

Risk Factors Comparison 2025-03-27 to 2024-03-22 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text** Section

This Annual Report on Form 10-K contains forward-looking information based on our current expectations. Because our business is subject to many risks and our actual results may differ materially from any forward-looking statements made by or on behalf of us, this section includes a discussion of important factors that could affect our business, operating results, financial condition and the trading price of our securities. This discussion should be read in conjunction with the other information in this Annual Report on Form 10-K, including our financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The occurrence of any of the events or developments described below could have a material adverse effect on our business, results of operations, financial condition, prospects and securities trading prices. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

5-Risk Factors Summary Our business and an investment in our ~~common~~ **Common stock** ~~Stock~~ are subject to numerous risks and uncertainties, including those highlighted in this “Risk Factors” section below. Some of these risks include: Risks Related to our Business and Financial Condition · Because ~~Fat Shark and Rotor Riot’s auditors have qualified their reports on a going concern basis and with our history of losses, we may not be able to continue operating as a going concern.~~ Because the Company had a very limited operating history prior to its acquisition of Fat Shark and Rotor Riot, any investment in us is highly speculative. · ~~The Company may be unable to repay indebtedness.~~ Fat Shark and Rotor Riot ~~have~~ incurred net losses since their acquisition by Red Cat and may fail to achieve or maintain profitability. · **Rising threats of international tariffs, including tariffs applied to goods between the United States and China may materially and adversely affect our business.** · If the proceeds of the ~~prior recent initial public offering (the “IPO”)~~ **and subsequent capital raises** are insufficient to meet our working capital needs, and if we are then not able to obtain sufficient capital, we may be forced to limit the scope of our operations. · If we lose key personnel, it may adversely affect our business. · Conflicts of interest involving our **board of directors (“Board”)** and other parties could materially harm our business. · If we are unable to attract new customers or maintain and grow ~~our Fat Shark and Rotor Riot~~ existing customer relationships in a manner that is cost-effective, our revenue growth could be slower than we expect and our business may be harmed. · Future operating results and key metrics may fluctuate significantly from period-to-period due to a wide range of factors, which makes our future results difficult to predict. · Any failures of or damage to, attack on or unauthorized access to our information technology systems or facilities or disruptions to our continuous operations, including the systems, facilities or operations of third parties with which we do business, such as resulting from cyber-attacks, could result in significant costs, reputational damage and limits on our ability to conduct our business activities. · Our failure to effectively manage our growth could harm our business. · If we are unable to attract, integrate and retain additional qualified personnel, including top technical talent, our business could be adversely affected. · **If we are successful in consummating the Merger, the integration of our business and the Aloft business may disrupt or have a negative impact on our business.**

8 Risks Related to Our Sale of Drone-Related Products and Operations in the Drone Industry · We operate in an emerging and rapidly evolving industry which makes it difficult to evaluate our business and future prospects. · We face competition from larger companies that have substantially greater resources which challenges our ability to establish market share, grow the business, and reach profitability. · ~~The development and manufacture of FPV goggles encompasses several complex processes and several steps of our production processes are dependent upon third party vendors, supply chains, the availability of printed circuit boards (PCBs), optics, and certain chips. Any change in availability of these components, manufacturing or design partners could result in delivery interruptions, which could adversely affect our operating results.~~ Several steps of our production processes are dependent upon certain critical machines and tools which could result in delivery interruptions and foregone revenues. · We may not be able to procure necessary key components for our products or may produce or purchase too much inventory. · We may not be able to keep pace with technological advances; and we depend on advances in technology by other companies. · Lack of long-term purchase orders and commitments from customers may lead to a rapid decline in sales. · Our products require ongoing research and development and may experience technical problems or delays, which could lead the business to fail. · If we are involved in litigation, it could harm our business or otherwise distract management. · Our business is highly dependent upon our brand recognition and reputation, and the failure to maintain or enhance our brand recognition or reputation, including due to our high reliance on online and social media platforms, would likely adversely affect our business and operating results. · Future growth and ability to generate and grow revenue and achieve or maintain profitability may be adversely affected if our marketing initiatives are not effective in generating sufficient levels of brand awareness. · Future acquisitions could disrupt our business and adversely affect our operating results, financial condition and cash flows. · If we incur any future impairment in the carrying value of our goodwill asset or write-off of our general intangibles, it could depress our stock price. · Product quality issues and a higher-than-expected number of warranty claims or returns could harm our business and operating results.

6-Risks Related to Intellectual Property Protection · If third-party intellectual property infringement claims are asserted against us, it may prevent or delay our product development and commercialization efforts and have a material adverse effect on our business and future prospects. · We may depend on intellectual property rights including patent rights that have not yet been and may not be obtained by us, and our intellectual property rights and proprietary rights may not adequately protect our products. · If we lose our rights under our third-party technology licenses, our operations could be adversely affected. · Significant inflation could adversely affect our business and financial results.

9 Risks Related to Government Regulation of Our Operations and Industry · Failure to obtain necessary regulatory approvals from the **DIU**, FAA or other governmental agencies by us, our customers, or

others who use our products, or limitations put on the use of unmanned aircraft systems, or “UAS,” in response to public privacy or safety concerns, may prevent us from expanding the sales of our drone solutions in the United States. ~~— Rising threats of international tariffs, including tariffs applied to goods between the U. S. and China, may materially and adversely affect our business.~~ · We are or may become subject to governmental export and import controls, economic sanctions and other laws and regulations that could subject us to liability and impair our ability to compete in international markets. · If the courts uphold the SEC’s climate change rules, we will incur additional costs which may materially and adversely affect our operating results and financial condition. · If we fail to comply with **United States** U. S. and foreign laws related to privacy, data security, and data protection, it could adversely affect our operating results and financial condition. Risks Related to Our Common Stock · ~~Because Red Cat and our Principal Stockholder own 46.79% and 3.62% of our outstanding common stock after the IPO, the voting power of other stockholders is limited and Red Cat will likely be able to control our business, elect our Board of Directors and otherwise control the Company which control may place their interests ahead of our stockholders’ interests.~~ ~~— Because the Purchase Price for Fat Shark and Rotor Riot exceeded an independent valuation that Red Cat received for the enterprise value of the target companies, you may lose all or part of your investment.~~ ~~— The market price of our shares of common~~ **Common Stock** is subject to fluctuation. · Our stock price may be and has been volatile, which could result in substantial losses to investors. ~~— An active trading market for our common stock may not develop.~~ ~~— Because our sole remedy under the Purchase Agreement in the event of any breaches of representations and warranties is to cancel some or all of the 125,000 shares of our common stock, the value of such shares may be an insufficient remedy.~~ · We are incurring significant additional costs as a result of being a public company, and our management will be required to devote substantial time to compliance with our public company responsibilities and corporate governance practices. · Our failure to maintain effective disclosure controls and internal controls over financial reporting could have an adverse impact on us. · ~~Our Auditor and Red Cat’s auditor recently was subjected to certain significant enforcement actions in Canada. If its ability to perform audits for public companies in the United States is restricted it could have material adverse consequences on the Company and our investors.~~ ~~— Because our common~~ **Common stock Stock** is listed on NYSE American, we are subject to additional regulations and continued requirements. · Our Board of Directors may authorize and issue shares of new classes of stock that could be superior to or adversely affect current holders of our ~~common~~ **Common stock Stock**. · If we raise capital in the future, it may dilute our existing stockholders’ ownership and / or have other adverse effects on us, our securities or our operations. · Common stock eligible for future sale may adversely affect the market. · If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our ~~common~~ **Common stock Stock**, the market price for our ~~common~~ **Common stock Stock** and trading volume could decline. · We and our investors face the implications of our status as an emerging growth company under the federal securities laws and regulations. · We have never paid dividends and we do not expect to pay dividends for the foreseeable future. · Our Certificate of Incorporation contains certain provisions which may result in difficulty in bringing stockholder actions against or on behalf of the Company or its affiliates. **7-10 RISK FACTORS Investing in our Common Stock involves a high degree of risk. Investors should carefully consider the following Risk Factors before deciding whether to invest in the Company. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations or our financial condition. If any of the events discussed in the Risk Factors below occur, our business, consolidated financial condition, results of operations or prospects could be materially and adversely affected. In such case, the value and marketability of our securities could decline.** Risks Related to our Business and Financial Condition Because ~~Fat Shark and Rotor Riot’s auditors have qualified their reports on a going concern basis and with our history of losses, we may not be able to continue operating as a going concern.~~ We have experienced losses from operations since inception and have never generated positive cash flow. The success of our business plan during the next 12 months and beyond will be contingent upon generating sufficient revenue to cover our operating costs. The reports from Fat Shark and Rotor Riot’s independent registered public accounting firm for the fiscal year ended April 30, 2023 and prior years include an explanatory paragraph stating Fat Shark and Rotor Riot have each recurring net losses from operations, negative operating cash flows, and will need additional working capital for ongoing operations. These factors, among others, raise substantial doubt about each of our ability to continue as a going concern. We believe that the net proceeds from our recent IPO in February 2024 and our existing cash will be sufficient to fund our current operating plans through at least the next 12 months. We have based these estimates, however, on assumptions that may prove to be wrong, and we could spend our available financial resources much faster than we currently expect and need to raise additional funds sooner than we anticipate. ~~Because the Company had a very limited operating history prior to its acquisition of Fat Shark and Rotor Riot, any investment in us is highly speculative. We completed our acquisitions of Fat Shark and Rotor Riot simultaneously with the closing of our IPO in February 2024. Both companies, prior to the completion of the acquisitions, were operated by Red Cat since their acquisition by Red Cat in 2020. While the management of each company is expected to remain~~ **remained as employees**, no Red Cat officer, other than Dr. Allan Evans who became our Chief Executive Officer in December 2023, **is joining and our Chief Operating Officer in March 2024, respectively, joined** us. Our management team **is** will be headed by our executive officers ~~including Adrew Camden, our new Chief Operating Officer who joined us from Rotor Riot~~ together with individuals from Fat Shark and Rotor Riot, and our operations going forward are therefore subject to ordinary integration risks where two companies and two cultures are combined. Further, we may not accurately forecast customer behavior and recognize or respond to emerging trends, changing preferences or competitive factors facing us, and, therefore, we may fail to make accurate financial forecasts. Our current and future expense levels are based largely on our budgeted plans and estimates of future revenue. Similarly, if we are able to raise additional funds in future financing transactions, we may use a portion of those proceeds to acquire other operating businesses in our industry or in related industries to facilitate strategic growth and build our market presence and revenue potential. If we do acquire one or more businesses in the future, we may be unable to adjust our spending in a timely manner to compensate for any unexpected revenue shortfall, which could then force us to curtail our

business operations or plan of operations or acquisitions. **Unusual Machines** Additionally, our current revenue projections are based largely on customer and partner relationships and contracts that are still the subject of negotiation, the results of which remain uncertain. In addition to having no experience as a public company, our new operations will be subject to the risk of a lack of diversification, as today we are limited to drone products designed for consumer or recreational use rather than military or industrial applications. In the future, we may diversify our products beyond the consumer and recreational use but the timeline and success of those efforts are uncertain. Our new subsidiaries will lack the support they previously had in terms of their product development and production efforts, as they can no longer access the more vertically integrated resources that were available to them at Red Cat. The risk of this occurring will intensify if a recession occurs in the U. S. or global economy, as our future business is aimed at consumers whose spending patterns will likely decline as a result of inflation and the prospect of an economic downturn. Fat Shark and Rotor Riot must be considered in light of the uncertainties, risks, expenses, and difficulties frequently encountered by companies in their early stages of operations, ~~integration~~ and growth process. ~~Due to~~ **For all** these contingencies **reasons**, we may be unable to achieve or maintain profitability in some or all of our business segments in a timely manner or at all. **11 8** The Company may be unable to repay indebtedness As part of the acquisition Purchase Price, we issued a \$ 2. 0 million Note to Red Cat. The Note bears interest at 8 %. Interest is payable monthly in arrears on the 15th day of each month commencing on March 15, 2024. The principal amount of the note is payable in a lump sum on August 16, 2025. In the event of a qualified financing of debt or equity where the Company receives net proceeds of \$ 5. 0 million in one or more related transactions, Red Cat may require the Company to repay the Note with accrued interest thereon in cash. Upon an event of default, Red Cat may require the Company to convert the Note into shares of our common stock, subject to beneficial ownership limitations set forth in the Note, at a conversion price equal to an amount of the 10 day average VWAP, as defined in the Note prior to the conversion date. On the closing date of the consummation of the acquisition, the parties to the agreed to defer the requirement to provide the Estimated Working Capital Statement (as defined in the Purchase Agreement) and the calculations of the Estimated Working Capital (as defined in the Purchase Agreement), and as applicable, the Estimated Working Capital Excess Amount (as defined in the Purchase Agreement) or the Estimated Working Capital Deficiency Amount (as defined in the Purchase Agreement) required by Section 2. 04 (a) of the Purchase Agreement. Rather, the parties agreed that their respective financial teams will deliver estimated or agreed upon actual calculations of the foregoing (based on the book value of physical inventory and fair value of any transition inventory in accordance with Generally Accepted Accounting Principles) on or before May 17, 2024 (the " Calculation Date "). Any disputes with respect to any calculations including the failure to agree on such calculations by the Calculation Date (unless the Parties shall agree to an extension of the Calculation Date in writing) shall be resolved by an Independent Accounting Firm and the mechanics set forth in Section 2. 04 (c) of Purchase Agreement. No payments or adjustments related to Working Capital was made on the Closing Date. In the event that after determining the actual Working Capital calculation, any actual Working Capital Excess Amount, at Red Cat' s option, will be paid in cash or will increase the principal amount of the Note and any actual Working Capital Deficiency Amount will, at Red Cat' s option, will be paid in cash or will reduce the principal amount of the Note dollar for dollar. This potentially can adversely impact our liquidity or increase the amount of our indebtedness. In order to repay the Note we will need to expend proceeds, obtain additional debt financing, or refinance the Note. There is no guarantee that any refinancing or debt financing will be successful or on favorable terms. Any additional convertible debt or equity financings may be dilutive to our stockholders, and such dilution may be significant based upon the size of such financing. Further, because of our lack of operating history, we may be unable to generate enough capital to fulfill the obligations under the Note issued to Red Cat. If we fail to repay the Note, Red Cat may exercise all rights and remedies owed to it under the Note, including conversion of the Note. If Red Cat converts the Note, our stockholders will experience dilution. Fat Shark and Rotor Riot have incurred net losses since their acquisition by Red Cat and may fail to achieve or maintain profitability. Since their acquisition by Red Cat in 2020, Fat Shark and Rotor Riot incurred net losses for each reported quarter with the exception of Fat Shark which reported a small net income in the quarter ended July 31, 2022. Further, Unusual Machines was formed in July 2019 ~~did and has not conducted~~ **conduct** any active **operational** business. ~~Following~~ **activities until February 2024 after the completion of our IPO and acquisition acquisitions** of Fat Shark and Rotor Riot. **Following our acquisition of Fat Shark and Rotor Riot**, their operations ~~constitutes~~ **constitute** our business. Further, Fat Shark had lower revenues in fiscal year 2023 compared to fiscal year 2022, and Rotor Riot had higher net losses in fiscal year 2023 compared to fiscal year 2022, and generally experiences fluctuating revenue as a result of recurring seasonal sales cycles. We will need to generate higher revenues and control operating costs in order to attain profitability. There can be no assurances that we will be able to do so or to reach profitability. ~~9~~ We expect to continue to incur losses for the foreseeable future and we expect costs to increase in future periods as we expend substantial financial and other resources on, among other things: **· expanding into the B2B channel; · opening a manufacturing facility;** · researching, developing, producing and distributing new products; · sales and marketing, which will require time before these investments generate sales results; · general and administrative expenditures, including significantly increasing expenses in accounting and legal fees related to the increase in the sophistication and resources required for public company compliance and other needs arising from the growth and maturity of the Company; · competing with other companies that are currently in, or may in the future enter, the markets in which we compete; · maintaining high customer satisfaction and ensuring product and service quality; · developing our indirect sales channels and strategic partner network; · maintaining the quality of our technology infrastructure; · establishing and increasing market awareness of our Company and enhancing our brand; **· consummating and integrating acquisitions;** · maintaining compliance with applicable governmental regulations and other legal obligations, including those related to intellectual property and drones; and · attracting and retaining top talent in a competitive labor market. These expenditures may not result in additional revenue or the growth of our business in the manner or to the extent anticipated or intended or at all. If we fail to grow revenue or to achieve or sustain profitability, our business, financial condition, results of operations, and prospects could be materially adversely affected and the market price of our

common ~~Common~~ stock ~~Stock~~ could be adversely affected. ~~of production and sale~~, which imposes the risk of reduced demand for such products and lower sales and resulting revenue. ~~Further~~ ~~In addition~~, ~~additional~~ ~~we do not know if the Biden administration or any subsequent administration will implement any, or alter current~~ tariffs, have been instituted on Chinese products and could see potential additional tariffs in the future ~~a manner adverse to us~~. ~~These~~ Under the current Trump administration, the imposition of additional tariffs fluctuates dramatically and have created uncertainty in the global markets. ~~Future~~ tariffs or any further costs or restrictions imposed on products that we import, could require us to raise our prices ~~on our B2C products~~, which may result in the loss of customers and harm our business, particularly since we rely on consumer spending and our products are typically considered non-essential, and purchases are therefore highly price sensitive. In addition, changes in political conditions in China and changes in the state of China- ~~United States~~ ~~U.S.~~ relations, including any tensions relating to potential military ~~conflict between China and Taiwan~~, are difficult to predict and ~~If the proceeds European Union and other European countries react to the United States tariffs by imposing tariffs on United States made product including our drones, the trade war may make our B2B drone part too expensive. If the tariffs or other factors result in increased inflation and a recession, our business may be materially harmed. A direct impact from rising tariffs on our business will be increases in~~ the IPO prices of inventory we acquire and, most likely, an increase in our selling prices. ~~Further, due to the tariffs and possibly~~ ~~are~~ large cuts in the size of the government, there may be increased unemployment and other economic factors which result in recession. In such event, our B2C business may be materially and adversely affected. ~~Further, our B2B business including our proposed manufacturing of drones in the United States may also be adversely affected by a recessionary economy and inflation. If our existing cash is~~ insufficient to meet our working capital needs, and if we are then not able to obtain sufficient capital, we may be forced to limit the scope of our operations. We expect that our existing cash ~~and net proceeds received from our recent IPO~~ will be sufficient to meet our working capital needs for at least 12 months. However, ~~due to~~ our ~~continued negative cash flow~~ ~~future business is aimed at consumers who face inflation and the possibility of a recession. Accordingly,~~ we may require substantial additional working capital. There can be no assurance that our businesses will reach profitability. If adequate additional debt and / or equity financing is not available on reasonable terms or at all, then we may not be able to continue to develop our business activities, and we will have to modify our business plan. These factors could have a material adverse effect on our future operating results and our financial condition. Our ability to raise financing through sales of equity linked securities depends on general market conditions and the demand for our ~~common~~ ~~Common~~ stock ~~Stock~~. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of stockholders will be diluted, and the terms may include liquidation or other preferences that adversely affect the rights of existing stockholders. Debt transactions often include restrictive covenants that could limit our ability to engage in strategic transactions, acquire complimentary businesses, or adjust to changing market environments as quickly or efficiently as we otherwise would or at all. Further, if adequate financing is not available or is unavailable on acceptable terms, we may find we are unable to fund our planned expansion, ~~continue offering the Fat Shark and Rotor Riot products,~~ take advantage of acquisition opportunities, develop or enhance ~~or our~~ products, or to respond to competitive pressures in the industry which may jeopardize our ability to continue operations. ~~10-13~~ If we lose key personnel, it may adversely affect our business. Our future success depends in large part on the continued contributions of our executive officers, members of senior management and other key personnel, particularly Dr. Allan Evans, our Chief Executive Officer. Dr. Evans' leadership, knowledge and experience in the drone industry is expected to be crucial to our business plan and any future successes and progress we experience. The loss of Dr. Evans' services would therefore materially adversely affect our business and prospects. As a condition to the consummation of the IPO, we obtained "key person" insurance for Dr. Evans but not for any other officers or employees. Our executive officers, senior management and key personnel are all employed on an at-will basis, which means that they could terminate their ~~employment services~~ with us at any time, for any reason and without notice. The loss of any of our key management personnel could significantly delay or prevent the achievement of our development and strategic objectives and adversely affect our business. Conflicts of interest involving our Board and other parties could materially harm our business. Our Board on which we heavily depend are or may become involved in other endeavors giving rise to conflicts of interests that are adverse to the Company. See "~~Management~~" Part III, Item 10. ~~Directors, Executive Officers,~~ and "~~Corporate Governance.~~" Mr. Jeffrey Thompson, a member of our Board ~~is~~ ~~of Directors,~~ also has significant roles and interests in the ~~Chief Executive Officer of Red Cat, a~~ drone industry outside our Company ~~company with which we partner on some of our B2B business~~. These arrangements could cause him to be unable or decline to devote sufficient time and attention to our Company ~~and favor Red at Cat~~ the expense of these other ventures, and / or to face a conflict of interest, financial or otherwise, adverse to us and in favor of ~~Red Cat~~ these other ventures. Accordingly, from time-to-time our directors may not devote sufficient time and attention to our affairs, which could have a material adverse effect on our operating results, and there can be no assurance that other conflicts of interest will not arise from their other business ventures, any of which could materially and adversely impact our business. ~~In addition, the primary contract manufacturer for Fat Shark headsets is Shenzhen Fat Shark Co Ltd. (the "Supplier"), a company located in China which is majority-owned by Molly Mo, who is the wife of Greg French, founder and former owner of Fat Shark prior to its acquisition by Red Cat. Mr. French is no longer affiliated with Fat Shark.~~ Finally, Rotor Riot offers a variety of drone products through its website, which includes a number of product offerings from competitors in the drone industry. While these relationships have enabled us to generate revenue, by virtue of their involvement in the sale of drones and drone-related products these customers also have interests that are adverse to ours, and may determine to reduce their expenditures on our products in the future and / or to vertically integrate their operations to reduce or eliminate their reliance on our products. Any of the foregoing developments could result in materially adverse consequences to our Company, results of operations and financial condition. If we are unable to attract new customers or maintain and grow ~~our~~ ~~Fat Shark and Rotor Riot~~ existing customer relationships in a manner that is cost-effective, our revenue growth could be slower than we expect and our business may be harmed. To increase our revenue

following the acquisition of Fat Shark and Rotor Riot, we must add new customers, upsell to our existing customers, enhance our products with features that set us apart from our competitors, and effectively develop and market new **products including our B2B** products that enable us to maintain and expand our brand and market share. Demand for our products is affected by a number of factors, many of which are beyond our control. Additionally, the projections and estimates about the future success and growth of the drone industry and demand for drone-related products such as ours, could prove to be incorrect, in which case our results of operations and prospects will decline. For example, if a recession occurs in the **United States U.S.** or global economy, we expect that consumer spending, particularly for non-essential goods such as our drone products which are largely focused on recreational uses, may decline, limiting our ability to attract or maintain a sufficient customer base to achieve or maintain the revenue we seek in the development and sale of our products. Even if we do attract customers, the cost of new customer acquisition may prove so high as to prevent us from achieving or sustaining profitability. Our future success also depends on our ability to increase the use of our products and solutions within and across our existing customers and future customers. While we believe there is a significant opportunity to further expand within **our Fat Shark and Rotor Riot's** existing customer base, including due to our planned employment of a "land-and-expand" business model in which we plan to establish relationships with new customers and grow those relationships over time by providing high quality products and services, ~~our~~. **Our** growth prospects depend on our ability to persuade customers to buy more product, and if we fail to do so, our business goals and prospects may not be achieved to the extent sought or anticipated or at all. ~~11-14~~ Future operating results and key metrics may fluctuate significantly from period-to-period due to a wide range of factors, which makes our future results difficult to predict. Our operating results and key metrics could vary significantly from quarter-to-quarter as a result of various factors, some of which are outside of our control, including: **delays in the receipt of orders from customers that are dependent on government orders; the effect that tariffs, a trade war and a potential recession may have on our business; delays in getting Blue List approval for additional drone components that we develop;** the expansion or contraction of our customer base and the amount of **product-products** ordered; the size, duration and terms of our contracts with both existing and new customers, including distributors we contract with ~~particularly as to Fat Shark's sale of FPV goggles~~; seasonality of sales at Rotor Riot which generally has experienced higher sales volumes in October – December than in other three-month periods as a result of holiday purchases and its e-commerce focus; sales cycles which fluctuate and often include delays between the end of one product or solution's cycle and the launch of a new product or solution to replace or supplement the prior offering, ~~which for example significantly impacts Fat Shark's sales as it improves upon and launches new products and shifts focus away from older products~~; the introduction of products and product enhancements by competitors, and changes in pricing for products offered by us or our competitors; customers delaying purchasing decisions in anticipation of new products or product enhancements by us or our competitors or otherwise; changes in customers' budgets; the amount and timing of payment for expenses, including infrastructure, research and development, sales and marketing expenses, employee benefit and stock-based compensation expenses; costs related to the hiring, training and maintenance of our employees; any future impact from ~~COVID-19, including any long-term or pervasive effects of the virus; any future impact from~~ the ongoing geopolitical military ~~conflict~~ **conflicts** (including the war in Israel, the ~~Russian~~ war in Ukraine, **and** tensions between China and Taiwan, ~~and other unrest in the Middle East~~); supply chain issues ~~particularly with the current COVID-19 resurgence in China and Fat Shark's reliance on one related party Chinese supplier~~; political unrest affecting our relationship with China and future tariffs; **15** our lack of a long-term agreement with our suppliers which can affect the availability of parts and future costs; changes in laws and regulations or other regulatory developments that impact our business; the timing and extent of the growth of our business; and general economic and political conditions, both domestically and internationally, as well as economic conditions specifically affecting industries in which our customers operate. Any one of these or other factors discussed elsewhere in this Annual Report ~~on Form 10-K~~ may result in fluctuations in our operating results, meaning that quarter-to-quarter comparisons may not necessarily be indicative of our future performance. ~~12~~ Any failures of or damage to, attack on or unauthorized access to our information technology systems or facilities or disruptions to our continuous operations, including the systems, facilities or operations of third parties with which we do business, such as resulting from cyber-attacks, could result in significant costs, reputational damage and limits on our ability to conduct our business activities. Our operations will depend on information technology infrastructure and computer systems, both internal and external, to, among other things, record and process customer and supplier data, marketing activities and other data and functions and to maintain that data and information securely. In recent years, several organizations have suffered successful cyber-attacks launched both domestically and from abroad, resulting in the disruption of services to customers, loss or misappropriation of sensitive or private data and reputational harm. If we are subject to a cyber-attack, we could suffer a similar breach or suspension in the future. Further, we may be unaware of a prior attack and the damage caused thereby until a future time when remedial actions cannot be taken. Cyber-threats are often sophisticated and are continually evolving. We may not implement effective systems and other measures to effectively identify, detect, prevent, mitigate, recover from or remediate the full diversity of cyber-threats or improve and adapt such systems and measures as such threats evolve and advance in their ability to avoid detection. A cyber-security incident, or a failure to protect our technology infrastructure, systems and information and our customers, suppliers and others' information against cyber-security threats, could result in the theft, loss, unauthorized access to, disclosure, misuse or alteration of information, system failures or outages or loss of access to information. The expectations of our customers and regulators with respect to the resiliency of our systems and the adequacy of our control environment with respect to such systems may increase as the risk of cyber-attacks, and the consequences of those attacks become more pronounced. We may not be successful in meeting those expectations or in our efforts to identify, detect, prevent, mitigate and respond to such cyber-incidents or for our systems to recover in a manner that does not disrupt our ability to provide products and services to our customers or product personal, private or sensitive information about our business, customers or other third parties. In July 2023, the **Securities and Exchange Commission (the "SEC")** approved final rules requiring public companies to report

material cybersecurity incidents and disclose their cybersecurity risk management, strategy and governance. The new rules ~~will require~~ **required** us to enhance our cybersecurity compliance efforts and have the effect of causing us to expend funds to prevent material cybersecurity incidents and begin making cybersecurity- related periodic and annual disclosures. Specifically, the new rules impose a new Form 8- K disclosure requirement about material cybersecurity incidents within four business days after we determine that a cybersecurity is material. Annually we will be required to disclose in our 10- K our processes, if any, to assess, identify and manage material risks from cybersecurity threats including whether we have hired third parties in connection with the processes. We also will be required to disclose whether any risks from cybersecurity threats have or are materially reasonably likely to materially affect us. Finally we must describe our ~~board~~ **Board of directors'** oversight of risks from cybersecurity threats and management' s role in assessing and managing these risks. We expect to incur material additional compliance and reporting costs, including monitoring, collecting, and analyzing data concerning cyber- security incidents and evaluating and preparing the required disclosure. We may also be required to incur third party compliance costs. **16** The failure to maintain an adequate technology infrastructure and applications with effective cyber- security controls could impact operations, adversely affect our financial results, result in loss of business, damage our reputation or impact our ability to comply with regulatory obligations, leading to regulatory fines and sanctions. We may be required to expend significant additional resources to modify, investigate or remediate vulnerabilities or other exposures arising from cyber- security threats. Failing to prevent or properly respond to a cyber- attack could expose us to regulatory fees or civil liability, cause us to lose customers or suppliers, prevent us from offering our products including due to resulting regulatory action, impair our ability to maintain continuous operations, and inhibit our ability to meet regulatory requirements. **13** Our failure to effectively manage our growth could harm our business. Businesses, including development stage companies such as ours which often grow rapidly, may have difficulty managing their growth. These challenges are exacerbated in circumstances such as ours following ~~our a recent~~ acquisition of operating businesses **and will be continued if we close any acquisitions including the Aloft Merger**. We intend to expand the number and types of products we sell as we grow, if and as capital becomes available. Further, because of our reliance on consumer spending which depends on novelty and social trends, and the rapid and constant technologically advancements that characterize our industry, we are subject to periodic sales cycles. ~~We , and we will therefore~~ need to replace and regularly introduce on a timely basis new products and technologies, enhance existing products, and effectively stimulate customer demand for new products and upgraded or enhanced versions of our existing products. Similarly, because our product offerings are largely dependent on others' drone- related products and activities, we may need to adjust or update as third parties advance or alter their technology and activities. If we are able to successfully develop, produce and market our products **and initiate our planned manufacturing business**, we will likely need to incur additional expenditures and expand our personnel with additional employees and consultants who are capable of providing the necessary support. We cannot assure you that our management will be able to manage our growth effectively or successfully. The replacement and expansion of our products is expected to place a significant strain on our management, operations and engineering resources. Specifically, the areas that are strained most by these activities include the following:

- New Product Launches: With the changes in and growth of our product portfolio, we will experience increased complexity in coordinating product development, manufacturing, and shipping. As this complexity increases, it places a strain on our ability to accurately coordinate the commercial launch of our products with adequate supply to meet anticipated customer demand and effectively market to stimulate demand and market acceptance. We may experience delays in our operations or product development or production efforts. If we are unable to scale and improve our product launch coordination, we could frustrate our customers and reduce or delay product sales;
- Existing Products Impacted by New Introductions: The introduction of new products or product enhancements may shorten the life cycle of our existing products, or replace sales of some of our current products, thereby offsetting the benefit of even a successful product introduction and may cause customers to defer purchasing our existing products in anticipation of the new products and potentially lead to challenges in managing inventory of existing products. We may also provide price protection to some of our retailers as a result of our new product introductions and reduce the prices of existing products. Granting these rights exposes us to greater risk of operational losses, as they limit our ability to react and adapt to changing economic conditions, such as rising costs caused by supply chain shortages. If we fail to effectively manage new product introductions, our revenue and ability to become profitable may be harmed; and
- Forecasting, Planning and Supply Chain Logistics: With the changes in and growth of our product portfolio, we will experience increased complexity in forecasting customer demand, in planning for production, and in transportation and logistics management. If we are unable to scale and improve our forecasting, planning, production, and logistics management, we could frustrate our customers, lose product sales or accumulate excess inventory. **Because we rely on a limited number of suppliers, including one key supplier, for our component parts our business may be adversely affected.** The drone industry relies on limited sources to supply certain components and materials used in the manufacturing of drones. Our intention is to purchase certain components **or sub- components** from suppliers based in the United States, which may lead us to pay higher prices, or select parts from a more limited number of suppliers relative to our competitors, which would adversely impact our gross margin and operating results. **In addition, the imposition of tariffs by the United States and a trade war with China will significantly increase the cost of our component parts. We will also be forced to increase prices to our customers which could result in decreased sales, especially if there is an economic recession**. Our operating results could be materially adversely impacted if our suppliers do not provide the critical components used to assemble our products on a timely basis, at a reasonable price, and in sufficient quantities. **17** Our ability to meet customer demand depends, in part, on our ability to obtain timely and adequate delivery of components for our products. ~~All of the components that go into the manufacturing are sourced from third- party suppliers.~~ **14** Some of the key components used to manufacture our products come from a limited or single source of supply, or by a supplier that could potentially become a competitor. Our contract manufacturers generally purchase these components on our behalf from approved suppliers. We are subject to the risk of shortages and long lead times in the supply of these components and the risk that our suppliers discontinue or modify

components used in our products. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities and delivery schedules. If we lose access to components from a particular supplier or experience a significant disruption in the supply of products and components from a current supplier, we may be unable to locate alternative suppliers of comparable quality at an acceptable price, or at all, and our business could be materially and adversely affected. In addition, if we experience a significant increase in demand for our products, our suppliers might not have the capacity or elect not to meet our needs as they allocate components to other customers. Developing suitable alternate sources of supply for these components may be time-consuming, difficult and costly, and we may not be able to source these components on terms that are acceptable to us, or at all, which may adversely affect our ability to meet our development requirements or to fill our orders in a timely or cost-effective manner. Identifying a suitable supplier is an involved process that requires us to become satisfied with the supplier's quality control, responsiveness and service, financial stability, labor and other ethical practices, and if we seek to source materials from new suppliers, there can be no assurance that we could do so in a manner that does not disrupt the manufacture and sale of our products. Our reliance on single source, or a small number of suppliers involves a number of additional risks, including risks related to supplier capacity constraints, price increases, timely delivery, component quality, failure of a key supplier to remain in business and adjust to market conditions, delays in, or the inability to execute on, a supplier roadmap for components and technologies; and natural disasters, fire, acts of terrorism or other catastrophic events, including global pandemics. Certain components and services necessary for the manufacture of our products are available from only a limited number of sources, and other components and services are only available from a single source. Our relationship generally is on a purchase order basis and these firms do not have a contractual obligation to provide adequate supply or acceptable pricing to us on a long-term basis. These suppliers could discontinue sourcing merchandise for us at any time. If any of these suppliers were to discontinue its relationship with us, or discontinue providing specific products to us, and we are unable to contract with a new supplier that can meet our requirements, or if they or such other supplier were to suffer a disruption in their production, we could experience disruption of our inventory flow, a decrease in sales and the possible need to re-design our products. Any such event could disrupt our operations and have an adverse effect on our business, financial condition and results of operations. Several new and alternative suppliers have begun offering components suitable for use in our products. With new tooling and electronics, any one of these alternative components could be incorporated into our products but our costs could be higher, they may offer less performance, and, as a result, make our products too costly and less desirable. If we are unable to attract, integrate and retain additional qualified personnel, including top technical talent, our business could be adversely affected. Our future success depends in part on our ability to identify, attract, integrate and retain highly skilled technical, managerial, sales and other personnel, particularly as we attempt to expand our operations and further develop and market our products. We face intense competition for a limited number of qualified individuals with the requisite skills and experience from numerous other companies, including other software and technology companies, many of whom have greater financial and other resources than we do. These companies also may provide more diverse opportunities and better chances for career advancement. Some of these characteristics may be more appealing to high-quality candidates than those we have to offer. In addition, new hires often require significant training and, in many cases, take significant time before they achieve full productivity. We may incur significant costs to attract and retain qualified personnel, including significant expenditures related to salaries and benefits and compensation expenses related to equity awards, and we may lose new employees to competitors or other companies before we realize the benefit of our investment in recruiting and training them. Moreover, new employees may not be or become as productive as we expect, as we may face challenges in adequately or appropriately integrating them into our workforce and culture. In addition, ~~as if~~ we move into new geographies, we will need to attract and recruit skilled personnel in those areas. We have limited experience with recruiting in geographic areas outside of the United States, and may face additional challenges in attracting, integrating and retaining international employees. If we are unable to attract, integrate and retain suitably qualified individuals who are capable of meeting our growing technical, operational and managerial requirements, on a timely basis or at all, our business will be adversely affected. ~~Additionally, the~~ **18 Our new manufacturing business has inherent risks that may adversely impact us. The Company has hired a vice president of manufacturing whose role is to head up the Company's proposed drone component manufacturing business. The Company also plans to lease an additional facility near its headquarters office in Orlando, Florida, at which it will operate out of multiple locations manufacture NDAA compliant drone motors. There are inherent risks in connection with launching our component manufacturing business, which including include Florida:** · the need to expend working capital to purchase manufacturing equipment; rent a facility and to hire personnel with the requisite skills to fabricate our drones which could initially have and- an Puerto Rico subjecting it- adverse effect on our working capital; · to local labor market conditions the extent that there are delays in receiving the requisite equipment necessary to manufacture our drones and component parts, our customers for our products may seek alternative manufacturers and our manufacturing business could be adversely affected; · to the extent that any of the equipment that we purchase is sourced overseas, we may be impacted by tariffs imposed by the current administration; and · the manufacturing equipment that we acquire may have bugs or may not be in sound working order and the products we manufacture may not be manufactured in accordance with our or our customers specifications, which result in conflicts with customers, the loss of revenues or damage to our reputation . ~~15~~ Risks Related to Our Sale of Drone- Related Products and Operations in the Drone Industry. We operate in an emerging and rapidly evolving industry which makes it difficult to evaluate our business and future prospects. The drone industry is relatively new and is growing rapidly. As a result, it is difficult to evaluate our business and future prospects. We cannot accurately predict whether, and even when, demand for our products will increase, if at all. The risks, uncertainties and challenges encountered by companies operating in emerging and rapidly growing industries include: · generating sufficient revenue to cover operating costs and sustain operations; · acquiring and maintaining market share; · attracting and retaining qualified personnel; · successfully developing and commercially marketing new products; · complying with **challenging supply**

chain issues which may arise; · complying with development-developing regulatory requirements; · the possibility that favorable estimates or projections prove to be incorrect; · responding effectively to changing technology, evolving industry standards, and changing customer needs or requirements; and · accessing the capital markets to raise additional capital, on reasonable terms, if and when required to sustain operations or to grow the business. As such, our current expectations and projects about future events and trends may be different from the actual results. Furthermore, if we are unable to address any of the above challenges successfully, our business, financial condition, results of operations, and prospects may be adversely affected by such failure. **19** We face competition from larger companies that have substantially greater resources which challenges our ability to establish market share, grow the business, and reach profitability. The drone industry is attracting a wide range of significantly larger companies which have substantially greater financial, management, research and marketing resources than we have. The drone hardware and parts and components spaces are dominated by larger Chinese companies such as SZ DJI Technology Company, Ltd and T- Motor. With respect to our FPV products, current and potential future competitors also include a variety of established, well- known diversified consumer electronics manufacturers such as Samsung, Sony, LG Electronics (LGE), HTC, Lenovo, Epson, Yuneec, Boscam, Eachine, Walkera, SkyZone, MicroLED and large software and other products companies such as Alphabet Inc. (Google), Microsoft, Facebook and Snap. The large number of smaller and / or private companies focused on drone solutions also have competitive advantages over us which we may struggle to overcome, particularly as we seek to further establish and grow our customer base. Our competitors may be able to provide customers with different or greater capabilities than we can provide, including technical qualifications, pricing, and key technical support. Many of our competitors may utilize their greater resources to develop competing products and technologies, leverage their financial strength to utilize economies of scale and offer lower pricing, and hire more qualified personnel by offering more generous compensation packages. On the other hand, other small business competitors may be able to offer more cost competitive solutions or may be able to adapt more quickly to market developments due to lower overhead costs, leveraging of their professional relationships and networks, geographic or specialty focuses or greater flexibility inherent in smaller operations and a lower number of personnel. Among product and service features that drive competition in our industry are breadth of product line, quality and durability of products, stability, reliability and reputation of the provider, along with cost. Quantity discounts, price erosion, and rapid product obsolescence due to technological improvements are therefore common in our industry as competitors strive to retain or expand market share. The Company' s ability to compete effectively will depend on, among other things, the Company' s pricing models, quality of customer service, development of new and enhanced products and services in response to customer demands and changing technology, reach and quality of sales and distribution channels and capital resources. Competition could lead to an inability to sustain sales levels, a reduction in the rate at which the Company adds new customers, a decrease in the size of the Company' s market share and a decline in its customers and revenue. In order to secure sales, we may have to offer comparable products and services at lower pricing, which could adversely affect our operating margins. Our inability to compete effectively against these larger companies could have a material adverse effect on our business, financial condition and operating results. **16** The development and manufacture of FPV goggles encompasses several complex processes and several steps of our production processes are dependent upon third party vendors, supply chains, the availability of **printed circuit boards (PCBs)**, optics, and certain chips. Any change in availability of these components, manufacturing or design partners could result in delivery interruptions, which could adversely affect our operating results. As we continue to develop our products, we must progress through the complex and challenging processes involved in the technology and designs on which Fat Shark and Rotor Riot products are founded. Fat Shark and Rotor Riot rely on third party suppliers for the resources needed to navigate these processes and expect to continue to rely on such parties when we reach the manufacturing and marketing stages. Our reliance on third- party manufacturers and service providers will entail risks to which we may not be subject if our future operations were more vertically integrated, including: · the ongoing supply chain shortages, and any future supply chain and logistics challenges that we or our vendors may face in the future, including due to the reliance on lithium- ion batteries and other materials for our products; · the inability to meet any product specifications and quality requirements consistently; · **a delay or the impact of tariffs, the inability availability to procure or expand sufficient manufacturing capacity of United States supply sources and the impact of higher prices**; · discontinuation or recall of products or component parts; · manufacturing and product quality issues related to scale- up of manufacturing; **20** · costs and validation of new equipment and facilities required for scale- up; · a failure to comply with applicable regulatory and safety standards in the **United States U.S.** and foreign markets in which we or our collaborators operate; · the inability to negotiate manufacturing and service agreements with third parties under commercially reasonable terms; · the possibility of breach or termination or nonrenewal of agreements with third parties in a manner that is costly or damaging to us; · we do not always execute definitive written agreements with our vendors, particularly those located in China, which exposes us to possible disputes concerning the existence or terms of our agreements and our intellectual property rights; · the reliance on a few sources, and sometimes, single sources for raw materials and components, such that if we cannot secure a sufficient supply of these product components, we cannot manufacture and sell products in a timely fashion, in sufficient quantities or under acceptable terms; · **the lack of qualified backup suppliers for any raw materials currently purchased from a small number of source suppliers**; · operations of our third- party manufacturers, suppliers or service providers could be disrupted by conditions unrelated to our business or operations, including the bankruptcy of the party; · carrier disruptions or increased costs beyond our control; · possible misappropriation of our proprietary technology; and · failing to deliver products under specified storage conditions and in a timely manner. **Our** **17** Given our early stages, our product technology and manufacturing processes are evolving, which can result in production challenges and difficulties. We may be unable to produce our products in sufficient quantity and quality to maintain existing customers and attract new customers. In addition, we may experience manufacturing problems which could result in delays in delivery of orders or product introductions. Any of these events could lead to production and marketing delays or failure or impact on our ability to successfully commercialize our products. If we fail to

contract with third parties on favorable terms, coordinate with and supervise their services and contributions to our processes, and leverage those relationships to deliver quality products in a timely manner to customers, we could experience reductions or delays in revenue, reputational harm and diminished brand recognition, higher than expected expenses, or other adverse developments that would materially harm our business. Several steps of our production processes are dependent upon certain critical machines and tools which could result in delivery interruptions and foregone revenues. Fat Shark currently has no equipment redundancy to manufacture its products, meaning we will rely on a limited number of machines to perform a large quantity of steps in the manufacturing and assembly processes. Rotor Riot is limited by the number of personnel it has on staff to assemble custom drones **and drone parts**. This may, among other things, delay delivery timelines or reduce our revenue and accounts receivable, and / or force us to rely more heavily on third parties to meet customer deadlines or volume demands, either of which will adversely affect our results of operation and ability to achieve and maintain profitability. If we experience any significant disruption in **manufacturing assembling**, a **serious** failure of a critical piece of equipment, or an inability to hire personnel, we may be unable to supply products to our customers in a timely manner. Interruptions **in our manufacturing** could be caused by us or our partners including but not limited to equipment problems, the introduction of new equipment into the manufacturing process or delays in the delivery of new **manufacturing** equipment. Lead- time for delivery, installation, testing, repair and maintenance of **manufacturing** equipment can be extensive. We can provide no assurances that we will not lose potential sales or be able to meet production orders due to future production interruptions in our manufacturing lines. **When we commence manufacturing drones, the same risks will apply. 21** We may not be able to procure necessary key components for our products or may produce or purchase too much inventory. The drone industry, and the electronics industry as a whole, can be subject to business cycles. During periods of growth and high demand for products, we may not have adequate supplies of inventory on hand to satisfy customers' needs. **The imposition of tariffs and a trade war may also impact our supply chain for component parts from China**. Furthermore, during these periods of growth, our suppliers may also experience high demand and, therefore, may not have adequate levels of the components and other materials that the Company requires to manufacture products so that it can meet customers' needs. Our inability to secure sufficient components to produce products for customers, or similar challenges faced by the drone manufacturers we serve, could negatively impact our sales and operating results. We may choose to mitigate this risk by increasing the levels of inventory for certain key components assuming we have available cash resources. Increased inventory levels can increase the potential risk for excess and obsolescence should our forecasts fail to materialize or if there are negative factors impacting our customers' end markets. Such a risk becomes especially prevalent during a recession and market downturn. If we purchase too much inventory, we may have to record additional inventory reserves or write- off the inventory, which could have a material adverse effect on our gross margins and on our results of operations. ~~We may not be able to keep pace with technological advances, and we depend on advances in technology by other companies. The drone industry in general, and the market for the sale of drone hardware and component parts in particular, continues to undergo significant changes, primarily due to technological developments. Because of the rapid growth and advancement of technology, shifting consumer tastes and the popularity and availability of other forms of activities, it is impossible to predict the overall effect these factors could have on potential revenue from, and profitability of the drone industry. The development of both drone- related software and hardware is a costly, complex and time- consuming process, and investments in product development often involve a long wait until a return, if any, can be achieved on such investment. We might face difficulties or delays in the development process that will result in our inability to timely offer products that satisfy the market, which might allow competing products to emerge during the development and certification process. We anticipate making significant investments in research and development relating to our products and technology, but such investments are inherently speculative and require substantial capital expenditures. Any unforeseen technical obstacles and challenges that we encounter in the research and development process could result in delays in or the abandonment of product commercialization, may substantially increase development costs, and may negatively affect our results of operations. In the time it takes to develop or improve upon a product, that product may become obsolete. 18 It is impossible to predict the overall effect these factors could have on our ability to compete effectively in a changing market, and if we are not able to keep pace with these technological advances, then our revenues, profitability and results from operations may be materially adversely affected. It is impossible to predict the overall effect these factors could have on our ability to compete effectively in a changing market, and if we are not able to keep pace with these technological advances, then our revenues, profitability and results of operations may be materially adversely affected. However, if we struggle to adapt to an industry- shifting technological advancement or competitor offerings that render our products relatively less attractive or obsolete, including due to competitive pressures we face relative to other drone companies, it could have a material adverse effect on our business. Further, we rely on and will continue to rely on components of our products that are developed and produced by other companies over which we have limited control. The commercial success of certain of our planned future products will depend in part on advances in these and other technologies by other companies, and our ability to procure them from such third parties in a timely manner and on economically feasible terms. We may, from time- to- time, contract with and support companies developing key technologies in order to accelerate the development of such products for our specific uses. Such activities might not result in useful technologies or components for us. Lack of long- term purchase orders and commitments from customers **in our B2C business** may lead to a rapid decline in sales. **Our B2C** Customers **customers** issue purchase orders or use our e- commerce site solely at their own discretion, often shortly before the requested date of shipment. Both our distributor relationships ~~through Fat Shark~~ and our online sales through Rotor Riot entail short- term contracts under which customers are generally able to cancel orders (without penalty) or delay the delivery of products on relatively short notice, regardless of whether or not we are in default under our agreements. The online business involves retail customers who are not likely to be repeat customers unless a need arises for updated hardware or software solutions offered by us, which may not occur on a frequent basis, resulting in lack of reliable recurring revenue in that part of our business. In addition, current customers may decide not to purchase products for any reason. If those customers do~~

not continue to purchase products, sales volume could decline rapidly with little or no warning. We cannot rely on long-term purchase orders or commitments to protect from the negative financial effects of a decline in demand for products. **Unusual Machines Fat Shark and Rotor Riot** typically **plan plans** production and inventory levels based on internal forecasts of customer demand, which are highly unpredictable and can fluctuate substantially. **Component Fat Shark** resellers issue purchase orders but they have options to reschedule or pay cancellation fees. The uncertainty of product orders makes it difficult to forecast sales and allocate resources in a manner consistent with actual sales. Moreover, expense levels and the amounts invested in capital equipment and new product development costs are based in part on expectations of future sales and, if expectations regarding future sales are inaccurate, we may be unable to reduce costs in a timely manner to adjust for sales shortfalls. As a result of lack of long-term purchase orders and purchase commitments, and long product development lead times, we may experience a rapid decline in sales. As a result of these and other factors, investors should not rely on revenues and operating results for any one quarter or year as an indication of future revenues or operating results. **Further, our B2C business is seasonal with retail sales peaking in the fourth quarter.** If quarterly revenues or results of operations fall below expectations of investors or public market analysts, the price of our **common Common stock Stock** could fall substantially. Our products require ongoing research and development and may experience technical problems or delays, which could lead the business to fail. Our future research and development efforts will remain subject to all of the risks associated with the development of new products based on emerging and innovative technologies, including, for example, unexpected technical problems or the possible insufficiency of funds for completing development of these products. If technical problems or delays arise, further improvements in products and the introduction of future products could be adversely impacted, and we could incur significant additional expenses and the business may fail. Additionally, we may deploy significant capital or human resources towards developing or improving upon a product, only for such efforts fail to yield the results we hoped for or intended, which would materially adversely affect our financial condition. This is an acute risk given the relatively new and evolving nature of the drone industry, and constant entrance of new market participants attempting to compete with us. Similarly, if we invest in product research and development efforts and a competitor brings a similar product to market before us, or alleges an infringement of their intellectual property, our ability to market the product or compete effectively could be lost. Any such development could materially harm our business. **19**

22 If we are involved in litigation, it could harm our business or otherwise distract management. If we become a party to a substantial, complex or extended litigation, it could cause us to incur large expenditures and could distract management. For example, lawsuits by licensors, consumers, employees or stockholders or litigation with federal, state or local governments or regulatory bodies could be very costly and disrupt business. As described elsewhere in these Risk Factors, our operations and products, as well as those of our customers, collaborators and product end-users, come with the inherent possibility of lawsuits arising from product liability, property damage and personal injury, breach of contract and product warranty claims, intellectual property infringement, regulatory violations and sanctions, and data privacy issues, any of which can result in costly and time-consuming litigation which would divert our limited human and capital resources and could cause other adverse impacts on our business such as reputational harm and loss of future business. While disputes from time-to-time are not uncommon, we may not be able to resolve such disputes on terms favorable to us which could have a material adverse impact on our results of operations and financial condition. Among other things, claims could be brought against us if use and misuse of our products causes personal injury or death. If a consumer causes damage to a person or property using our drone, we as a reseller of the drone could be sued for selling an allegedly defective product. The possibility that the foregoing events occur from events involving our products is particularly high, because we supply technology used in the operation of drones which is relatively novel and are frequently operated at high speeds and altitudes, and often in densely populated areas and / or by individuals who lack a high level of experience operating them. These characteristics increase the probability that injury or damage to personal property might occur, even absent a defect. Additionally, because **our Fat Shark's** products are used as ancillary or supplemental components of a drone's functions, we may become involved in disputes arising from a third party's actions or products that utilize its technology, even if we were not the direct cause of the issue. Any claims against us, regardless of their merit, could severely harm our financial condition, strain our management and other resources. Product liability claims might be brought against us by customers, civilians or private entities or others using or otherwise coming into contact with our products. If we cannot successfully defend against product liability claims, we could incur substantial liability and costs. Regardless of merit or eventual outcome, product liability claims may cause: · impairment of our business reputation; · costs due to related litigation especially since we do not have product liability insurance; · distraction of management's attention from our primary business; · substantial monetary awards to claimants or civil penalties imposed by governments; · regulatory scrutiny and product recalls, withdrawals or labeling, marketing or promotional restrictions; and · decreased demand for our products. We anticipate the risk of product liability and other claims related to our products and their uses will grow as our products begin to be used. We are unable to predict if we will be able to obtain or maintain insurance for such claims. Insurance coverage is becoming increasingly expensive. We do not have such insurance and we may not be able to obtain it at a reasonable cost or in sufficient amounts to protect us against losses due to liability. A successful product liability claim or series of claims brought against us could cause our stock price to decline and, would adversely affect our results of operations and business. **20-23**

Our business is highly dependent upon our brand recognition and reputation, and the failure to maintain or enhance our brand recognition or reputation, including due to our high reliance on online and social media platforms, would likely adversely affect our business and operating results. We believe that maintaining and enhancing Fat Shark and Rotor Riot brand identity, and our reputation are critical to our relationships with customers and strategic partners and to our ability to attract new customers and strategic partners. We also believe that the importance of our brand recognition and reputation will continue to increase as competition in our market continues to develop. Our success in this area will depend on a wide range of factors, some of which are beyond our control, including the following: · the efficacy of our marketing efforts; · our ability to obtain new customers and retain and / or expand sales or upsell to existing customers; · our ability to maintain high customer satisfaction; · the quality and

perceived value of our products; · our ability to obtain, maintain and enforce patents and trademarks and other indicia of origin ; ~~including those we expect to obtain through the acquisition of Fat Shark and Rotor Riot~~, will be critical to our business plan; · our ability to successfully differentiate from competitors' products; · actions of competitors and other third parties; · our ability to provide customer support and professional services; · positive or negative publicity; · litigation or regulatory related developments. Any of the foregoing developments or an inability to navigate these or other challenges to establish and grow our brand recognition and current and future product popularity could materially adversely affect us. In addition, particularly with respect to Rotor Riot, we are highly dependent on online social media platforms such as Facebook, Instagram and YouTube to advertise our products, market our brand and develop and maintain customer loyalty. Each of these platforms requires that users adhere to strict terms and conditions governing content, communications and other activities on their platform, which are generally heightened for commercial uses such as ours. If we or third parties such as drone pilots who Rotor Riot uses to market our products online fail to adhere to these requirements, we could be limited, restricted or banned from some or all uses, which would materially adversely affect our business. ~~21-24~~ Future growth and ability to generate and grow revenue and achieve or maintain profitability may be adversely affected if our marketing initiatives are not effective in generating sufficient levels of brand awareness. Our future growth and profitability will depend in large part upon the effectiveness and efficiency of our marketing efforts, including our ability to: · create awareness of brands and products; · convert awareness into actual product purchases; · effectively manage marketing costs (including creative and media) in order to maintain acceptable operating margins and return on marketing investment; and · successfully offer to sell products or license technology to third- party companies for sale. Planned marketing expenditures are unknown and may not result in increased total sales or generate sufficient levels of product and brand name awareness. We may not be able to manage marketing expenditures on a cost-effective basis. ~~Future acquisitions could disrupt our business and..... stock price could be adversely affected.~~ Product quality issues and a higher- than- expected number of warranty claims or returns could harm our business and operating results. The products that we sell could contain defects in design or manufacture. There can be no assurance we will be able to detect and remedy all defects in the hardware we sell, which could result in product recalls, product redesign efforts, loss of revenue, reputational damage and significant warranty and other remediation expenses. Similar to other mobile and consumer electronics, our products have a risk of overheating in the course of usage or upon malfunction. Any such defect could result in harm to property or in personal injury. If we determine that a product does not meet product quality standards or may contain a defect, the launch of such product could be delayed until we remedy the quality issue or defect. The costs associated with any protracted delay necessary to remedy a quality issue or defect in a new product could be substantial. ~~We 23 Fat Shark and Rotor Riot~~ generally provide a one- year warranty on all of our ~~Fat Shark~~ products, except in certain European countries where it can be two years for some consumer- focused products. The occurrence of any material defects in our products could expose us to liability for damages and warranty claims in excess of our current reserves, and we could incur significant costs to correct any defects, warranty claims or other problems. In addition, if any of our product designs are defective or are alleged to be defective, we may be required to participate in a recall campaign. In part due to the terms of our warranty policy, any failure rate of our products that exceeds our expectations may result in unanticipated losses. Any negative publicity related to the perceived quality of our products could affect our brand image and decrease retailer, distributor and consumer confidence and demand, which could adversely affect our operating results and financial condition. Further, accidental damage coverage and extended warranties are regulated in the United States at the state level and are treated differently within each state. Additionally, outside of the United States, regulations for extended warranties and accidental damage vary from country- to- country. Changes in interpretation of the regulations concerning extended warranties and accidental damage coverage on a federal, state, local or international level may cause us to incur costs or have additional regulatory requirements to meet in the future in order to continue to offer our support services. Our failure to comply with past, present and future similar laws could result in reduced sales of our products, reputational damage, penalties and other sanctions, which could harm our business and financial condition. Estimated future product warranty claims may be based on a variety of factors including the expected number of field failures over the warranty commitment period, the term of the product warranty period, and the costs for repair, replacement and other associated costs. Because of the foregoing or other contingencies, these estimates could prove to be incorrect, such that our warranty obligations are higher than anticipated. Our warranty obligations may be affected by product failure rates, claims levels, material usage and product re- integration and handling costs. Should actual product failure rates, claims levels, material usage, product re- integration and handling costs, defects, errors, bugs or other issues differ from original estimates, we could end up incurring materially higher warranty or recall expenses than we anticipate, which would materially adversely affect our business. **25 Risks Related to Acquisitions Because Aloft may not meet closing conditions we may not be successful in consummating the Merger On February 1, 2025, the Company entered into a Merger Agreement to acquire Aloft. The merger is for \$ 14. 5 million payable, almost entirely in the Company' s Common Stock with the issuance of approximately 1, 204, 319 shares of Common Stock and approximately \$ 100, 000 in cash. Customary closing conditions by the parties must be completed before closing the merger which include Aloft obtaining stockholder approval, the delivery by Aloft of its audited financial statements acceptable to the Company, and the receipt of certain third- party consents. There can be no assurances that the Aloft merger will close. If we are successful in consummating the Merger, the integration of our business and the Aloft business may disrupt or have a negative impact on our business. Achieving the anticipated benefits of the Merger will depend in significant part upon whether we are able to integrate our combined business in an efficient and effective manner. The actual integration may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be realized. The companies may not be able to accomplish the integration process smoothly, successfully or on a timely basis. The necessity of coordinating geographically separated organizations, managements, systems of controls, and facilities and addressing possible differences in business backgrounds, corporate cultures and management philosophies may increase the difficulties of integration. We and Aloft**

operate numerous systems and controls, including those involving management information, purchasing, accounting and finance, sales, billing, employee benefits, payroll and regulatory compliance. The integration of operations following the Merger and future acquisitions will continue to require the dedication of significant management and external resources, which may distract management's attention from the day-to-day business of the Company and be costly. Employee uncertainty and lack of focus during the integration process may also disrupt our business. Any inability of management to successfully and timely integrate the operations of the two companies could have a material adverse effect on our business and results of operations. In addition, for the year ended December 31, 2024, Aloft had a net loss of \$ 841, 112 and net cash used in operating activities was negative \$ 419, 591. Accordingly, the Merger could have a negative impact on our cash flow. Future acquisitions could disrupt our business and adversely affect our operating results, financial condition and cash flows. We may make acquisitions that could be material to our business, operating results, financial condition and cash flows. Our ability as an organization to successfully acquire and integrate technologies or businesses is unproven. Acquisitions involve many risks, including the following:

- an acquisition may negatively affect our operating results, financial condition or cash flows because it may require us to incur charges or assume substantial debt or other liabilities, may cause adverse tax consequences or unfavorable accounting treatment, may expose us to claims and disputes by third parties, including Intellectual Property claims and disputes, or may not generate sufficient financial return to offset additional costs and expenses related to the acquisition;
- We may incur substantial costs and deploy a significant amount of time and other resources towards a prospective transaction that does not close, either of which could materially harm our financial condition;
- we may encounter difficulties or unforeseen expenditures in integrating the business, technologies, products, contracts, personnel or operations of any company that we acquire, particularly if key personnel of the acquired company decide not to work for us;
- an acquisition may disrupt our ongoing business, divert resources, increase our expenses and distract our management;
- an acquisition may result in a delay or reduction of customer purchases for both us and the company we acquired due to customer uncertainty about continuity and effectiveness of service from either company;
- 26 · we may encounter difficulties in, or may be unable to, successfully sell any acquired products;
- 22 · an acquisition may involve the entry into geographic or business markets in which we have little or no prior experience or where competitors have stronger market positions;
- the potential strain on our financial and managerial controls and reporting systems and procedures;
- potential known and unknown liabilities associated with an acquired company, including due to a non-disclosure or failure to identify such liabilities during the due diligence process prior to closing an acquisition;
- if we incur debt to fund such acquisitions, such debt may subject us to material restrictions on our ability to conduct our business as well as financial maintenance covenants;
- the risk of impairment charges related to potential write-downs of acquired assets or goodwill in future acquisitions;
- to the extent that we issue a significant amount of equity or convertible debt securities in connection with future acquisitions, existing stockholders may be diluted and earnings per share may decrease; and
- managing the varying intellectual property protection strategies Protection protection strategies and other activities of an acquired company. We may not succeed in addressing these or other risks or any other problems encountered in connection with the integration of any acquired business. The inability to successfully integrate the business, technologies, products, personnel or operations of any acquired business, or any significant delay in achieving integration, could have a material adverse effect on our business, operating results, financial condition and cash flows.

If third-party intellectual property infringement claims are asserted against us, it may prevent or delay our product development and commercialization efforts and have a material adverse effect on our business and future prospects. Companies in the consumer electronics, wireless communications, semiconductor, AI artificial intelligence, IT information technology, and display industries steadfastly pursue and protect intellectual property rights, often times resulting in considerable and costly litigation to determine the validity of patents and claims by third parties of infringement of patents or other intellectual property rights. Other companies may hold or obtain patents or inventions or other proprietary rights in technology necessary for our business. If we are forced to defend against infringement claims, we may face costly litigation, diversion of technical and management personnel, and product shipment delays, even if the allegations of infringement are unwarranted. Intellectual property litigation is often extremely expensive and entails high legal fees and costs of expert witnesses. Numerous United States U.S.- and foreign issued patents and pending patent applications, which are owned by third parties, exist in the fields in which we are pursuing product development and sales. As the consumer electronics and drone industries expand and more patents are issued, the risk increases that our current and future products may be subject to claims of infringement of the patent rights of third parties. Third parties may assert that we are employing their proprietary technology without authorization. There may be third-party patents or patent applications with claims to inventions, materials, engineering designs, or methods of manufacture related to the design, use or manufacture of our products. Because patent applications can take many years to issue, there may be patent applications currently pending that may later result in patents that our products may infringe upon. Third parties may obtain patents in the future and claim that use of our technologies or those of third parties with which our technologies are integrated infringes on these patents. If any third-party patents were to be held by a court to cover the manufacturing process of any of our products, or any of the characteristics or related components thereof, the holders of any such patents may be able to block our ability to commercialize such product unless we obtained a license under the applicable patents, or until such patents expire. Similarly, if any third-party patents were to be held by a court to cover aspects of our or our customers' or strategic partners' products or processes, the holders of any such patents may be able to block our ability to develop and commercialize the applicable product unless we obtained a license or until such patent expires. In either case, such a license may not be available on commercially reasonable terms or at all. 24-27 Parties making intellectual property claims against us may obtain injunctive or other equitable relief, which could block our ability to further develop and commercialize one or more of our products. Defense of these claims, regardless of their merit, involves substantial litigation expense and diversion of our management's attention from our business. If a claim of we are unsuccessful in defending against patent infringement claims in any jurisdiction where such a dispute arises, our products could

be found to infringe on the intellectual property rights of others. If a claim of infringement against us succeeds, we may have to pay substantial damages, possibly including treble damages and attorneys' fees for willful infringement, pay royalties, redesign our infringing products or obtain one or more licenses from third parties, which may be impossible or require substantial time and monetary expenditure. The financial harm caused by any such development with respect to intellectual property disputes and litigation will be heightened to the extent we do not possess, acquire or maintain adequate insurance coverage for these contingencies now or in the future. Further, if there is a successful claim of infringement against us and we are unable to develop non-infringing technology or license the infringed or similar technology on a timely basis, or if we are required to cease using one or more of our business or product names due to a successful trademark infringement claim against us, it could materially adversely affect our business. We may depend on intellectual property rights including patent rights that have not yet been and may not be obtained by us, and our intellectual property rights and proprietary rights may not adequately protect our products. Our commercial success will depend substantially on the ability to obtain patents and other intellectual property rights and maintain adequate legal protection for products in the United States and other countries. We will be able to protect our intellectual property from unauthorized use by third parties only to the extent that these assets are covered by valid and enforceable patents, trademarks, copyrights or other intellectual property rights, or are effectively maintained as trade secrets.

We currently With the closing of our IPO in February 2024, we have **12-26** issued patents, including **four-five** issued in the United States, and **nine-three** pending patent Applications-applications. **Certain patents**, including two pending in the United States which were assigned to a wholly-owned subsidiary of the Company by UAV Patent Corp. ("UAV") a wholly-owned subsidiary of Red Cat, in each case with a non-exclusive, non-sublicensable royalty free perpetual license back to UAV for Red Cat and its present and future subsidiaries to make, use and sell products subject to such assigned patents and applications solely with respect to military and defense drone applications. We will apply for patents covering our products, services, technologies, and designs, as we deem appropriate. We may fail to apply for patents on important products, services, technologies or designs in a timely fashion, or at all. We do not know whether, and there can be no assurance that, any of our patent applications will result in the issuance of any patents. Even if patents are issued, they may not be sufficient to protect our products, technologies, or designs. Our existing and future patents may not be sufficiently broad to prevent others from developing competing products, technologies, or designs. Intellectual property protection and patent rights outside of the United States, particularly in China, are even less predictable. As a result, the validity and enforceability of patents cannot be predicted with certainty. Moreover, we cannot be certain whether: · we were the first to conceive, reduce to practice, invent, or file the inventions covered by each of our issued patents and pending patent applications; · others will independently develop similar or alternative products, technologies, services or designs or duplicate any of our products, technologies, services or designs; · any patents issued to us will provide us with any competitive advantages, or will be challenged by third parties; · we will develop additional proprietary products, services, technologies or designs that are patentable; or · the patents of others will have an adverse effect on our business. **25**The patents we own or license and those that may be issued to us in the future may be challenged, invalidated, rendered unenforceable or circumvented, and the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages. Moreover, third parties could practice our inventions in territories where we do not have patent protection or in territories where they could obtain a compulsory license to our technology where patented. Such third parties may then try to import products made using our inventions into the United States or other territories. We cannot ensure that any of our pending patent applications will result in issued patents, or even if issued, predict the breadth, validity and enforceability of the claims upheld in our and other companies' patents. Further, patents have a limited lifespan. In the United States, the natural expiration of a patent is 20 years after it is filed, although various extensions may be available. The life of a patent, and the protection it affords, is limited. When the patent life has expired for a product, we will become vulnerable to competition from competitors attempting to replicate the technology that was formerly patent protected. Further, if we encounter delays such as due to regulatory approvals, the time during which we will be able to market and commercialize a product under patent protection could be reduced. **28**Unauthorized parties may attempt to copy or otherwise use aspects of our processes and products that we regard as proprietary. While we plan to enter into written agreements with certain of our employees and consultants with terms designed to protect our intellectual property rights, there cannot be any assurance that these provisions will provide us with the protection sought. Further, any third parties with whom we do not execute such agreements, such as certain of our suppliers, could attempt to dispute our intellectual property rights or misappropriate our technology or trade secrets. Policing unauthorized use of our proprietary information and technology is difficult and can be costly, and our efforts to do so may not prevent misappropriation of our technologies. We may become engaged in litigation to protect or enforce our patent and other intellectual property rights or in International Trade Commission proceedings to abate the importation of goods that would compete unfairly with our products and, if unsuccessful, these actions could result in the loss of patent or other intellectual property rights protection for the key technologies on which our business strategy depends. We also rely in part on unpatented proprietary technology, and others may independently develop the same or similar technology or otherwise obtain access to our unpatented technology. We plan to require employees, contractors, consultants, financial advisors, suppliers, and strategic partners to enter into confidentiality and intellectual property assignment agreements (as appropriate), but these agreements may not provide sufficient protection for our trade secrets, know-how or other proprietary information. The laws of certain countries do not protect intellectual property and proprietary rights to the same extent as the laws of the United States and, therefore, in certain jurisdictions including China, we may be unable to protect our products, services, technologies and designs adequately against unauthorized third-party copying, infringement or use, which could adversely affect our competitive position. To protect or enforce our intellectual property rights, we may initiate proceedings or litigation against third parties. Such proceedings or litigation may be necessary to protect our trade secrets or know-how, products, technologies, designs, brands, reputation, likeness, authorship works or other intellectual property rights. Such proceedings or litigation also may be necessary to determine the enforceability, scope and validity of the proprietary rights of others. Any proceedings or lawsuits that

we initiate could be expensive, take significant time and divert management's attention from other business concerns. Additionally, we may provoke third parties to assert claims against us, which could invalidate or narrow the scope of our own intellectual property rights. We may not prevail in any proceedings or lawsuits that we initiate and the damages or other remedies awarded, if any, may be significant. The occurrence of any of these events may adversely affect our business, financial condition and operating results. We will register for certain of our trademarks in several jurisdictions worldwide. In some jurisdictions where we will apply to register our trademarks, other applications or registrations may exist for the same, similar, or otherwise related products or services. If we are not successful in arguing that there is no likelihood of confusion between our marks and the marks that are the subject of the other applications or registrations owned by third parties, our applications may be denied, preventing us from obtaining trademark registrations and adequate protection for our marks in the relevant jurisdictions, which could impact our ability to build our brand identity and market our products and services in those jurisdictions. Whether or not our application is denied, third parties may claim that our trademarks infringe their rights. As a result, we could be forced to pay significant settlement costs or cease the use of these trademarks and associated elements of our brand in the United States or other jurisdictions. Even in those jurisdictions where we are able to register our trademarks, competitors may adopt or apply to register similar trademarks to ours, may register domain names that mimic ours or incorporate our trademarks, or may purchase keywords that are identical or confusingly similar to our brand names as terms in Internet search engine advertising programs, which could impede our ability to build our brand identity and lead to confusion among potential customers of our products and services. If we are not successful in proving that we have prior rights in our marks and arguing that there is a likelihood of confusion between our marks and the marks of these third parties, our inability to prevent these third parties from using our marks may negatively impact the strength, value and effectiveness of our brand names and our ability to market our products and prevent consumer confusion.

~~29 26 If we lose our rights under our third-party technology licenses, our operations could be adversely affected. Our current or future products may depend in part on technology rights licensed from third parties. We could lose our exclusivity or other rights to use the technology under our licenses if we fail to comply with the terms and performance requirements of the licenses. In addition, certain licensors may terminate a license upon our breach and have the right to consent to sublicense arrangements. If we were to lose our rights under any of these licenses, or if we were unable to obtain required consents to future sublicenses, we could lose a competitive advantage in the market, and may even lose the ability to commercialize certain products or technologies completely. Either of these results could substantially decrease our revenues. Further, to the extent we need to obtain licenses from third parties to advance our research and development efforts or commercialize or improve upon our products, we may fail to obtain these licenses at a reasonable cost or on reasonable terms, if at all. In that event, we would be unable to further develop and commercialize those products, which could harm our business significantly. The licensing and acquisition of third-party intellectual property rights is a competitive practice, and companies that may be more established, or have greater resources than we do, may also be pursuing strategies to license or acquire third-party intellectual property rights that we may consider necessary or attractive in order to develop and commercialize our products. More established companies may have a competitive advantage over us due to their larger size and cash resources or greater hardware or software development, production and commercialization capabilities. We may not be able to successfully complete such negotiations and ultimately acquire the rights to the intellectual property surrounding product candidates that we may seek to acquire, in which case our business could be harmed.~~ Significant inflation could adversely affect our business and financial results. The high rate of inflation and resulting pressures on costs and pricing of business such as ours focused on the manufacture and sale of electronics products could adversely impact our business and financial results. While inflation has created some salary pressure with our employees who wish to mitigate the impact of inflation, we have not yet suffered inflationary pressures in procurement **of our products**. A rise in inflation can adversely affect us by increasing our operating costs, including by increasing the costs of materials, freight and labor, ~~which have already been under pressure due to supply chain constraints and the effects of the COVID-19 pandemic and the shortage of chips~~. The Company has not identified, planned or taken any actions to mitigate inflationary pressures. Further, in the **United States**, U.S. the Federal Reserve has responded by increasing interest rates to combat inflation, however such increases may result in a reduced demand for our products and / or an economic downturn. In a highly inflationary environment, or any recession or economic downturn that may result, we may be unable to adjust our business in a manner that adequately addresses these challenges, and these developments could materially adversely affect our business, results of operations and financial condition. Risks Related to Government Regulation of Our Operations and Industry ~~Failure~~ **If we fail to have other drone products approved for the Department of Defense's Blue Framework, our future results of operations may be materially and adversely affected. We have had multiple United States made drone products that have been approved and added to the Department of Defense's Blue Framework. By virtue of being on the Blue Framework, it enables us to receive orders from agencies of the United States federal government. It also provides credibility to potential B2B customers who might be interested in purchasing drone components from us. We are seeking to add additional products to the Blue List. If these additional products are not added to the Blue Framework, our future results of operations may be materially and adversely affected. If we fail** to obtain necessary regulatory approvals from the FAA or other governmental agencies by us, our customers, or others who use our products, or limitations put on the use of unmanned aircraft systems, or "UAS," in response to public privacy or safety concerns, may prevent us from expanding the sales of our drone solutions in the United States. The regulation of UAS and drone solutions and component parts such as those we offer is subject to substantial change, with regulators including potential alterations, enhancements and additions to existing laws and regulations, and the ultimate treatment is uncertain. A substantial majority of our products are subject to drone-related regulations enforced by the FAA, either directly or due to their inclusion in UAS offered by third parties. ~~Further, even if some of our operations or products are not directly subject to such regulations, Fat Shark's customers' operations of UAS that includes our products and technology are subject to those regulations, and their failure to comply will adversely affect our ability to sell to them in the~~

future. Further, adverse regulatory actions such as enforcement proceedings affecting customers and other third parties with which we do business can also adversely affect us, even if the violation or harm alleged did not arise from our conduct or products. Generally, under current FAA regulations the failure to register a UAS, including model aircraft, in accordance with these rules may result in regulatory and criminal sanctions. The FAA may assess civil penalties up to \$ 33, 333. Criminal penalties include fines of up to \$ 250, 000 and / or imprisonment for up to three years. However, the FAA and other government bodies and agencies are considering changes to address the drone industry, which is relatively new and rapidly evolving. In addition, there exists public concern regarding the privacy and safety implications of the use of UAS. This concern has included calls to develop explicit written policies and procedures establishing usage limitations. We cannot assure you that the response from regulatory agencies, customers and privacy advocates to these concerns will not delay or restrict the adoption of UAS and related products and technologies in certain markets. These developments, and any additional regulatory or other burdens imposed on our business and industry due to public health and safety or other concerns presently faced by the drone industry, could harm us and our customers and suppliers by increasing compliance costs and restricting our operations and product offerings and uses, which could materially adversely affect us.

30 27 Rising threats of international tariffs, including tariffs applied to goods between the U. S. and China, may materially and adversely affect our business. We are heavily dependent on Chinese imports for **subject to a number of supply risks concerning our Blue UAS products which could adversely impact our ability to deliver such** and operations. For example, a substantial majority of Rotor Riot's products **to the United States Department of Defense and commercial customers. We purchase certain Blue UAS products from a privately- held United States based manufacturer pursuant to purchase orders. We are subject to a number of risks** manufactured, directly and indirectly, using Chinese vendors. Fat Shark's primary contract manufacturer is Shenzhen Fat Shark Technology Ltd. ("Supplier"), which is located in Shenzhen, China and provides product manufacturing services, including : raw material procurement. The majority owner of this entity is the wife of Fat Shark's founder. We do not have any written a supply agreements **agreement with requiring the Supplier and rely only manufacturer to produce a specified volume per year; · The manufacturer expects to deliver product quantities to us over a pre- determined period which increases the likelihood we may be unable to meet a large order from on one or more customers; · Beyond the initial** purchase orders . In addition, **we** Fat Shark's principal contract manufacturer is located in China. We do not have **no assurances** any written agreements with our other suppliers in China. We rely only on **future pricing** purchase orders. There are inherent risks and uncertainties regarding the enforcement of our rights with respect to our oral agreements and purchase orders. Should our suppliers in China fail to honor our oral agreements and purchase orders we will not have any recourse against such suppliers under Chinese law. The legal system in China and the enforcement of laws, rules and regulations in China can change quickly and the Chinese government may intervene or influence the operations of our suppliers which **means** would adversely impact our business insofar as we would have to seek other suppliers outside of China and such suppliers would most likely charge us more for our products. Rising threats of international tariffs, including tariffs applied to goods traded between the U. S. and China, could materially and adversely affect our business and results of operations. Since the beginning of 2018, there has been increasing rhetoric, in some cases coupled with legislative or executive action, from several U. S. and foreign leaders regarding the possibility of instituting tariffs on the foreign imports of certain materials and products. During this trend, the U. S. and China imposed tariffs or announced proposed tariffs to be applied in the future to certain of each other's exports. Beginning in 2019, the Trump administration imposed tariffs on imports of electronics products, including drones and component parts, of up to 25 %. These tariffs apply to the vast majority of Rotor Riot's and Fat Shark's respective inventory, and Rotor Riot has in the past been, and either or both entities may in the future be, forced to implement price increases to adjust to the higher costs of production and sale, which imposes..... Taiwan, are difficult to predict and could adversely affect the operations or **our marketing and future gross margins; · financial condition of the Company. In addition, because Because** of our involvement **in we have no non- compete from the manufacturer** Chinese market, **if** any deterioration in political or trade relations might cause a public perception in the U. S. or elsewhere that might cause our business to become less attractive. Such an impact could adversely affect **manufacture the same products for our revenues competitors; · We have no representations from the manufacturer on its intellectual property ownership of our products; and cash flows · Because we are not the manufacturer, we are subject to a number of risks including timely deliveries and quality control** . We are or may become subject to governmental export and import controls, economic sanctions and other laws and regulations that could subject us to liability and impair our ability to compete in international markets. While we understand **we** Fat Shark and / or Rotor Riot have had minimal sales outside of the **United States U. S.**, we expect to seek to market our products outside of the **U United States . S** **During 2024, we commenced sales of our Blue UAS products including to a European customer as part of a larger order** . The **United States U. S.** and various foreign governments have imposed controls, export license requirements and restrictions on the import or export of some technologies. Our products are subject to **United States U. S.** export controls, including the Commerce Department's Export Administration Regulations and various economic and trade sanctions regulations established by the Treasury Department's Office of Foreign Assets Controls, and exports of our products must be made in compliance with these laws. Furthermore, **United States U. S.** export control laws and economic sanctions prohibit the provision of products and services to countries, governments, and persons targeted by **United States U. S.** sanctions. Even though we take precautions to prevent our products from being provided to targets of **United Staets U. S.** sanctions, our products, including our firmware updates, could be provided to those targets or provided by our customers despite such precautions. Further, the manufacture and sale of our products in certain states and countries may subject us to environmental and other regulations. For example, many of **our** Fat Shark and Rotor Riot's products rely on electricity generated by lithium-ion batteries, which implicate a variety of environmental and other regulations designed to control the production, use, and transportation of hazardous materials such as lithium and other components and minerals deployed in these batteries. In addition, the **increasing** global focus on climate change, including greenhouse gas (" GHG ") emissions, has resulted in legislative and

regulatory efforts to address the causes and impacts of climate change, and any new and more strict laws and regulations to reduce GHG emissions and address other aspects of climate change, including carbon taxes, cap and trade programs, GHG reduction requirements, requirements for the use of green energy, and changes in procurement requirements, may result in increased operational and compliance obligations, which could adversely affect our financial condition and results of operations. Our failure to obtain required import or export approval or to comply with other applicable domestic or international laws and regulations for our products or operations could harm our international and domestic sales and adversely affect our revenue, or could subject us to costly proceedings, penalties or damages and negative publicity. ~~31~~ ~~28~~ ~~If the courts uphold the SEC's climate change rules, we will incur additional costs which may materially and adversely affect our operating results and financial condition. In March 2024, the SEC enacted comprehensive Climate Change Rules. Third parties immediately filed a lawsuit challenging the legality of these Rules and a federal Court of Appeals has issued a stay which means the SEC cannot presently enforce these Rules. If ultimately the Courts uphold these Rules, compliance will require us to spend material sums to be able to comply once they become applicable to us. Because of our small size, the additional costs may have a material adverse effect upon our future operating results and financial condition.~~ If we fail to comply with **United States** U. S.- and foreign laws related to privacy, data security, and data protection, it could adversely affect our operating results and financial condition. We, either directly or through our customers, collaborators or end- users of our products, are or may become subject to a variety of laws and regulations regarding privacy, data protection, and data security. This includes the European Union's ("EU") General Data Protection Regulation (the "EU GDPR") and the United Kingdom's General Data Protection Regulations (the "UK GDPR") as a result of our sales in the EU. These laws and regulations are continuously evolving and developing. The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting, particularly with respect to foreign laws. The application of these laws and regulations can arise from our e- commerce platform, social media activities, drone technology and applications, relationships with third parties and their operations, or from other activities we undertake now or that we may undertake in the future. Data privacy and protection regulations are frequently broad in terms of scope of the information protected, activities affected, and geographic reach. In particular, there are numerous **United States** U. S.-federal, state, and local laws and regulations and foreign laws and regulations regarding privacy and the collection, sharing, use, processing, disclosure, and protection of personal data. Such laws and regulations often vary in scope, may be subject to differing interpretations, and may be inconsistent among different jurisdictions. For example, the GDPR includes operational requirements for companies that receive or process personal data of residents of the EU that are broader and more stringent than those previously in place in the EU and in most other jurisdictions around the world. The GDPR includes significant penalties for non- compliance, including fines of up to € 20 million or 4 % of total worldwide revenue. Additionally, in June 2018, California enacted the California Consumer Privacy Act (the "CCPA"). In November 2020, the CCPA was amended by Proposition 24, the California Consumer Privacy Act, which extends the CCPA. The CCPA requires covered companies to provide California consumers with new disclosures and will expand the rights afforded consumers regarding their data. Fines for noncompliance may be up to \$ 7, 500 per violation. The costs of compliance with, and other burdens imposed by, the GDPR, CCPA, and similar laws may limit the use and adoption of our products and services and / or require us to incur substantial compliance costs, which could have an adverse impact on our business. Since the CCPA was enacted, the **United States** U. S.-currently has at least ~~15~~ ~~20~~ states – California, Colorado, Connecticut, Delaware, ~~Florida~~-Indiana, Iowa, **Kentucky, Maryland, Minnesota, Montana, Nebraska**, New Hampshire, New Jersey, Oregon, **Rhode Island**, Tennessee, Texas, Utah and Virginia, that have comprehensive data privacy laws in place, or enacted comprehensive data privacy laws set to soon take effect. An additional seven states have enacted narrower privacy laws – **Florida**, Maine, Michigan, ~~Minnesota~~, Nevada, New York, Vermont, and Washington **and Wisconsin**. ~~So far during~~ ~~During~~ the ~~2023~~ ~~2024~~ ~~–24~~ legislative cycle, at least ~~15~~ ~~six~~ states have introduced **comprehensive** privacy bills that address a range of issues, including protecting biometric identifiers and health data, or governing the activities of specific ~~entities~~ ~~–~~ **entities**. However, this patchwork approach to privacy legislation could pose compliance and liability risks for companies that have multistate operations. Proposed **and enacted** bills in various states have similar rights in preexisting privacy legislation but differ in implementation and enforcement. ~~In~~ ~~Additionally, in~~ ~~June~~ ~~2022~~ ~~2024~~, the American ~~Data Privacy~~ **Rights and Protection Act of 2024** was introduced in the **United States** U. S.-House of Representatives ~~but and was subsequently referred to the House Committee on Energy and Commerce~~ **has and is** not yet ~~been~~ adopted. As introduced, this proposed legislation would establish requirements for how companies handle personal data by, among other things, limiting the collection, processing, and transfer of personal data ~~to that which is reasonably necessary to provide a requested product or service~~, prohibiting companies from transferring individuals' personal data without their affirmative express consent, establishing a right to access, correct, and delete personal data, requiring companies to provide individuals with a means to "opt out" of **the transfer of non- sensitive covered data and the right to opt out of the user of their personal information for targeted** advertising, requiring companies to implement security practices aimed at protecting personal data, and imposing enforcement actions and the possibility of civil proceedings for violations. Proposed federal legislation, ~~like the American Data Privacy and Protection Act~~, will likely continue to be debated and, at some point, may be enacted in some form. We intend to strive to comply with all applicable laws, policies, legal obligations, and industry codes of conduct relating to privacy, data security, and data protection. Our limited resources may adversely affect our compliance effort. Given that the scope, interpretation, and application of these laws and regulations are often uncertain and may be in conflict across jurisdictions, it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure or perceived failure by us, customers, or third- party vendors or end- users involved with our products to comply with our privacy or security policies or privacy- related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personal data, may result in governmental enforcement actions, litigation, or negative publicity, and could have an adverse effect on our operating results and financial condition. ~~32~~ Governments are continuing to

focus on privacy and data security, and it is possible that new privacy or data security laws will be passed or existing laws will be amended in a way that is material to our business. Any significant change to applicable laws, regulations, or industry practices regarding the personal data of our employees, agents or customers could require us to modify our practices and may limit our ability to expand or sustain our salesforce or bring our products to market. Changes to applicable laws and regulations in this area could subject us to additional regulation and oversight, any of which could significantly increase our operating costs and materially affect our operating results and financial condition.

29-Risks Related To Our Common Stock Because Red Cat and our Principal Stockholder own 46.79% and 3.62% of our outstanding common stock after the IPO, the voting power of other stockholders is limited and Red Cat will likely be able to control our business, elect our Board of Directors and otherwise control the Company which control may place their interests ahead of our stockholders' interests. With the consummation of the IPO in February 2024 and partial conversions of Series B preferred shares to common shares, Red Cat owns 46.79% of our outstanding common stock and Mr. Jeffrey Thompson, the Chief Executive Officer of Red Cat, owns 3.62% of our common stock. Mr. Thompson does not have any power to vote the Red Cat shares of our common stock. Red Cat has delegated the voting power to a special committee of its Board of Directors on which Mr. Thompson is not a member, although the voting power could be changed in the future. Because of Red Cat's ownership it is clear even without Mr. Thompson voting with them that they can control the Company for the foreseeable future. Red Cat has the ability to have a substantial influence on matters submitted to our stockholders for approval, including the election and removal of directors and the approval of any merger, consolidation or sale of all or substantially all of our assets. As a result, our other stockholders including our management and Board of Directors may have little or no influence over matters submitted for stockholder approval. In addition, the ownership of such stockholders could preclude any unsolicited acquisition of us, and consequently, adversely affect the price of our common stock. Red Cat may make decisions that favor Red Cat and are adverse to your interests. Further, it is possible that if we filed an indemnification claim, Red Cat and Mr. Thompson acting together could simply remove our Board of Directors and dismiss the indemnification claim or lawsuit. Because the Purchase Price for Fat Shark and Rotor Riot exceeds an independent valuation that Red Cat received for the enterprise value of the target companies, you may lose all or part of your investment. In connection with the acquisition, we paid Red Cat the Purchase Price of \$ 20.0 million to acquire Fat Shark and Rotor Riot comprised of (i) \$ 1.0 million in cash, (ii) the \$ 2.0 million Note issued by the Company to Red Cat, and (iii) \$ 17.0 million of the Company's common stock. In November 2020, Red Cat acquired Fat Shark for a purchase price of \$ 8.4 million and in January 2020, Red Cat acquired Rotor Riot for a total purchase price of \$ 2.0 million. In connection with the transaction, Red Cat received a valuation from a valuation expert engaged by Red Cat that estimated that Fat Shark and Rotor Riot had a combined enterprise value range of \$ 5.1 million to \$ 5.7 million, as of November 30, 2022. While the Purchase Price was negotiated in good faith between our Chief Executive Officer at that time and an independent special committee of the Red Cat board of directors, the Company does not intend to obtain an independent valuation on the assets and liabilities assumed. We anticipate to perform a valuation during the second quarter of 2024 based on final assets acquired and liabilities assumed and final amounts of goodwill and other intangibles. See also the " Risk Factors - If we incur any future impairment in the carrying value of our goodwill asset or write-off our general intangibles, it could depress our stock price." Accordingly, if the Company's management is unsuccessful in implementing its growth strategy to grow its business to justify what it is paying for the Purchase Price, it is possible that an investor may lose all or part of its investment. The market price of our shares of common **Common stock Stock** is subject to fluctuation. The market price of shares of our common **Common stock Stock** may fluctuate and has fluctuated significantly in response to factors, some of which are beyond our control, including: · **the conversion of formerly outstanding preferred stock and exercise of warrants and the sales of Common Stock issued under such instruments;** · our ability to integrate **generate material sales in the B2B sector** operations of Fat Shark and Red Cat; · the announcement of new products by our competitors; · our ability to obtain patents for our products and defend our intellectual property from misappropriation and competitive use; · progress and publications of the commercial acceptance of similar technologies to those we utilize; · our ability to grow **the revenues of Fat Shark and Red Cat** and achieve consistent profitability; · **our ability to execute our business plan;** · **30** · actual or anticipated variations in operating results; · additions or departures of key personnel including our executive officers; · business disruptions caused by natural disasters and uncontrollable events such as severe weather conditions or geopolitical turmoil; · **disclosure of** cyber security attacks or data privacy issues involving our products or operations; · announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures, capital commitments, significant contracts, or other material developments that may affect our prospects; · adverse regulatory developments; · the possibility of a recession or market down- turn **or inflation** ; or · general market conditions including factors unrelated to our operating performance. Recently, **following the announcement of the imposition of tariffs and substantial planned reductions in the size of the federal government,** the stock market, in general, has experienced extreme price and volume fluctuations **and a major sell off** due to, among other factors, concerns involving **United States** inflation, the Federal Reserve interest rate increases, supply chain shortages, recession fears, and geopolitical turmoil including the war in Ukraine and Israel. The current prolonged delay in providing new aid to Ukraine and Israel are evidence of the political uncertainties. Continued market fluctuations could result in extreme market volatility in the price of our common **Common stock Stock** which could cause a decline in the value of our common **Common stock Stock** below the Offering **its recent** price. **33** Our stock price may be volatile, which could result in substantial losses to investors. In addition to changes to market prices based on our results of operations and the factors discussed elsewhere in this " Risk Factors " section, the market price of and trading volume for our common **Common stock Stock** (including any stock- run ups or price declines) may change for a variety of other reasons, not necessarily related to our actual operating performance. The capital markets have experienced extreme volatility particularly with small public companies with relatively smaller public floats that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common **Common stock Stock** . In addition, the average daily trading volume of the securities of small companies can be very low, which may contribute

to future volatility. Factors that could cause the market price of our ~~common~~ **Common stock** ~~Stock~~ to fluctuate significantly include: · the results of operating and financial performance and prospects of other companies in our industry; · strategic actions by us or our competitors, such as acquisitions or restructurings; · announcements of innovations, increased service capabilities, new or terminated customers or new, amended or terminated contracts by our competitors; · the public's reaction to our press releases, other public announcements, and filings with the SEC; · lack of securities analyst coverage or speculation in the press or investment community about us or market opportunities in the drone industry; · changes in government policies in the United States and, as our international business increases, in other foreign countries; · changes in earnings estimates or recommendations by securities or research analysts who track our ~~common~~ **Common stock** ~~Stock~~ or failure of our actual results of operations to meet those expectations; · market and industry perception of our success, or lack thereof, in pursuing our growth strategy; · changes in accounting standards, policies, guidance, interpretations or principles; · any lawsuit involving us or our products; · arrival and departure of key personnel; · sales of ~~common~~ **Common stock** ~~Stock~~ by us, our investors or members of our management team; and · changes in general market, economic and political conditions in the United States and global economies or financial markets, including those resulting from natural or man-made disasters. ~~31~~ Any of these factors, as well as broader market and industry factors, may result in large and sudden changes in the trading volume of our ~~common~~ **Common stock** ~~Stock~~ (including stock run ups or price declines) and could seriously harm the market price of our ~~common~~ **Common stock** ~~Stock~~, regardless of our operating performance. This may prevent you from being able to sell your shares at or above the price you paid for your shares, if at all. In addition, following periods of volatility in the market price of a company's shares, shareholders often institute securities class action litigation against that company. Our involvement in any class action suit or other legal proceeding could divert our senior management's attention and could adversely affect our business, financial condition, results of operations and prospects. ~~34~~ **An active trading market for our common stock may not develop.** Prior to the IPO, there was no public market for our common stock. The IPO price for our common stock was determined through negotiations with the underwriters. Although we have received approval for the trading of our common stock on the NYSE American, an active trading market for our shares may never develop or be sustained following this IPO. If an active market for our common stock does not develop, it may be difficult to sell our securities without depressing the market price for the shares, or at all. Because our sole remedy under the Purchase Agreement in the event of any breaches of representations and warranties is to cancel some or all of the 100,000 shares of our common stock, the value of such shares may be an insufficient remedy. The Purchase Agreement contains representations and warranties made by Red Cat and Mr. Jeffrey Thompson, Red Cat's Chief Executive Officer. Based upon negotiations with Red Cat and its counsel, we agreed that Mr. Thompson, one of our founders, our largest stockholder and a member of our Board, will backstop Red Cat's indemnification obligations under the Purchase Agreement in the event we claim Red Cat and / or Mr. Thompson have breached any of their respective representations and warranties contained in the Purchase Agreement, as amended, with 125,000 shares of our common stock (after giving effect to the 1-for-2 reverse stock split). Such shares will not be placed into escrow. Red Cat has no liability for such breaches by it. That means if the value of such shares held by Mr. Thompson is not at least equal to our damages, we will not have a remedy sufficient to permit us to recoup all of our damages. The only exception is fraud. Although we negotiated this limited remedy in good faith, it is possible that the shares held by Mr. Thompson may not be sufficient in which case such breach may adversely and materially affect our common stock price. ~~We will incur~~ **are incurring** significant additional costs as a result of being a public company, and our management will be required to devote substantial time to compliance with our public company responsibilities and corporate governance practices. **We are incurring** With the completion of our IPO, we expect to incur increased costs associated with corporate governance requirements that will become applicable to us as a public company, including rules and regulations of the SEC, under the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Customer Protection Act of 2010, and the **Securities Exchange Act of 1934 (the "Exchange Act")**, as well as the rules of **the** NYSE American. These rules and regulations **have** are expected to significantly increase **increased** our accounting, legal and financial compliance costs and make some activities more time consuming, including due to increased training of our current employees, additional hiring of new employees, and increased assistance from consultants. The SEC's ~~new~~ cybersecurity rules will increase our compliance costs. We also expect these rules and regulations to make it more expensive for us to maintain directors' and officers' liability insurance. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our Board or as executive officers. Furthermore, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. We cannot predict or estimate the amount of additional costs we will incur as a public company or the timing of such costs. In addition, our management team will need to devote substantial attention to interacting with the investment community and complying with the increasingly complex laws pertaining to public companies, which may divert attention away from the day-to-day management of our business, including operational, research and development and sales and marketing activities. Increases in costs incurred or diversion of management's attention as a result of becoming a publicly traded company may adversely affect our business, prospects, financial condition, results of operations, and cash flows. ~~32~~ Our failure to maintain effective disclosure controls and internal controls over financial reporting could have an adverse impact on us. We are required to establish and maintain appropriate disclosure controls and internal controls over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely impact our public disclosures regarding our business, financial condition or results of operations. In addition, management's assessment of internal controls over financial reporting may identify weaknesses and conditions that need to be addressed or other matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in our internal control over financial reporting, disclosure of management's assessment of our internal controls over financial reporting may have an adverse impact on the price of our ~~common~~ **Common stock** ~~Stock~~. ~~Our Auditor and Red Cat's auditor recently was subjected to certain significant enforcement actions in Canada. If its ability to perform audits for public companies in the United States is restricted it could have material adverse consequences on the Company and our~~

investors. In December 2023, the Canadian Public Accountability Board imposed significant restrictions on our auditors (the “Firm”) who also audited the financial statements of Fat Shark and Rotor Riot which are contained in this annual report. The sanctions were imposed as a result of a finding of 19 significant inspection findings relating to Canadian auditing rules occurring with two public companies whose audits the regulator reviewed. As a result, the regulator imposed certain sanctions which included: (a) prohibiting the Firm from accepting Canadian reporting issuer clients including those resulting from initial public offerings, reverse takeovers or other transactions (including an existing private company audit client seeking to become a reporting issuer through initial public offering, reverse takeover or other transaction which is considered a new reporting issuer) and (b) prohibiting the Firm from assigning one of its partners to audits of financial statements of reporting issuers in any Canadian jurisdiction in which such partner is not properly licensed to provide public accounting services by the relevant provincial Chartered Professional Accountant regulatory body. The Firm is also subject to oversight by the Public Accounting Oversight Board (the “PCAOB”) in the United States. The PCAOB was established by Congress to oversee the audits of public companies in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB oversees auditors' compliance with the Sarbanes-Oxley Act, provisions of the securities laws relating to auditing, professional standards, and PCAOB and SEC accounting rules. In May 2022 the PCAOB previously barred a former director and nonequity partner of the Firm for violations of PCAOB rules and standards as part of four **our** audits across three public companies. In the event that the PCAOB or the SEC were to impose material enforcement actions against the Firm including barring it from issuing audit opinions for companies that file reports or registration statements with the SEC, the Company and our investors could be materially and adversely affected. For example, if it was determined that our previous and current financial statements (or the financial statements of Fat Shark and Rotor Riot) that were audited or reviewed by the Firm can no longer be relied upon due to auditing errors, we would be required to restate such financial statements. To the extent that the Firm was banned from representing public companies, we would be required to retain new auditors and have such financial statements re-audited, which could result in material additional auditing costs and could adversely affect our stock price and investor confidence in our company. In addition, if the Firm was to be forced to cease its operations, there can be no assurance that the SEC would grant a waiver to issuers like the Company who are unable to use prior audit reports in annual reports on Form 10-K or for amendments to the Registration Statement. Furthermore **year ended December 31, 2024, we reported that PCAOB we did not maintain effective disclosure controls or internal controls over financial reporting and that we had not remediated those material weaknesses. Investors may not purchase or hold or our SEC** sanctions were to **Common Stock as a result in of the these failures** Firm ceasing to audit public companies that file reports with the SEC, **which our shareholders may result** not be able to recover damages against the Firm on claims in **lower prices** connection with a material misstatement or omission in our financial statements that were audited or reviewed by the Firm. Because our **common Common stock Stock** is listed on NYSE American, we are subject to additional regulations and continued requirements. **Because** With the completion of our IPO in February 2024 **Common Stock trades on the NYSE American**, we are required to meet the continued listing standards for NYSE American. If we fail to meet NYSE American's listing standards, our **common Common stock Stock** may be delisted. **The** NYSE American requires that the average closing price of its listed common stock remain above \$ 1.00 over a 30 consecutive day period, in order to remain listed. In addition, to maintain a listing on NYSE American, we must satisfy minimum financial and other continued listing requirements and standards, including those regarding director independence and independent committee requirements, minimum stockholders' equity, and certain corporate governance requirements. If we are unable to satisfy these requirements standards, our **common Common stock Stock** could be subject to delisting. Delisting would have a negative effect on the price of our **common Common stock Stock** and would impair your ability to sell our **common Common stock Stock** when you wish to do so. **33-35** Our Board of Directors may authorize and issue shares of new **classes series of preferred** stock that could be superior to or adversely affect current holders of our **common Common stock Stock**. Our Board of Directors has the power to authorize and issue shares of classes of stock, including preferred stock that have voting powers, designations, preferences, limitations and special rights, including preferred distribution rights, conversion rights, redemption rights and liquidation rights without further **shareholder stockholder** approval which could adversely affect the rights of the holders of our **common Common stock Stock**. In addition, our Board could authorize the issuance of a series of preferred stock that has greater voting power than our **common Common stock Stock** or that is convertible into our **common Common stock Stock**, which could decrease the relative voting power of our **common Common stock Stock** or result in dilution to our existing common stockholders. Any of these actions could significantly adversely affect the investment made by holders of our **common Common stock Stock**. Holders of **common Common stock Stock** could potentially not receive dividends that they might otherwise have received. In addition, holders of our **common Common stock Stock** could receive less proceeds in connection with any future sale of the Company, in liquidation or on any other basis. If we raise capital in the future, it may dilute our existing stockholders' ownership and / or have other adverse effects on us, our securities or our operations. If we are required to raise additional capital by issuing equity securities, our existing stockholders' percentage ownership **may will** decrease, and these stockholders may experience substantial dilution. Additionally, the issuance of additional shares of **common Common stock Stock** or other securities could result in a decline in our stock price. Further, if we are required to raise additional funds by issuing debt instruments, these debt instruments could impose significant restrictions on our operations, including liens on our assets and negative covenants prohibiting us from engaging in certain transactions or corporate actions that may have the effect of limiting our ability to pursue our business strategy and growth objectives. **Common stock Stock** eligible for future sale may adversely affect the market. We have **agreed in the past consummated private placements to accredited investors whereby we were obligated** to enter into a registration rights agreement **for with each selling stockholder. We may in the future enter into similar agreements** registration of 500,000 shares of our common stock that we will issue to Red Cat in connection with the Business Combination and to use our best **fundraising** efforts to file a registration statement 120 days after the consummation of the Offering and have

such registration statement declared effective within 180 days. Upon registration and expiration of the 180-day lockup for Red Cat, Red Cat's common stock will be freely tradable. The following discussion refers to the public sale of our common stock by our other stockholders beginning after expiration of the lockup agreement all of our officers, directors and 5% shareholders have entered into. From time to time after the expiration of the lock-up period, our stockholders may be eligible to sell all or some of their common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144 promulgated under the Securities Act of 1933 (the "Securities Act"), subject to certain limitations. In general, Rule 144 provides that any non-affiliate of the Company who has held restricted common stock for at least six months, is entitled to publicly sell their restricted stock, provided that the Company stays current in its SEC filings. Affiliates, which would include an officer, director or other person in control of the Company may sell after a six-month holding period from the date of purchase) with the following restrictions: (i) the Company is current in its SEC filings, (ii) the holders comply with certain manner of sale provisions, (iii) the holders file a Form 144, and (iv) the holders comply with volume limitations limiting the sale of shares within any three-month period to the greater of (1) a number of shares that does not exceed 1% of the total number of outstanding shares, or (2) the average weekly trading volume computed over a four-week period. A person who has ceased to be an affiliate at least three months immediately preceding the applicable sale and who has owned such shares of common stock for at least six months may sell the shares under Rule 144 without regard to any of the limitations described above except for the current public information requirement. Future sales of substantial amounts of our common Common stock Stock in the public market, or the anticipation of these sales, could materially and adversely affect market prices prevailing from time to time, and could impair our ability to raise capital through sales of equity or equity-related securities. In addition, the market price of our common Common stock Stock could decline as a result of sales of a large number of shares of our common Common stock Stock in the market or the perception that these sales may occur. 34 If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our common Common stock Stock, the market price for our common Common stock Stock and trading volume could decline. The trading market for our common Common stock Stock will be influenced by research or reports that industry or securities analysts publish about our business. We do not currently have any analysts publish research reports about us, and we cannot assure you that any will. If analysts do, and one or more analysts who cover us downgrade our common Common stock Stock, the market price for our common Common stock Stock would likely decline. We and our investors face the implications of our status as an emerging growth company under the federal securities laws and regulations. We qualify as an "emerging growth company" pursuant to the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. As an emerging growth company, we have elected to take advantage of specified reduced reporting and other requirements compared to those that are otherwise applicable generally to public companies. These provisions include but are not limited to: reduced disclosure obligations regarding executive compensation in periodic reports, proxy statements and registration statements; and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder stockholder approval of any golden parachute payments not previously approved. 36 We will remain an emerging growth company until the earliest of (a) the last day of the fiscal year during which we have total annual gross revenues of at least \$ 1.235 billion; (b) the last day of our fiscal year following February 16, 2029 the fifth anniversary of the completion of this Offering; (c) the date on which we have, during the preceding three-year period, issued more than \$ 1.0 billion in non-convertible debt; or (d) the date on which we are deemed to be a "large accelerated filer" under the Exchange Act, which would occur as of the end of any fiscal year if the market value of our common Common stock Stock that are held by non-affiliates exceeds \$ 700 million as of the last business day of our most recently completed second fiscal quarter. Once we cease to be an emerging growth company, we will not be entitled to the exemptions provided in the JOBS Act discussed above. We have never paid dividends and we do not expect to pay dividends for the foreseeable future. We intend to retain earnings, if any, to finance the growth and development of our business and do not intend to pay cash dividends on shares of our common Common stock Stock in the foreseeable future. The payment of future cash dividends, if any, depend upon, among other things, conditions then existing including earnings, financial condition and capital requirements, restrictions in financing agreements, business opportunities and other factors. As a result, capital appreciation, if any, of our common Common stock Stock, will be your sole source of gain for the foreseeable future. Our Certificate Articles of Incorporation contains certain provisions which may result in difficulty in bringing stockholder actions against or on behalf of the Company or its affiliates. Section 7 of our Certificate Articles of Incorporation provides that the internal affairs of the Company, including stockholder derivative actions, shall be brought exclusively in commonwealth the courts located in Puerto Rico Clark County, Nevada. To the extent that any such action asserts a claim under the Exchange Act, that provision claim must be brought in federal court. Section 7 also provides that the United States federal courts generally shall have exclusive jurisdiction over claims brought under the Securities Act, the effect of which is that an action under the Securities Act with respect to the Company may only be brought in the federal courts, whereas absent such provision the federal and commonwealth courts would otherwise have concurrent jurisdiction over such a matter. Any claim seeking relief under the Exchange Act may only be brought in federal court. Further, Section 7 also provides for the United States District Court for the District of Nevada Puerto Rico as the exclusive venue for any cause of action under either the Securities Act or the Exchange Act, meaning such federal court is the only court in which such a case may be brought and heard. These provisions may have the effect of precluding stockholders from bringing suit in their forum or venue of choice. Further, these provisions may give rise to a potential ambiguity as to which courts - commonwealth state or federal - should preside over certain cases such as cases with overlapping claims under both Nevada Puerto Rican corporate law and the Securities Act and the rules and regulations thereunder. While the Supreme Court of Delaware has upheld a charter provision designating federal courts as the exclusive forum for actions brought under the Securities Act, it is unclear how a court in Nevada another jurisdiction, including Puerto Rico, might rule. Therefore, an investor seeking to bring a claim against or on behalf of the Company or its affiliates under Nevada Puerto Rico law or the federal securities laws may be forced to litigate

their case in a court which poses geographic or other hardships, and could face uncertainty as to which jurisdiction and venue the case will ultimately be heard in, which may delay, prevent or impose additional obstacles on the investor in such litigation. Investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder, and there is uncertainty as to whether a state or federal court would enforce this charter provision. ~~Assuming we proceed with our reincorporation in Nevada, the Nevada Articles of Incorporation have similar provisions except requiring litigation in Las Vegas, Nevada courts.~~