

On May 28, 2020, the Company entered into a settlement agreement with a vendor that had been providing contract manufacturing services. Under the terms of the agreement, the Company conveyed title to inventory valued at $500,000 and agreed to make cash payments totaling $600,000. As of August 31, 2021, the inventory had been conveyed and $387,500 of payments remained, which are payable in monthly installments of $37,500 with a final installment of $12,500 due in July 2022.

Decathlon Capital

On December 2020, the Company entered into a loan agreement with Decathlon Capital for $2,000,000. Repayments commenced in January 2021 and the loan matured in May 2025. The amount of each monthly payment is based on a percentage, ranging from 4.25% to 4.75%, of revenues generated in the prior month. Based on an expected repayment schedule, the effective annual interest rate was approximately 27%.

In addition, the Company issued warrants to Decathlon Capital to purchase 195,211 shares of the Company's common stock at an exercise price of $0.01 per share. In accordance with ASC 470 and ASC 815, the note and warrants were separately valued at $3,169,474 and $9,761, respectively. The net proceeds were then allocated pro rata to the notes and warrants at $1,993,860 and $6,140, respectively. The note was classified as debt and the warrant was booked as a reduction in the carrying value of the note. The discounted value of the note will be accreted over the remaining term of the note. As of August 31, 2021, the net carrying amount of the note, including accrued interest, of $1,660,019, was $3,670,294.

Revenue Financing Arrangement

On April 22, 2021, the Company entered into an agreement under which it sold future customer payments to Forward Financing at a discount. A total of $91,200 of future customer payments were sold for an advance payment of $60,000 from Forward Financing. Beginning in April 2021, weekly payments of $2,280 will be remitted to Forward Financing until $91,200 of payments have been made.

Convertible Note

On May 26, 2021, the Company entered into a convertible note agreement totaling $350,000 with one of its equity investors. The note bears interest at the applicable Federal Rate which was approximately 0.13% on the date of issuance. The note is repayable upon demand at any time after December 31, 2021.

Note 8 – Stockholders' Equity

Preferred Stock

The Company has issued several series of preferred stock, all with a $0.00001 par value. The number of shares authorized and outstanding for each series of preferred stock as of August 31, 2021 was as follows:

Series	**Authorized**	**Outstanding**
Seed	7,600,000	6,350,000
Seed Prime	5,454,545	5,000,000
Series A	17,745,697	16,782,000
Series A-1	5,050,990	5,040,990
Series A-2	5,337,344	5,337,344

Each share of preferred stock is entitled to one vote and is convertible to common stock on a one-to-one basis based on its stated conversion price. Each series has a liquidation preference before common stock with Series A-2 being the most senior preferred security, and all other series of preferred stock participating together.

Common Stock

There are 79,000,000 shares of common stock authorized for issuance, of which 12,380,203 are outstanding. The Company has reserved 41,188,576 shares of common stock for the potential conversion of preferred stock.

Share Based Awards

The 2015 Equity Incentive Plan (the "Plan") 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").

Options exercisable as of August 31, 2021 totaled 3,242,441. The remaining weighted average contractual term of the options outstanding at August 31, 2021 was 6.46 years. As of August 31, 2021, there was $7,990 of unrecognized stock-based compensation expense related to unvested stock options, net of estimated forfeitures, which is expected to be recognized over a weighted average period of 1.67 years.

A summary of activity under the Plan during the eight months ended August 31, 2021 is as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of December 31, 2020	3,546,151	$ 0.06		
Granted	—	—		
Exercised	—	—		
Forfeited or expired	—	—		
Outstanding as of August 31, 2021	3,546,151	0.06	6.46	—
Exercisable as of August 31, 2021	3,242,441	$ 0.06	8.36	$ —

Stock compensation expense for the eight months ended August 31, 2021 was $10,251.

Warrants

In December 2020, the Company issued a warrant to purchase 195,211 shares of common stock to Decathlon Capital as described in Note 7. The warrants are exercisable at $0.01 and have a 10-year term.

During the year ended December 2020, the Company issued warrants to purchase 5,337,344 shares of common stock to the investors in the Series A-2 financing. The warrants are exercisable at $0.23 per share and have a 10 year term.

As of August 31, 2021, there are outstanding warrants to purchase 17,815,662 shares of the Company's common stock with strike prices ranging from $0.01 to $0.23 per share.

Note 9 – Subsequent Events

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

On August 31, 2021, Red Cat Holdings, Inc. ("Red Cat") acquired all of the issued and outstanding share capital of the Company for $14,000,000, reduced by debt assumed consisting of approximately $1.67 million payable to Decathlon Capital, and approximately $1,457,000 in working capital deficit, resulting in a net purchase price of $10,872,753. Based on a volume weighted average share price of $2.908 per share, Red Cat issued 3,738,911 shares of its common stock.

The purchase price may be increased if the Company reaches certain revenue targets during the 24 month period following the closing. The maximum increase in the purchase price would be $16 million if sales of the Golden Eagle, the Company's newly launched product, total $36 million. The minimum threshold provides that the purchase price will increase by $4 million if sales total $18 million. Any increase in the purchase price will be payable in shares of Red Cat common stock.

Exhibit 99.3

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Introduction

On August 31, 2021, Red Cat Holdings closed the acquisition of Teal Drones Inc., ("Teal") a Delaware corporation. As previously disclosed in our Current Report on Form 8-K filed July 14, 2021, our acquisition of Teal was made pursuant to an Agreement and Plan of Merger by and among Red Cat Holdings, Inc., a Nevada corporation (the "Company"), Teal Acquisition I Corp., a Delaware corporation ("Acquisition") and wholly-owned subsidiary of the Company, and Teal, as amended and restated August 31, 2021 (the "Merger Agreement" or "Merger").

Teal is a leader in commercial and government unmanned aerial vehicle ("UAV") technology and manufactures the Golden Eagle drone, approved by the US Department of Defense for reconnaissance, public safety, and inspection applications. The combined company (the "Combined Company") will provide products, services, and solutions to the drone industry. Following the completion of the Merger, the Combined Company retained the name "Red Cat Holdings". Shares of Red Cat common stock are listed on Nasdaq under the symbol "RCAT." Red Cat corporate headquarters is based in San Juan, Puerto Rico.

Pursuant to the Merger Agreement, we acquired all of the issued and outstanding share capital of Teal in exchange for $14,000,000 of our common stock, par value $0.001 per share ("Common Stock") at the Volume Weighted Average Price (VWAP) of our Common Stock on August 31, 2021 of $2.908 per share, reduced by the amount of Teal debt assumed consisting of approximately $1.67 million payable to Decathlon Alpha IV, L.P., ("DA4"), and approximately $1,457,000 in working capital deficit, for a net closing date payment of $10,872,753. At closing, we issued 3,738,911 shares of our Common Stock (the "Stock Consideration"). On August 31, 2021, the Company, Acquisition, Teal and George Matus, as Shareholder Representative, entered into an Escrow Agreement with Equity Stock Transfer, LLC. Under the Merger Agreement, Fifteen (15%) percent of the Stock Consideration (the "Escrow Shares") was deposited in an escrow account as security for working capital adjustments and indemnification obligations for a period of eighteen (18) months. The indemnification obligations provide for an allowance of fifty-thousand dollars ($50,000) before any claim can be asserted and is subject to a cap equal to the value of the Escrow Shares. George Matus, founder of Teal, will continue in the role of Chief Executive Officer of Teal pursuant to an employment agreement dated August 31, 2021.

The Stock Consideration payable under the Merger Agreement may be increased upon the achievement of certain milestones set forth in the Merger Agreement (the "Earn-Out Consideration"). Additional shares of Common Stock may become issuable by the Company in the event that within twenty-four (24) months following closing of the Merger, Teal realizes certain revenue targets. A total of Sixteen Million Dollars ($16,000,000) in additional shares of Common Stock will be issued if sales and services of Teal's Golden Eagle drones equal at least Thirty-six Million Dollars ($36,000,000). A total of Ten Million Dollars ($10,000,000) in additional shares of Common Stock will be issued if sales and services of Teal's Golden Eagle drones equal at least $24 million ($24,000,000) but less than $36 million ($36,000,000). A total of Four Million Dollars ($4,000,000) in additional shares of Common Stock will be issued if sales and services of Teal's Golden Eagle drones equal at least Eighteen Million Dollars ($18,000,000) but less than Twenty-Four Million Dollars ($24,000,000). Additional Share Consideration, if earned, is issuable at the VWAP of the Company within thirty (30) days of the determination that Earn-Out Consideration is payable.

The Merger Agreement requires that Teal deliver audited financial statements prepared by a PCAOB (Public Company Accounting Oversight Board) firm for such periods as is required to be filed in a Current Report on Form 8-K by the Company (the "Audited Financial Statements") as well as unaudited reviewed financial statements as is required to be filed in a Current Report on form 8-K by the Company. These financial statements are included in this Form 8-K/A.

On August 31, 2021, Teal entered into an Amended and Restated Loan and Security Agreement with DA4 (the "Loan Agreement") in the amount of $1,670,294 (the "Loan"), representing the outstanding principal amount previously due and owing by Teal to DA4. Interest on the Loan accrues at a rate of ten (10%) percent per annum. Principal and interest under the term Loan is payable monthly in an amount equal to $49,275 until maturity on December 31, 2024. Teal may prepay the loan at any time, subject to a prepayment premium of $300,705 less the amount of any prior payments of interest. Under the Loan Agreement, Teal granted DA4 a continuing security interest in substantially all of the assets of Teal. In the event of a default, DA4 may declare the full amount of the Loan immediately due and payable as a secured lender and take additional actions as a secured lender including seeking to foreclose on collateral pledged under the Loan Agreement. The Company agreed to guaranty the obligations of Teal under the Loan pursuant to a Joinder Agreement dated August 31, 2021.

The following unaudited pro forma condensed combined financial information included herein presents the combination of the historical consolidated financial statements of Red Cat and Teal Drones, adjusted to give effect to the Merger and related transactions, as further described in *Note 1 — Description of Transaction and Basis of Presentation.* The Merger was accounted for using the acquisition method of accounting with Red Cat as the accounting acquirer and Teal as the accounting acquiree.

Red Cat's fiscal year ends on April 30, whereas Teal's fiscal year ended on December 31. The unaudited pro forma condensed combined statements of operations are presented based on Red Cat's fiscal year and combine the historical results of fiscal periods of Red Cat and Teal. The unaudited pro forma condensed combined statement of operations for the year ended April 30, 2021 and three months ended July 31, 2021, respectively, gives effect to the Merger and related transactions as if they had occurred on May 1, 2020.

The unaudited pro forma condensed combined balance sheet as of July 31, 2021 gives effect to the transactions as if they had occurred on July 31, 2021.

Pursuant to Rule 11-02(c)(3) of Regulation S-X, if the fiscal year end of an acquired entity differs from the acquirer's fiscal year end by more than 93 days, the acquired entity's statement of operations must be brought up within 93 days of the acquirer's fiscal year end. Therefore, the unaudited pro forma condensed combined statement of operations for the year ended April 30, 2021 was derived by combining financial information from Red Cat's audited consolidated statement of operations for the fiscal year ended April 30, 2021 with financial information of Teal for the twelve months ended April 30, 2021, which was constructed by starting with (i) the audited statement of operations for Teal for the year ended December 31, 2020 and (ii) subtracting the unaudited statement of operations for Teal for the period from January 1, 2020 through April 30, 2020 and (iii) adding the unaudited statement of operations for Teal for the period from January 1, 2021 through April 30, 2021. The unaudited pro forma condensed combined statement of operations for the three months ended July 31, 2021 was derived by combining financial information from Red Cat's unaudited consolidated statement of operations for the three months ended July 31, 2021 with financial information of Teal for the three months ended July 31, 2021, which was constructed from the internal accounting books of record of Teal.

The unaudited pro forma condensed combined balance sheet as of July 31, 2021 combines Red Cat's unaudited condensed consolidated balance sheet as of July 31, 2021 and Teal's unaudited condensed consolidated balance sheet as of August 31, 2021.

The unaudited pro forma condensed combined financial information was derived from Red Cat's and Teal's historical annual and interim consolidated financial statements, which were prepared in accordance with U.S. GAAP, and should be read in conjunction with the following:

- The accompanying notes to the unaudited pro forma condensed combined financial information;
- Red Cat's audited consolidated financial statements as of and for the year ended April 30, 2021, included in its Annual Report on Form 10-K for the year ended April 30, 2021;
- Red Cat's unaudited condensed consolidated financial statements for the three months ended July 31, 2021, included in its Quarterly Report on Form 10-Q for the quarter ended July 31, 2021;
- Teal's audited financial statements for the year ended December 31, 2020, included as an exhibit to this Form 8-K/A; and
- Teal's unaudited condensed consolidated financial statements for eight months ended August 31, 2021, included as an exhibit to this Form 8-K/A.

The following unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, SEC Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses." Release No. 33-10786 replaces the existing pro forma adjustment criteria with simplified requirements to depict the accounting for the transaction ("Transaction Accounting Adjustments") and to allow the presentation of reasonably estimable synergies and other transaction effects that have occurred or are reasonably expected to occur ("Management's Adjustments"). Red Cat has elected not to present Management's Adjustments and have only presented Transaction Accounting Adjustments in the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined financial information has been presented for informational purposes only, and is not necessarily indicative of what the Combined Company's financial position or results of operations would have been had the Merger and related transactions been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the Combined Company.

The final merger consideration paid by Red Cat, as well as the purchase price allocation for the acquisition of Teal could differ significantly from the amounts presented in the unaudited pro forma condensed combined financial statements. These items will be determined after conclusion of the necessary valuation work and related accounting analyses. Any changes in the fair values of the assets acquired or liabilities assumed, or in the total purchase consideration as compared with the information shown in the unaudited pro forma condensed combined financial information may change the amount of the total purchase consideration allocated to goodwill, as well other assets and liabilities, and may impact the Combined Company's statement of operations in future periods. The final purchase price allocation may be materially different than the preliminary purchase consideration allocation presented in the unaudited pro forma condensed combined financial information.

Red Cat is presently performing a detailed review of Teal's accounting policies which may identify additional differences in accounting policies that could materially impact the presentation of the consolidated financial statements of the Combined Company in future periods.

As a result of the foregoing, the pro forma adjustments are preliminary and are subject to change as additional information becomes available and as additional analyses are performed. The preliminary pro forma adjustments have been made solely for the purpose of providing the unaudited pro forma condensed combined financial information.

RED CAT HOLDINGS
Pro Forma Balance Sheet
As of July 31, 2021
(unaudited)

	Teal as of August 31, 2021	Red Cat as of July 31, 2021	Adjustments	Note	Pro-Forma
ASSETS					

Current Assets									
Cash	$	11,364	$	66,118,581	$	—		$	66,129,945
Accounts receivable, net		76,743		267,813		—			344,556
Inventory		1,272,018		884,931		—			2,156,949
Other		15,085		2,456,532		(1,704,000)	5(b)		767,617
Total Current Assets		1,375,210		69,727,857		(1,704,000)			69,399,067
Goodwill		—		11,650,879		14,269,747	5(a)		25,920,626
Intangible assets, net		—		2,015,843		—			2,015,843
Other		68,442		3,853		—			72,295
Total Long Term Assets		68,442		13,670,575		14,269,747			28,008,764
TOTAL ASSETS		**1,443,652**		**83,398,432**		**12,565,747**			**97,407,831**
LIABILITIES AND STOCKHOLDERS' EQUITY									
Current Liabilities									
Accounts payable		523,598		920,256		—			1,443,854
Accrued expenses		240,866		637,769		—			878,635
Notes payable		4,495,754		154,872		(3,225,951)	5(d), 5(e)		1,424,675
Due to related party		—		239,954		—			239,954
Customer deposits		1,768,282		108,888		(1,704,000)	5(b)		173,170
Warrant derivative liability		—		2,495,378		—			2,495,378
Total Current Liabilities		7,028,500		4,557,117		(4,929,951)			6,655,666
Notes payable		253,337		—		1,225,951	5(e)		1,479,288
Note payable to related party		—		1,620,800		—			1,620,800
Total Long Term Liabilities		253,337		1,620,800		1,225,951			3,100,088
Commitments and contingencies									
Stockholders' Equity									
Preferred stock		412		11,454		(412)	5(c)		11,454
Common stock		97		48,489		3,642	5(c)		52,228
Additional paid-in capital		23,254,220		94,527,350		(12,826,397)	5(c)		104,955,173
Accumulated deficit		(29,092,914)		(17,367,700)		29,092,914	5(c)		(17,367,700)
Accumulated other comprehensive income		—		922		—			922
Total Stockholders' Equity		(5,838,185)		77,220,515		16,269,747			87,652,077
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$**	**1,443,652**	**$**	**83,398,432**	**$**	**12,565,747**		**$**	**97,407,831**

See accompanying notes.

RED CAT HOLDINGS
Pro Forma Statement Of Operations
Three months ended July 31, 2021
(unaudited)

		Red Cat		Teal		Adjustments	Note		Pro-Forma
Revenues	$	1,396,751	$	312,047	$	—		$	1,708,798
Cost of goods sold		1,294,347		234,814		—			1,529,161
Gross Margin		102,404		77,233		—			179,637
Operating Expenses									
Operations		176,863		—		284,690	6(a)		461,553
Research and development		244,254		133,542		—			377,796
Sales and marketing		100,633		32,096		40,670	6(a)		173,399
General and administrative		876,180		807,395		81,340	6(a)		1,764,915
Stock based compensation		384,086		—		—			384,086
Total operating expenses		1,782,016		973,033		406,700			3,161,749
Operating loss		(1,679,612)		(895,800)		(406,700)			(2,982,112)
Other Expense (Income)									
Change in fair value of derivative liability		(154,248)		—		—			(154,248)
Interest expense, net		17,099		652,127		(693,728)	6(c)		(24,502)
Other, net		15,309		(94,912)		—			(79,603)
Other Expense (Income)	**$**	**(121,840)**	**$**	**557,215**	**$**	**(693,728)**		**$**	**(258,353)**
Net loss	**$**	**(1,557,772)**	**$**	**(1,453,015)**	**$**	**287,028**		**$**	**(2,723,759)**
Loss per share - basic and diluted		**(0.05)**					**6(d)**		**(0.07)**
Weighted average shares outstanding - basic and diluted		**34,074,226**					**6(d)**		**37,813,137**

See accompanying notes.

RED CAT HOLDINGS

Pro Forma Statement Of Operations
Year ended April 30, 2021
(unaudited)

	Red Cat	Teal	Adjustments	Note	Pro-Forma
Revenues	$ 4,999,517	$ 979,344	$ —		$ 5,978,861
Cost of goods sold	3,929,832	—	—		3,929,832
Gross Margin	1,069,685	979,344	—		2,049,029
Operating Expenses					
Operations	590,342	—	112,560	6(a)	702,902
Research and development	516,084	680,992	—		1,197,076
Sales and marketing	172,182	94,821	16,080	6(a)	283,083
General and administrative	1,279,471	3,570,755	282,160	6(a)	5,132,386
Stock based compensation	3,388,216	—	—		3,388,216
Total operating expenses	5,946,295	4,346,568	410,800		10,703,663
Operating loss	(4,876,610)	(3,367,224)	(410,800)		(8,654,634)
Other Expense (Income)					
Derivative expense	4,630,288	—	—		4,630,288
Change in fair value of derivative	2,492,894	—	—		2,492,894
Interest expense, net	1,223,767	912,741	(561,468)	6(c)	1,575,040
Other, net	12,616	(845,988)	—		(833,372)
Other Expense (Income)	**$ 8,359,565**	**$ 66,753**	**$ (561,468)**		**$ 7,864,850**
Net loss	**$ (13,236,175)**	**$ (3,433,977)**	**$ 150,668**		**$ (16,519,484)**
Loss per share - basic and diluted	**(0.56)**			**6(d)**	**(0.60)**
Weighted average shares outstanding - basic and diluted	**23,655,743**			**6(d)**	**27,394,654**

See accompanying notes.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Note 1. Description of Transaction and Basis of Presentation

On August 31, 2021, Red Cat Holdings, Inc. ("Red Cat") acquired all of the outstanding share capital of Teal for $14,000,000, reduced by debt assumed consisting of approximately $1.67 million payable to Decathlon Capital, and approximately $1,457,000 in working capital deficit, resulting in a net purchase price of $10,872,753. Based on a volume weighted average share price of $2.908 per share, Red Cat issued 3,738,911 shares of its common stock.

The purchase price may be increased if the Company reaches certain revenue targets during the 24 month period following the closing. The maximum increase in the purchase price would be $16 million if sales of the Golden Eagle, the Company's newly launched product, total $36 million. The minimum threshold provides that the purchase price will increase by $4 million if sales total $18 million. Any increase in the purchase price will be payable in shares of Red Cat common stock.

On August 31, 2021, Teal amended its note with Decathlon Capital. The note balance of $1,670,294 is payable in monthly installments of $49,275 until maturity on December 31, 2024, representing an effective interest rate of ten percent annually.

Basis of Presentation

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") Topic 805, *Business Combinations* ("ASC 805"), where Red Cat is the accounting acquirer and Teal is the accounting acquiree. The purchase price will be allocated to the assets acquired and liabilities assumed based upon their estimated fair values as of the acquisition date, and any excess value of the consideration transferred over the net assets acquired will be recognized as goodwill. Red Cat has made a preliminary allocation of the purchase price to the assets acquired and liabilities assumed as of the acquisition date based on management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed using information currently available. The final allocation of the purchase price will be determined after completion of the necessary valuation work and related accounting analyses. Differences between these preliminary estimates and the final acquisition accounting may occur and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial statements and the Combined Company's future results of operations and financial position.

The unaudited pro forma condensed combined financial information was derived from Red Cat's and Teal's historical annual and interim consolidated financial statements, which were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The unaudited pro forma condensed combined financial information was prepared on a combined basis using Red Cat's significant accounting policies as set forth in Red Cat's audited consolidated financial statements for the fiscal year ended April 30, 2021. Certain reclassifications have been made in order to conform Teal's financial statement presentation to Red Cat's financial statement presentation. Transactions between Red Cat and Teal during the periods presented were eliminated in the unaudited pro forma condensed combined financial information.

Note 2. Accounting Policy Adjustments

The unaudited pro forma condensed combined financial information has been compiled in a manner consistent with the accounting policies utilized by Red Cat.

Red Cat is presently reviewing of Teal's accounting policies which may identify additional differences in accounting policies that could materially impact the presentation of the consolidated financial statements of the Combined Company in future periods.

Note 3. Reclassification Adjustments

Certain reclassifications have been made to the historical presentation of Teal's financial information to conform to the financial statement presentation of Red Cat for purposes of the unaudited pro forma condensed combined financial information. The reclassification adjustments were not material.

Note 4. Estimated Merger Consideration and Allocation

I. Estimated Merger Consideration

The preliminary estimated value of the merger consideration is as follows:

Shares of common stock issued		3,738,911
Stock price on date of closing (1)	$	2.79
Fair value of shares issued – Estimated Merger Consideration	$	10,431,562

(1) Represents the closing price per share of the common stock of Red Cat on Nasdaq on August 31, 2021, which is used to determine the estimated merger consideration for accounting purposes.

The final merger consideration could differ significantly from the amounts presented in the unaudited pro forma condensed combined financial statements and will be determined after completion of the necessary valuation work and related accounting analyses.

II. Preliminary Purchase Price Allocation

The unaudited pro forma condensed combined balance sheet has been adjusted to reflect a preliminary allocation of the estimated purchase price to acquire Teal's identifiable assets and assume its liabilities, with the excess recorded as goodwill. The following is a preliminary estimate of the assets acquired and the liabilities assumed by Red Cat, as of the Merger date of August 31, 2021.

Estimated merger consideration		**$ 10,431,562**
Assets acquired		
Cash	11,364	
Accounts receivable	76,743	
Other current assets	15,085	
Other assets	68,442	
Inventory	1,272,018	
Total estimated assets acquired		**1,443,652**
Liabilities assumed		
Accounts payable	523,598	
Accrued expense	240,866	
Customer deposits	1,768,282	
Notes payable	2,749,091	
Total estimated liabilities assumed		**5,281,837**
Total estimated fair value of net assets acquired		**(3,838,185)**
Goodwill		**$ 14,269,747**

The purchase price allocation will be finalized after completion of the necessary valuation work by the Company's valuation consultant and related accounting analyses. The final acquisition accounting adjustments may be materially different from the unaudited pro forma adjustments included herein.

Note 5. Transaction Accounting Adjustments to the Unaudited Pro Forma Condensed Combined Balance Sheet

a) Reflects the net adjustment to goodwill to reflect the preliminary goodwill resulting from the Merger:

Goodwill resulting from the Merger represents the excess of estimated merger consideration over the preliminary fair value of the underlying tangible and identifiable intangible assets acquired and liabilities assumed. The preliminary goodwill presented herein is subject to material revision as the purchase price allocation is completed.

b) Reflects the elimination of an intercompany transaction that related to the purchase of Teal drones by Red Cat. Teal recorded this as a customer deposit and Red Cat recorded this as prepaid inventory.

c) Reflects the adjustment to total stockholders' equity, which consists of the following:

(i) Elimination of Teal's historical stockholders' equity.

(ii) Increase to Red Cat common stock par value and additional paid-in capital based on the total estimated purchase consideration issued to Teal equity holders in connection with the Merger.

d) Under the terms of the Merger Agreement, DA4 agreed to exchange $2 million in principal of their note for a portion of the shares issued in connection with the Merger.

e) Reflects the reclassification of the long term portion of the DA4 note agreed to under the terms of the Merger Agreement.

Note 6. Transaction Accounting Adjustments to the Unaudited Pro Forma Condensed Combined Statements of Operations

a) Reflects adjustments to the compensation of the Chief Executive Officer of Teal, including a salary increase and an award of restricted stock units.

b) Reflects adjustments to general and administrative expenses comprised of Red Cat and Teal transaction costs related to the Merger, primarily legal and accounting, which are estimated at $250,000. Transaction costs are nonrecurring in nature and will not affect the condensed combined statements of operations beyond twelve months after the closing date of the Merger, and, as a result, such adjustments only affect the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020.

c) Reflects interest expense related to the Note payable to DA4 in the principal amount of $1,670,294 bearing interest at 10% annually.

d) The pro forma combined basic and diluted net loss per share have been adjusted to reflect the pro forma net loss for the twelve months ended April 30, 2021 and the three months ended July 31, 2021. In addition, the weighted average shares outstanding for the period have been adjusted to give effect to the issuance of Red Cat common stock in connection with the Merger. As the Combined Company is in a net loss position, any adjustment for potentially dilutive shares would be anti-dilutive, and as such, basic and diluted net loss per share are the same. The following table sets forth a reconciliation of the numerators and denominators used to compute pro forma basic and diluted net loss per share (in thousands, except per share data):

i. Year ended April 30, 2021

	As Reported	Adjustments	Pro-Forma
Net Loss	($13,236,175)	($3,283,309)	($16,519,484)
Shares Outstanding	23,655,743	3,738,911	27,394,654
Loss per Share	($0.56)		($0.60)

ii. Three months ended July 31, 2021

	As Reported	Adjustments	Pro-Forma
Net Loss	($1,557,772)	($1,165,987)	($2,723,759)
Shares Outstanding	34,074,226	3,738,911	37,813,137
Loss per Share	($0.05)		($0.07)