

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 26, 2021

Ondas Holdings Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction
of incorporation)

001-39761

(Commission File Number)

47-2615102

(IRS Employer
Identification No.)

61 Old South Road, #495, Nantucket, MA 02554

(Address of principal executive offices) (Zip Code)

(888) 350-9994

Registrant's telephone number, including area code

N/A

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.0001 par value per share	ONDS	The Nasdaq Stock Market LLC

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

Emerging growth company

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

Explanatory Note

As previously disclosed in its Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2021, Ondas Holdings Inc. (the "Company" or "Ondas") entered into an Agreement and Plan of Merger (the "Agreement") with Drone Merger Sub I Inc., a Delaware corporation and a direct wholly owned subsidiary of the Company ("Merger Sub I"), Drone Merger Sub II Inc., a Delaware corporation and a direct wholly owned subsidiary of the Company ("Merger Sub II" and, together with Merger Sub I, the "Merger Subs"), American Robotics, Inc., a Delaware corporation ("American Robotics"), and Reese Mozer, solely in his capacity as the representative of American Robotics' Stockholders (as defined in the Agreement). The Agreement provides that, upon the terms and subject to the conditions set forth in the Agreement, American Robotics will merge with and into Merger Sub I ("Merger I"), with American Robotics as the surviving entity, and American Robotics will then subsequently and immediately merge with and into Merger Sub II ("Merger II" and, together with Merger I, the "Mergers"), with Merger Sub II continuing as the surviving entity and as a direct wholly-owned subsidiary of the Company. The Mergers are subject to customary closing conditions, including approval by the Company's stockholders. The transaction is expected to close in the third quarter of 2021.

Item 8.01. Other Events.

The Company is filing this Current Report on Form 8-K to disclose (i) the audited financial statements of American Robotics for the years ended December 31, 2020 and December 31, 2019, (ii) the unaudited financial statements of American Robotics for the three months ended March 31, 2021 and March 31, 2020, and (iii) the unaudited pro forma condensed combined financial statements (and related notes) of the Company as of and for the three months ended March 31, 2021 and the year ended December 31, 2020. The unaudited pro forma condensed combined financial statements are based on the Company's audited and unaudited interim historical consolidated financial statements and American Robotics' audited and unaudited interim historical financial statements as adjusted to give effect to the Company's acquisition of American Robotics. The unaudited pro forma condensed combined balance sheet as of March 31, 2021 gives effect to these transactions as if they occurred on March 31, 2021. The unaudited pro forma condensed combined statements of operations for the three months ended March 31, 2021 and the twelve months ended December 31, 2020 give effect to these transactions as if they occurred on January 1, 2020.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
23.1	Consent of Turner Stone & Company, L.L.P.

- 99.1 [The audited financial statements of American Robotics, Inc. for the years ended December 31, 2020 and December 31, 2019.](#)
- 99.2 [The unaudited financial statements of American Robotics, Inc. for the three months ended March 31, 2021 and March 31, 2020.](#)
- 99.3 [The unaudited proforma condensed combined financial statements \(and related notes\) of Ondas Holdings Inc. as of and for the three months ended March 31, 2021 and December 31, 2020.](#)

Additional Information about the Transaction and Where to Find It

In connection with the proposed transaction described herein, Ondas intends to file relevant materials with the SEC, including a preliminary proxy statement and, when available, a definitive proxy statement. Promptly after filing its definitive proxy statement with the SEC, Ondas will mail the definitive proxy statement and a proxy card to each Ondas stockholder entitled to vote at the meeting of stockholders relating to the transaction. INVESTORS AND STOCKHOLDERS OF ONDAS ARE URGED TO READ THESE MATERIALS (INCLUDING ANY AMENDMENTS OR SUPPLEMENTS THERETO) AND ANY OTHER RELEVANT DOCUMENTS IN CONNECTION WITH THE TRANSACTION THAT ONDAS FILES WITH THE SEC WHEN THEY BECOME AVAILABLE BECAUSE THESE DOCUMENTS WILL CONTAIN IMPORTANT INFORMATION ABOUT ONDAS, AMERICAN ROBOTICS, AND THE TRANSACTION. The definitive proxy statement, the preliminary proxy statement, and other relevant materials in connection with the transaction (when they become available), and any other documents filed by Ondas with the SEC, may be obtained free of charge at the SEC's website (www.sec.gov) or by visiting Ondas' investor relations section at www.ondas.com. The information contained on, or that may be accessed through, the websites referenced in this report are not incorporated by reference into, and are not a part of, this report or any document filed by Ondas with the SEC.

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Participants in the Solicitation

Ondas and its directors and executive officers may be deemed participants in the solicitation of proxies from Ondas' stockholders with respect to the transaction. The names and other information about those directors and executive officers and a description of their ownership of Ondas common stock and other interests in Ondas and in the transaction will be included in the definitive proxy statement relating to the transaction and will be available at www.sec.gov. Additional information regarding the interests of such participants will be contained in the definitive proxy statement relating to the transaction when available. Other information regarding the interests of the participants in the proxy solicitation will be included in the definitive proxy statement relating to the transaction when it becomes available. These documents can be obtained free of charge from the source indicated above.

No Offer or Solicitation

This report does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval, by Ondas, nor shall there be any sale of the securities in any state in which such offer, solicitation or sale would be unlawful before the registration or qualification under the securities laws of such state. Any offering of the securities will only be by means of a statutory prospectus meeting the requirements of the rules and regulations of the SEC and applicable law or in accordance with an applicable exemption from the registration requirements thereof.

Forward Looking Statements

Statements made in this report that are not statements of historical or current facts are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Ondas cautions readers that forward-looking statements are predictions based on its current expectations about future events. Examples of forward-looking statements include, among others, statements made in this report regarding the proposed transaction contemplated by the definitive agreement, including the benefits of the transaction, revenue opportunities, anticipated future financial and operating performance, and results, including expectations for growth, and the expected timing of the transaction. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict and many of which are outside of Ondas' control. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause actual results and outcomes to differ materially from those indicated in the forward-looking statements include, among others, the following: (1) the occurrence of any event, change, or other circumstances that could give rise to the termination of the transaction; (2) the failure to obtain financing required to complete the transaction; (3) the inability to complete the transaction, including due to failure to obtain approval of the stockholders of Ondas, required regulatory approvals, or satisfy other conditions to closing in the definitive agreement; (4) the risk that the transaction disrupts current plans and operations as a result of the announcement and consummation of the transaction; (5) the ability to recognize the anticipated benefits of the transaction, which may be affected by, among other things, competition, the ability of management to integrate the combined company's business and operation, and the ability of the parties to retain key employees; (6) costs related to the transaction; (7) risks relating to the uncertainty of pro forma and projected financial information with respect to the combined company; and (8) other risks and uncertainties indicated from time to time in the preliminary and definitive proxy statements to be filed with the SEC relating to the transaction, including those under "Risk Factors" therein, and in Ondas' other filings with the SEC. Ondas cautions that the foregoing list of factors is not exhaustive. Ondas cautions readers not to place undue reliance upon any forward-looking statements, which speak only as of the date made. Ondas does not undertake or accept any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements to reflect any change in their expectations or any change in events, conditions, or circumstances on which any such statement is based, whether as a result of new information, future events, or otherwise, except as may be required by applicable law. Ondas gives no assurance that after the transaction the combined company will achieve its expectations.

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SIGNATURES

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

Date: May 26, 2021

ONDAS HOLDINGS INC.

By: /s/ Eric A. Brock
Eric A. Brock
Chief Executive Officer

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Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 333-237485) and Form S-3 (File No. 333-235373 and 333-252571) of Ondas Holdings Inc. of our report dated May 10, 2021, relating to the financial statements of American Robotics, Inc. as of and for the years ended December 31, 2020 and 2019.

/s/ Turner, Stone & Company, L.L.P.

Dallas, Texas
May 26, 2021



AMERICAN ROBOTICS, INC.
Financial Statements
December 31, 2020 and 2019

American Robotics, Inc.
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December 31, 2020 and 2019

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Your Vision Our Focus



Independent Auditors' Report

The Board of Directors and Stockholders of
 American Robotics, Inc.
 Marlborough, Massachusetts

We have audited the accompanying financial statements of American Robotics, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, changes in stockholders' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Turner, Stone & Company, L.L.P.
Accountants and Consultants

12700 Park Central Drive, Suite 1400
Dallas, Texas 75251

Telephone: 972-239-1660 / Facsimile: 972-239-1665
Toll Free: 877-853-4195
Web site: turnerstone.com



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company generated a net loss, has net stockholders' deficit, and used significant cash for operating activities, all of which raise substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Turner Stone & Company L.L.P.

Certified Public Accountants
May 10, 2021

American Robotics, Inc. Balance Sheets December 31, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 1,056,290	\$ 854,364
Accounts receivable	5,643	5,643
Total current assets	1,061,933	860,007
Property and equipment, net	69,683	77,061
Security deposit	24,166	24,166
Right-of-Use Asset	543,804	709,629
Total assets	\$ 1,699,586	\$ 1,670,863
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	\$ 330,004	\$ 315,651
Deferred revenue	77,500	-
Accrued interest	172,574	47,338
Current portion of operating lease liability	170,361	160,043
Total current liabilities	750,439	523,032
Long-term liabilities		
Operating lease liability, net of current portion	390,215	560,576
Convertible notes	1,950,000	1,450,000
Convertible notes, related party	525,000	275,000
Total long-term liabilities	2,865,215	2,285,576
Commitments & contingencies (Note 4)	-	-
Stockholders' deficit		
Common stock, \$0.0001 par value, 10,000,000 shares authorized, 2,155,965 and 1,962,632 shares issued and outstanding as of December 31, 2020 and 2019, respectively	215	196
Additional paid-in capital	7,444,426	5,775,116
Subscription receivable	(2,541)	(2,541)
Accumulated deficit	(9,358,168)	(6,910,516)
Total stockholders' deficit	(1,916,068)	(1,137,745)
Total liabilities and stockholders' deficit	\$ 1,699,586	\$ 1,670,863

The Notes to Financial Statements are an integral part of these statements.

1

American Robotics, Inc.
Statements of Operations
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenue	\$ 8,100	\$ -
Operating expenses		
General and administrative expenses	1,916,171	2,027,530
Research and development	544,537	1,657,762
Selling and marketing	126,862	210,536
	<u>2,587,570</u>	<u>3,895,828</u>
Loss from operations	<u>(2,579,470)</u>	<u>(3,895,828)</u>
Other income (expense)		
Other income	-	14,506
Grant income	257,029	-
Interest expense	(125,236)	(47,338)
Interest income	25	9,073
	<u>131,818</u>	<u>(23,759)</u>
Net loss	<u>\$ (2,447,652)</u>	<u>\$ (3,919,587)</u>

The Notes to Financial Statements are an integral part of these statements.

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American Robotics, Inc.
Statements of Changes in Stockholders' Deficit
Years Ended December 31, 2020 and 2019

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Subscription</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Deficit</u>	<u>Receivable</u>	<u>Stockholders'</u>
			<u>Capital</u>			<u>Deficit</u>
Balance, January 1, 2019	1,628,570	\$ 163	\$ 3,173,896	\$ (2,990,929)	\$ -	\$ 183,130
Stock-based compensation	-	-	98,692	-	-	98,692
Exercise of stock options	726	-	2,541	-	(2,541)	-
Issuance of common stock	333,336	33	2,499,987	-	-	2,500,020
Net loss	-	-	-	(3,919,587)	-	(3,919,587)
Balance, December 31, 2019	1,962,632	196	5,775,116	(6,910,516)	(2,541)	(1,137,745)
Stock-based compensation	-	-	69,329	-	-	69,329
Issuance of common stock	193,333	19	1,599,981	-	-	1,600,000
Net loss	-	-	-	(2,447,652)	-	(2,447,652)
Balance, December 31, 2020	<u>2,155,965</u>	<u>\$ 215</u>	<u>\$ 7,444,426</u>	<u>\$ (9,358,168)</u>	<u>\$ (2,541)</u>	<u>\$ (1,916,068)</u>

The Notes to Financial Statements are an integral part of these statements.

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American Robotics, Inc.
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating activities		
Net loss	\$ (2,447,652)	\$ (3,919,587)
Adjustments to net loss:		
Depreciation expense	(6,770)	(14,083)
Stock-based compensation	69,329	98,692
Difference in ROU and lease liability change	5,782	10,990
Changes in operating assets/liabilities:		
Accounts receivable, net	-	(93)
Security deposits	-	(24,166)
Accounts payable	14,353	296,666
Accrued expenses and interest	125,236	47,338

Deferred revenue	77,500	-
Net cash used in operating activities	<u>(2,162,222)</u>	<u>(3,504,243)</u>
Investing activities		
Purchase of property and equipment	14,148	12,809
Net cash provided by investing activities	<u>14,148</u>	<u>12,809</u>
Financing activities		
Proceeds from issuance of common stock	750,000	1,725,000
Proceeds from issuance of convertible notes	1,600,000	2,500,000
Net cash provided by financing activities	<u>2,350,000</u>	<u>4,225,020</u>
Net change in cash and cash equivalents	201,926	733,586
Cash and cash equivalents		
Beginning of year	854,364	120,778
End of year	<u>\$ 1,056,290</u>	<u>\$ 854,364</u>

Supplemental Information:

Interest paid	\$ -	\$ -
Income Taxes	\$ -	\$ -

Supplemental Non-Cash Activities:

Day one recognition of ROU asset and related operating lease liability	\$ -	\$ 872,991
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Supplemental disclosure of non-cash financing activity

In 2019, the Company issued 726 shares of common stock in exchange for stock subscription notes receivable totaling \$2,541.

**American Robotics, Inc.
Notes to Financial Statements
December 31, 2020 and 2019**

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Nature of Business

American Robotics, Inc. (the “Company”) was incorporated on October 13, 2016 in Delaware, and is a developer of specialized drone technology. The Company manufactures an autonomous remote sensing drone solution consisting of a custom-designed drone and proprietary base station, the American Robotics Scout system, for use primarily in the agriculture industry. The Company was principally in the research and development phase and has commenced sales as it continues to build and enhance its product as it brings it to market.

Going Concern Uncertainty

The Company’s financial statements have been prepared assuming the Company will continue as a going concern. The Company has stockholders’ deficit of approximately \$1.9 million as of December 31, 2020 and incurred a loss from operations of approximately \$2.6 million and used approximately \$2.1 million in cash for operating activities during the year ended December 31, 2020 raising substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in response to this are to start commercial drone sales as well as reducing costs as needed and working towards raising additional capital through issuance of common stock or other financing to obtain the necessary funding and sustain operations.

The Company’s ability to fund operations and capital expenditures in the future will be dependent on its ability to achieve its plan objectives. However, there can be no assurance that the Company will be able to achieve its strategic initiatives or obtain additional funding in the future. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Company is presented to assist in understanding the Company’s financial statements. These accounting policies have been consistently applied in the preparation of the financial statements.

Basis of Presentation

The accompanying financial statements of the Company are presented in U.S. dollars in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

The Notes to Financial Statements are an integral part of these statements.

**American Robotics, Inc.
Notes to Financial Statements
December 31, 2020 and 2019**

Cash and Cash Equivalents

The Company considers cash equivalents to be only those investments which are highly liquid, readily convertible to cash, and have a maturity date of ninety days or less

from the date of purchase. The Company considers balances held in money market accounts to be cash equivalents. The Company maintains its cash in bank deposit accounts which at times, may exceed federally insured limits. The Company has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of certain assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include depreciation and stock-based compensation. Actual results could differ from those amounts.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Maintenance and repairs are charged to expenses as incurred; major renewals and betterments are capitalized. Depreciation expense is computed on the straight-line method based on the assets' estimated useful lives as follows:

Description	Estimated Life (Years)
Leasehold improvements	6-15
Furniture and fixtures	7
Computer equipment	5

Income Taxes

Income taxes are accounted for in accordance with the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 740, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. The differences are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized.

The Notes to Financial Statements are an integral part of these statements.

American Robotics, Inc. Notes to Financial Statements December 31, 2020 and 2019

The pronouncement dealing with uncertain tax positions clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The pronouncement also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure and transition. The Company had no uncertain tax positions for the years ended December 31, 2020 and 2019, respectively. Further, there were no tax related interest or penalties included in the financial statements.

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606). This new standard replaces all previous accounting guidance on this topic and eliminates all industry-specific guidance. The new revenue recognition guidance provides a unified model to determine how revenue is recognized. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In doing so, companies need to use more judgment and make more estimates than under prior guidance. Judgments include identifying performance obligations in the contract, estimating the amount of consideration to include in the transaction price, and allocating the transaction price to each performance obligation.

In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under its agreements, the Company performs the following steps: (i) identify contracts with customers; (ii) identify performance obligations; (iii) determine the transaction price; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in Topic 606. The Company's performance obligations include deployment of its Scout aerial drone system to the customer and recurring subscription license to the Company's ScoutBase and ScoutView drone support products.

The Company will begin recognizing revenue upon deployment and delivery of its Scout aerial drone system as the customer then has access to the product. Upon delivery, the Company has an ongoing performance obligation to provide a subscription license to the customer during the life of the contract. Subscription license revenue is recognized ratably over the term of the applicable contract once the product has been delivered.

The Notes to Financial Statements are an integral part of these statements.

American Robotics, Inc. Notes to Financial Statements December 31, 2020 and 2019

Subscription Revenue

The Company leases the use of its Scout aerial drone system which includes access to its ScoutBase and ScoutView drone support products, pursuant to contractual

obligations. The Company recognizes revenue ratably over the life of the contract as the services are transferred to the customer. Subscription revenue amounted to \$8,100 and \$0 for the years ended December 31, 2020 and 2019, respectively.

Deferred Revenue

If a customer pays consideration before the Company transfers goods or services, the amount of consideration is presented as deferred revenue. The amount of deferred revenue will increase or decrease based upon the timing of invoices and collections and recognition of revenues. As of December 31, 2020 and 2019, deferred revenue amounted to \$77,500 and \$0, respectively.

General and Administrative

General and administrative expenses primarily include salaries and wages, professional services, travel, meals and entertainment, and rent expense.

Selling and Marketing

Selling and marketing expense is primarily made up of trade show fees, advertising costs, and promotional fees. The Company expenses advertising costs as incurred. For the years ended December 31, 2020 and 2019, advertising expense charged to operations totaled \$12,970 and \$12,670, respectively, and is included in selling and marketing expense in the statements of operations.

Research and Development

Costs incurred for research and product development are expensed as incurred. Research and development costs consist primarily of engineering services and parts and materials during the product development phase. The Company recognizes research and development expenses in the period in which it becomes obligated to incur such costs.

Stock-Based Compensation

Stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense, ratably over the vesting period of the award. In addition, the pronouncement dealing with stock-based compensation requires additional accounting related to the income tax effects and disclosures regarding the cash flow effects resulting from stock-based payment arrangements. Calculating stock-based compensation expense requires the input of highly subjective assumptions, including the expected term of the stock-based awards, volatility, dividend yield, and risk-free rates.

The assumptions used in calculating the fair value of stock-based awards represent the Company's best estimates, but these estimates involve inherent uncertainties and the application of management judgement. As a result, if factors change and the Company uses different assumptions, its stock-based compensation could be materially different in the future.

The Notes to Financial Statements are an integral part of these statements.

American Robotics, Inc. Notes to Financial Statements December 31, 2020 and 2019

Pending Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 "Leases" (ASU 2016-02) and subsequently issued supplemental adoption guidance and clarification (collectively, Topic 842). Topic 842 amends a number of aspects of lease accounting, including requiring lessees to recognize right-of-use assets and lease liabilities for operating leases with a lease term greater than one year. Topic 842 supersedes Topic 840 "Leases". On January 1, 2019, the Company adopted Topic 842 using the modified retrospective approach. Results for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historical accounting under Topic 840. The Company elected the package of practical expedients permitted under the transition guidance within Topic 842, which allowed it to carry forward the historical lease classification, retain the initial direct costs for any leases that existed prior to the adoption of the standard and not reassess whether any contracts entered into prior to the adoption are leases. The Company also elected to account for lease and non-lease components in its lease agreements as a single lease component in determining lease assets and liabilities. Upon adoption of Topic 842, the Company recorded \$872,991 of right-of-use assets and operating lease liabilities as of January 1, 2019. The adoption did not have a material impact on its Statements of Operations or Statements of Cash Flows.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	2020	2019
Computer equipment	\$ 20,347	\$ 20,347
Leasehold improvements	7,522	7,522
Furniture and fixtures	75,898	69,128
	103,767	96,997
Accumulated depreciation	(34,084)	(19,936)
	<u>\$ 69,683</u>	<u>\$ 77,061</u>

Depreciation expense charged to operations for the years ended December 31, 2020 and 2019 amounted to \$14,148 and \$12,809, respectively.

The Notes to Financial Statements are an integral part of these statements.

4. COMMITMENTS

In March 2018, the Company entered into a 70-month lease for 62,621 square feet of office space for the Company's corporate office in Marlborough, Massachusetts. Subsequently, in June 2018 this lease was amended to include an additional 10,450 square feet of office space. A right-of-use asset and operating lease liability has been recorded with the adoption of Topic 842, pertaining to this office lease. As this lease does not provide an implicit interest rate, the Company calculated a 3% interest rate based on the annual increase in rent to determine the lease liability. Operating lease expense is recognized on a straight-line basis over the lease term. Operating lease expense was \$163,825 and \$165,362 for the years ended December 31, 2020 and 2019.

The future minimum lease payments relating to these commitments are as follows:

2021	\$ 184,857
2022	190,401
2023	196,117
2024	16,624
	<u>\$ 588,000</u>

Rent expense for the years ended December 31, 2020 and 2019 was \$225,683 and \$184,906, respectively.

The Company has entered into an agreement with an unrelated third party to assist in the development of its product. In connection with this agreement, the Company has agreed to pay \$1,000,000 for the development assistance, of which \$800,000 was incurred and paid in 2019, with the remaining \$200,000 incurred and paid in 2020. Such amounts are included in research and development expenses on the statements of operations.

Additionally, the Company has agreed to make royalty installment payments to such party totaling \$1,000,000 commencing upon the first sale of the product and continuing over a period of 3 1/2 years. The installment payments are to be made in 5 equal amounts of \$200,000 at certain defined intervals as follows: date of the first sale, 6 months, 18 months, 30 months, 42 months. As of December 31, 2020, no sales of this product have occurred.

5. CONVERTIBLE NOTES

During 2020 and 2019, the Company issued convertible notes totaling \$750,000 and \$1,725,000, respectively, bearing interest at 6% per annum. As of December 31, 2020 and 2019, the convertible notes payable balance consisted of principal outstanding of \$2,475,000 and \$1,725,000 and accrued interest of \$172,574 and \$47,338, respectively. Unless converted, these notes will automatically mature and be fully payable, including accrued interest, on dates ranging from January 31, 2023 to December 18, 2023.

The Notes to Financial Statements are an integral part of these statements.

In the event of a qualified financing, the outstanding principal and accrued interest will convert into Qualified Financing securities at a conversion price equal to 80% of the price per share of Qualified Financing Shares paid by other investors or in some cases the lesser of (i) the aforementioned conversion price or (ii) the price per share equal to the Target Valuation at the time of conversion as defined in the underlying agreement divided by the aggregate number of outstanding shares of the Company's common stock immediately prior to the initial close of the Qualified Financing. Qualified Financing securities consist of shares of the same class and series of stock issued to other investors in the Qualified Financing. A Qualified Financing is defined as an issuance of shares with immediately available proceeds of not less than \$5 million, of which not less than 50% is funded by a professional venture capital firm or strategic advisor.

In the event of a Significant Transaction as defined by the underlying agreements, all convertible notes shall be surrendered for shares of common stock of the Company for a conversion price per share equal to the Company's Target Valuation at the time of conversion as defined in the underlying agreement divided by the aggregate number of outstanding shares of the Company's common stock. A significant transaction is defined as the sale or disposition of all or substantially all of the Company's property or business or a merger or consolidation with another entity, whereby the stockholders of the Company prior to the merger or consolidation do not retain a 50% or greater ownership interest.

If the notes are not converted into equity pursuant to a qualified financing or significant transaction defined above, the notes, at the option of the holder, may be converted into shares of common stock of the Company at maturity. The conversion price shall be equal to the Target Valuation at the time of conversion as defined in the underlying agreement divided by the aggregate number of outstanding shares of the Company's common stock immediately prior to conversion.

Convertible notes, as disclosed above, issued to related parties totaled \$525,000 and \$275,000 during the years ended December 31, 2020 and 2019, respectively.

6. STOCKHOLDERS' EQUITY

During 2020, 193,333 shares of common stock were issued for cash totaling \$1,600,000. During 2019, 333,336 shares of common stock were issued for cash totaling \$2,500,020 and 726 shares of common stock were issued in conjunction with the exercise of stock options for \$2,541. The Company has recorded a stock subscription receivable for the common stock issued for the exercised stock options.

Of the 193,333 and 333,336 shares of common stock issued during 2020 and 2019, respectively, 183,333 and 300,002 shares were issued to related parties for total consideration of \$1,500,000 and \$2,250,015 during 2020 and 2019, respectively

7. STOCK-BASED COMPENSATION

The Company has a stock-based compensation plan (the "Plan") for certain employees and officers.

Option terms are expected to be 7.5 years, and the vesting terms vary depending on the option holder. As of December 31, 2020, the maximum number of shares available for issuance to participants under the Plan was 250,000.

The Notes to Financial Statements are an integral part of these statements.

American Robotics, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

The fair value of each option is estimated on the date of grant using the Black-Scholes option valuation model based on the assumptions noted in the table below. The expected terms of options represent the period that the Company's stock-based awards are expected to be outstanding.

The risk-free interest rate for periods related to the expected life of the options is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected volatility is based on volatilities noted by similar public companies. The expected dividend yield is zero, as the Company does not anticipate paying dividends in the near future.

Stock-based compensation expense recognized during the years ended December 31, 2020 and 2019 was \$98,692 and \$69,329, respectively. As of December 31, 2020 and 2019, the total unrecognized stock-based compensation balance for unvested options was \$266,631 and \$258,810, respectively, which is expected to be recognized ratably through October 2025.

The following valuation assumptions were used to determine stock-based compensation for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Expected term	7.5	7.5
Volatility	96%	77% - 82%
Risk-free interest rate	0.87%	1.72% - 1.85%
Dividend yield	-0%	-0%

The following table summarizes stock option activity for the years ended December 31, 2020 and 2019:

	<u>Number of Options Outstanding</u>	<u>Weighted Average Exercise Price per Share</u>	<u>Aggregate Intrinsic Value</u>
Balance at January 1, 2019	136,349	\$ 2.79	\$ -
Options granted	48,500	\$ 4.13	\$ -
Options forfeited	(11,774)	\$ (3.50)	\$ -
Options exercised	(726)	\$ (3.50)	\$ -
Balance at December 31, 2019	172,349	\$ 3.62	\$ -
Options granted	15,000	\$ 6.31	\$ -
Options forfeited	(12,546)	\$ 3.56	\$ -
Balance at December 31, 2020	174,803	\$ 4.37	\$ -
Exercisable at December 31, 2020	91,449	\$ 4.37	\$ -

The Notes to Financial Statements are an integral part of these statements.

American Robotics, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

8. INCOME TAXES

The Company's deferred income tax assets as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Deferred tax assets		
Net operating loss carryforwards	\$ 1,956,545	\$ 1,367,019
Temporary differences	(4,602)	(3,792)
Stock based compensation	1,951,942	1,363,227
Valuation allowance	(1,951,942)	(1,363,227)
Total net deferred tax assets	\$ -	\$ -

Deferred tax assets result primarily from unutilized net operating losses, stock-based compensation, and fixed assets. As of December 31, 2020, the Company has approximately \$876,000 in federal net operating loss carryforwards available to offset future taxable income that will begin to expire in 2037 and approximately \$8,441,000 in federal net operating loss carryforwards available to offset future taxable income that have an indefinite life. In addition, the company has approximately \$8,851,000 in state loss carryforwards available to offset future income.

In assessing the realizability of the Company's deferred tax assets, management considers whether or not it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management's assessment is based upon the weight of available evidence, including cumulative losses since inception and expected future losses and as such, management does not

believe it is more likely than not that the deferred tax assets will be realized. Accordingly, a full valuation allowance has been established and no deferred tax assets and related tax benefits have been recognized in the accompanying financial statements.

9. PAYMENT PROTECTION PROGRAM (“PPP”) AND ECONOMIC INJURY DISASTER LOAN (“EIDL”)

On April 21, 2020, the Company executed an unsecured promissory note (the “PPP loan”) for \$247,029 through the PPP established under the Coronavirus Aid, Relief, and Economic Security Act, and administered by the United States Small Business Administration (“SBA”). The PPP loan is guaranteed by the SBA. The PPP loan may be forgiven, in whole or in part, if the Company was eligible for the PPP loan at the time of application, used the loan proceeds for eligible expenses within the defined 8 or 24-week period after the PPP loan was disbursed (“covered period”), and otherwise satisfied PPP requirements. The PPP loan was made through Silicon Valley Bank (the “Lender”), has a two-year term, bears interest at 1.00% per annum, and matures on April 21, 2022. If the PPP loan is not forgiven, monthly principal and interest payments are deferred until the end of the covered period.

The Notes to Financial Statements are an integral part of these statements.

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American Robotics, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

When it applied for the loan, the Company believed it would qualify to have the loan forgiven under the terms of PPP, and therefore considered the loan to be a conditional government grant. The Company has performed initial calculations for PPP loan forgiveness, and expects that the PPP loan will be forgiven in full because 1) the Company has, prior to December 31, 2020, utilized all of the proceeds for payroll and other qualified expenses and 2) the Company believes it will continue to comply with other terms and conditions necessary for forgiveness. Accordingly, the Company has recognized the \$247,029 of PPP funding as grant income in 2020.

The Company submitted the PPP loan forgiveness application on April 30, 2021. Although the Company believes it is probable that the PPP loan will be forgiven, the Company’s application must be evaluated by the lender and SBA before forgiveness is formally granted. Therefore, there is no guarantee that any portion of the PPP loan proceeds will be forgiven, and the Company is legally obligated to repay the PPP loan until such time as legal release is received.

The Company also received an economic injury disaster loan (“EIDL”) grant of \$10,000 in May 2020. This grant is grouped as part of grant income on the statement of operations.

10. RISK AND UNCERTAINTIES

Management is currently evaluating the impact of the COVID-19 virus on its business operations. While it is reasonably possible that the virus could have a negative impact on the financial condition and results of operations, the specific impact is not readily determinable as of the date of these financial statements.

11. RELATED PARTY TRANSACTIONS

As of December 31, 2020 and 2019, \$200,000 and \$175,000, respectively, of convertible notes were issued to immediate family members of the Company’s CEO. These notes have the same terms as outlined in Note 5 to the financial statements.

As of December 31, 2020 and 2019, \$50,000 and \$100,000, respectively, of convertible notes were issued to Charles Parkhurst, Director at the Company. These notes have the same terms as outlined in Note 5 to the financial statements.

During the year ended December 31, 2019, certain immediate members of the Company’s CEO purchased 26,688 shares of common stock for total consideration of \$200,010.

The Notes to Financial Statements are an integral part of these statements.

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American Robotics, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

During the year ended December 31, 2019, Charles Parkhurst, Director at the Company, purchased 6,667 shares of common stock for total consideration of \$50,003.

During the years ended December 31, 2020 and 2019, David Morgan, a significant shareholder purchased 266,667 and 183,333 shares of common stock for total consideration of \$1,500,000 and \$2,000,003, respectively.

12. SUBSEQUENT EVENTS

On January 15, 2021, the Company received approval from the Federal Aviation Administration (“FAA”) permitting the Company to sell its product commercially.

In February 2021, \$250,000 of convertible notes were issued bearing interest at 6% per annum. Unless converted, these notes will automatically mature and be fully payable, including accrued interest, on dates ranging from February 2, 2024 to February 4, 2024. These notes have the same conversion terms as outlined in Note 5 to the financial statements.

Company is pending a sale of business where the transaction is expected to close during the second quarter of 2021. In anticipation of the sale, the Company was issued a loan for \$2,000,000 in exchange for negotiation exclusivity. Loan proceeds are to be used for the production of units and increasing headcount for the duration of the negotiations. Any remaining proceeds at the time of sale, if any, will revert to the new combined entity.

The Company has evaluated subsequent events through May 10, 2021, the date the financial statements were available to be issued and has determined that, with the

exception of the matter noted above, there were no other events which occurred requiring disclosure in or adjustments to the financial statements.

The Notes to Financial Statements are an integral part of these statements.



AMERICAN ROBOTICS, INC.
Financial Statements
March 31, 2021 and 2020

American Robotics, Inc.
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March 31, 2021 and 2020

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American Robotics, Inc.
Balance Sheets

	March 31, 2021 (Unaudited)	December 31, 2020 (Unaudited)
Assets		
Current assets		
Cash and cash equivalents	\$ 725,483	\$ 1,056,290
Accounts receivable	5,643	5,643
Total current assets	<u>731,126</u>	<u>1,061,933</u>
Property and equipment, net	156,146	69,683
Security deposit	24,166	24,166
Right-of-Use Asset	<u>501,589</u>	<u>543,804</u>
Total assets	<u>\$ 1,413,027</u>	<u>\$ 1,699,586</u>
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	\$ 305,268	\$ 330,004

Deferred revenue	77,500	77,500
Accrued interest	212,999	172,574
Current portion of operating lease liability	173,014	170,361
Total current liabilities	<u>768,781</u>	<u>750,439</u>
Long-term liabilities		
Operating lease liability, net of current portion	346,025	390,215
Convertible notes	2,200,000	1,950,000
Convertible notes, related party	525,000	525,000
Total long-term liabilities	<u>3,071,025</u>	<u>2,865,215</u>
Commitments & contingencies (Note 4)	-	-
Stockholders' deficit		
Common stock, \$0.0001 par value, 10,000,000 shares authorized, 2,155,965 shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively	215	215
Additional paid-in capital	7,461,515	7,444,426
Subscription receivable	(2,541)	(2,541)
Accumulated deficit	(9,885,968)	(9,358,168)
Total stockholders' deficit	<u>(2,426,779)</u>	<u>(1,916,068)</u>
Total liabilities and stockholders' deficit	<u>\$ 1,413,027</u>	<u>\$ 1,699,586</u>

The Notes to Financial Statements are an integral part of these statements.

1

American Robotics, Inc.
Statements of Operations
Periods Ending March 31, 2021 and 2020

	March 31, 2021 (Unaudited)	March 31, 2020 (Unaudited)
Revenue	<u>\$ 50,000</u>	<u>\$ -</u>
Operating expenses		
General and administrative expenses	617,291	582,539
Research and development	145,114	119,585
Selling and marketing	10,659	2,816
	<u>773,064</u>	<u>704,940</u>
Loss from operations	<u>(723,064)</u>	<u>(704,940)</u>
Other income (expense)		
Grant income	235,846	-
Interest expense	(40,582)	(29,255)
Interest income	-	21
	<u>195,264</u>	<u>(29,234)</u>
Net loss	<u>\$ (527,800)</u>	<u>\$ (734,174)</u>

The Notes to Financial Statements are an integral part of these statements.

2

American Robotics, Inc.
Statements of Changes in Stockholders' Deficit
Periods Ending March 31, 2021 and 2020 (Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Subscription Receivable	Total Stockholders' Deficit
	Shares	Amount				
Balance, January 1, 2020	1,962,632	\$ 196	\$ 5,775,116	\$ (6,910,516)	\$ (2,541)	\$ (1,137,745)
Stock-based compensation	-	-	16,297	-	-	16,297
Exercise of stock options	-	-	-	-	-	-
Issuance of common stock	50,000	5	499,995	-	-	500,000

Net loss	-	-	-	(734,174)	-	(734,174)
Balance, March 31, 2020	2,012,632	201	6,291,408	(7,644,690)	(2,541)	(1,355,622)
Balance, December 31, 2020	2,155,965	215	7,444,426	(9,358,168)	(2,541)	(1,916,068)
Stock-based compensation	-	-	17,089	-	-	17,089
Net loss	-	-	-	(527,800)	-	(527,800)
Balance, March 31, 2021	<u>2,155,965</u>	<u>\$ 215</u>	<u>\$ 7,461,515</u>	<u>\$ (9,885,968)</u>	<u>\$ (2,541)</u>	<u>\$ (2,426,779)</u>

The Notes to Financial Statements are an integral part of these statements.

American Robotics, Inc.
Statements of Cash Flows
Periods Three Months Ended March 31, 2021 and 2020

	March 31, 2021 (Unaudited)	March 31, 2020 (Unaudited)
Operating activities		
Net loss	\$ (527,800)	\$ (734,174)
Adjustments to net loss:		
Depreciation expense	3,537	3,537
Stock-based compensation	17,089	16,297
Difference in ROU and lease liability change	678	2,005
Changes in operating assets/liabilities:		
Accounts receivable, net	-	-
Security deposits	-	-
Accounts payable	(24,736)	(36,284)
Accrued expenses and interest	40,425	29,255
Deferred revenue	-	10,000
Net cash used in operating activities	<u>(490,807)</u>	<u>(709,367)</u>
Investing activities		
Purchase of property and equipment	(90,000)	(6,770)
Net cash provided by investing activities	<u>(90,000)</u>	<u>(6,770)</u>
Financing activities		
Proceeds from issuance of common stock	-	500,000
Proceeds from issuance of convertible notes	250,000	300,000
Net cash provided by financing activities	<u>250,000</u>	<u>800,000</u>
Net change in cash and cash equivalents	(330,807)	83,866
Cash and cash equivalents		
Beginning of period	1,056,290	854,364
End of period	<u>\$ 725,483</u>	<u>\$ 938,230</u>
Supplemental Information:		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income Taxes	<u>\$ -</u>	<u>\$ -</u>

The Notes to Financial Statements are an integral part of these statements.

American Robotics, Inc.
Notes to Financial Statements
March 31, 2021 and 2020

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Nature of Business

American Robotics, Inc. (the “Company”) was incorporated on October 13, 2016 in Delaware, and is a developer of specialized drone technology. The Company manufactures an autonomous remote sensing drone solution consisting of a custom-designed drone and proprietary base station, the American Robotics Scout system, for use primarily in the agriculture industry. The Company was principally in the research and development phase and has commenced sales as it continues to build and enhance its product as it brings it to market.

Going Concern Uncertainty

The Company’s financial statements have been prepared assuming the Company will continue as a going concern. The Company has stockholders’ deficit of approximately \$2.4 million as of March 31, 2021 and incurred a loss from operations of approximately \$0.5 million and used approximately \$0.5 million in cash for operating activities during the period ended March 31, 2021 raising substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in response to this are to start commercial drone sales as well as reducing costs as needed and working towards raising additional capital through issuance of common stock or other financing to obtain the necessary funding and sustain operations.

The Company’s ability to fund operations and capital expenditures in the future will be dependent on its ability to achieve its plan objectives. However, there can be no assurance that the Company will be able to achieve its strategic initiatives or obtain additional funding in the future. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Company is presented to assist in understanding the Company’s financial statements. These accounting policies have been consistently applied in the preparation of the financial statements.

Basis of Presentation

The accompanying financial statements of the Company are presented in U.S. dollars in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

Cash and Cash Equivalents

The Company considers cash equivalents to be only those investments which are highly liquid, readily convertible to cash, and have a maturity date of ninety days or less from the date of purchase. The Company considers balances held in money market accounts to be cash equivalents. The Company maintains its cash in bank deposit accounts which at times, may exceed federally insured limits. The Company has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of certain assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include depreciation and stock-based compensation. Actual results could differ from those amounts.

**American Robotics, Inc.
Notes to Financial Statements
March 31, 2021 and 2020**

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Maintenance and repairs are charged to expenses as incurred; major renewals and betterments are capitalized. Depreciation expense is computed on the straight-line method based on the assets’ estimated useful lives as follows:

<u>Description</u>	<u>Estimated Life (Years)</u>
Leasehold improvements	6-15
Furniture and fixtures	7
Computer equipment	5

Income Taxes

Income taxes are accounted for in accordance with the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 740, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. The differences are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized.

The pronouncement dealing with uncertain tax positions clarifies the accounting for uncertainty in income taxes recognized in the Company’s financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The pronouncement also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure and transition. The Company had no uncertain tax positions for the years ended December 31, 2020 and 2019, respectively. Further, there were no tax related interest or penalties included in the financial statements.

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* (Topic 606). This new standard replaces all previous accounting guidance on this topic and eliminates all industry-specific guidance. The new revenue recognition guidance provides a unified model to determine how revenue is recognized. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In doing so, companies need to use more judgment

and make more estimates than under prior guidance. Judgments include identifying performance obligations in the contract, estimating the amount of consideration to include in the transaction price, and allocating the transaction price to each performance obligation.

American Robotics, Inc.
Notes to Financial Statements
March 31, 2021 and 2020

In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under its agreements, the Company performs the following steps: (i) identify contracts with customers; (ii) identify performance obligations; (iii) determine the transaction price; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in Topic 606. The Company's performance obligations include deployment of its Scout aerial drone system to the customer and recurring subscription license to the Company's ScoutBase and ScoutView drone support products.

The Company recognizes revenue upon deployment and delivery of its Scout aerial drone system as the customer then has access to the product. Upon delivery, the Company has an ongoing performance obligation to provide a subscription license to the customer during the life of the contract. Subscription license revenue is recognized ratably over the term of the applicable contract once the product has been delivered. It is expected that the Company will begin delivery and performance on customer contracts in the second quarter of 2021.

Subscription Revenue

The Company leases the use of its Scout aerial drone system which includes access to its ScoutBase and ScoutView drone support products, pursuant to contractual obligations. The Company recognizes revenue ratably over the life of the contract as the services are transferred to the customer. Subscription revenue amounted to \$50,000 and \$0 for the periods ended March 31, 2021 and 2020, respectively.

Deferred Revenue

If a customer pays consideration before the Company transfers goods or services, the amount of consideration is presented as deferred revenue. The amount of deferred revenue will increase or decrease based upon the timing of invoices and collections and recognition of revenues. As of March 31, 2021 and 2020, deferred revenue amounted to \$77,500 and \$10,000, respectively.

General and Administrative

General and administrative expenses primarily include salaries and wages, professional services, travel, meals and entertainment, and rent expense.

Selling and Marketing

Selling and marketing expense is primarily made up of trade show fees, advertising costs, and promotional fees. The Company expenses advertising costs as incurred. For the periods ended March 31, 2021 and 2020, advertising expense charged to operations totaled \$10,659 and \$2,816, respectively, and is included in selling and marketing expense in the statements of operations.

Research and Development

Costs incurred for research and product development are expensed as incurred. Research and development costs consist primarily of engineering services and parts and materials during the product development phase. The Company recognizes research and development expenses in the period in which it becomes obligated to incur such costs.

American Robotics, Inc.
Notes to Financial Statements
March 31, 2021 and 2020

Stock-Based Compensation

Stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense, ratably over the vesting period of the award. In addition, the pronouncement dealing with stock-based compensation requires additional accounting related to the income tax effects and disclosures regarding the cash flow effects resulting from stock-based payment arrangements. Calculating stock-based compensation expense requires the input of highly subjective assumptions, including the expected term of the stock-based awards, volatility, dividend yield, and risk-free rates.

The assumptions used in calculating the fair value of stock-based awards represent the Company's best estimates, but these estimates involve inherent uncertainties and the application of management judgement. As a result, if factors change and the Company uses different assumptions, its stock-based compensation could be materially different in the future.

Pending Accounting Pronouncement

There were various other accounting standards and interpretations issued recently, none of which are expected to have a material impact on the Company's financial position, operations, or cash flows. Management has evaluated these new pronouncements through May 21, 2021.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of March 31, 2021 and December 31, 2020:

March 31,	December 31,
2021	2020

Computer equipment	\$ 20,347	\$ 20,347
Leasehold improvements	7,522	7,522
Furniture and fixtures	165,898	75,898
	193,767	103,767
Accumulated depreciation	(37,621)	(34,084)
	<u>\$ 156,146</u>	<u>\$ 69,683</u>

Depreciation expense charged to operations for the periods ended March 31, 2021 and 2020 amounted to \$3,537 and \$3,537, respectively.

4. COMMITMENTS

In March 2018, the Company entered into a 70-month lease for 62,621 square feet of office space for the Company's corporate office in Marlborough, Massachusetts. Subsequently, in June 2018 this lease was amended to include an additional 10,450 square feet of office space. A right-of-use asset and operating lease liability has been recorded with the adoption of Topic 842, pertaining to this office lease. As this lease does not provide an implicit interest rate, the Company calculated a 3% interest rate based on the annual increase in rent to determine the lease liability. Operating lease expense is recognized on a straight-line basis over the lease term. Operating lease expense was \$41,537 and \$39,003 for the periods ended March 31, 2021 and 2020, respectively.

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American Robotics, Inc. Notes to Financial Statements March 31, 2021 and 2020

The future minimum lease payments relating to these commitments are as follows:

2021	\$ 139,220
2022	190,401
2023	196,117
2024	16,624
	<u>\$ 542,362</u>

Rent expense for the periods ended March 31, 2021 and 2020 was \$66,739 and \$75,786, respectively.

The Company has entered into an agreement with an unrelated third party to assist in the development of its product. In connection with this agreement, the Company has agreed to pay \$1,000,000 for the development assistance, of which \$800,000 was incurred and paid in 2019, with the remaining \$200,000 incurred and paid in 2020. Such amounts are included in research and development expenses on the statements of operations.

Additionally, the Company has agreed to make royalty installment payments to such party totaling \$1,000,000 commencing upon the first sale of the product and continuing over a period of 3 1/2 years. The installment payments are to be made in 5 equal amounts of \$200,000 at certain defined intervals as follows: date of the first sale, 6 months, 18 months, 30 months, 42 months. As of March 31, 2021, no sales of this product have occurred.

5. CONVERTIBLE NOTES

During March 31, 2021 and 2020, the Company issued convertible notes totaling \$250,000 and \$300,000, respectively, bearing interest at 6% per annum. As of March 31, 2021 and 2020, the convertible notes payable balance consisted of principal outstanding of \$2,725,000 and \$2,025,000 and accrued interest of \$212,999 and \$76,593, respectively. Unless converted, these notes will automatically mature and be fully payable, including accrued interest, on dates ranging from January 31, 2023 to February 3, 2024.

In the event of a qualified financing, the outstanding principal and accrued interest will convert into Qualified Financing securities at a conversion price equal to 80% of the price per share of Qualified Financing Shares paid by other investors or in some cases the lesser of (i) the aforementioned conversion price or (ii) the price per share equal to the Target Valuation at the time of conversion as defined in the underlying agreement divided by the aggregate number of outstanding shares of the Company's common stock immediately prior to the initial close of the Qualified Financing. Qualified Financing securities consist of shares of the same class and series of stock issued to other investors in the Qualified Financing. A Qualified Financing is defined as an issuance of shares with immediately available proceeds of not less than \$5 million, of which not less than 50% is funded by a professional venture capital firm or strategic advisor.

In the event of a Significant Transaction as defined by the underlying agreements, all convertible notes shall be surrendered for shares of common stock of the Company for a conversion price per share equal to the Company's Target Valuation at the time of conversion as defined in the underlying agreement divided by the aggregate number of outstanding shares of the Company's common stock. A significant transaction is defined as the sale or disposition of all or substantially all of the Company's property or business or a merger or consolidation with another entity, whereby the stockholders of the Company prior to the merger or consolidation do not retain a 50% or greater ownership interest.

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American Robotics, Inc. Notes to Financial Statements March 31, 2021 and 2020

If the notes are not converted into equity pursuant to a qualified financing or significant transaction defined above, the notes, at the option of the holder, may be converted into shares of common stock of the Company at maturity. The conversion price shall be equal to the Target Valuation at the time of conversion as defined in the underlying agreement divided by the aggregate number of outstanding shares of the Company's common stock immediately prior to conversion.

Convertible notes, as disclosed above, issued to related parties totaled \$-0- and \$50,000 during the periods ended March 31, 2021 and 2020, respectively.

6. STOCKHOLDERS' EQUITY

During the three months ended March 31, 2021 and 2020, no share issuance occurred.

7. STOCK-BASED COMPENSATION

The Company has a stock-based compensation plan (the “Plan”) for certain employees and officers.

Option terms are expected to be 7.5 years, and the vesting terms vary depending on the option holder. As of March 31, 2021, the maximum number of shares available for issuance to participants under the Plan was 250,000.

The fair value of each option is estimated on the date of grant using the Black-Scholes option valuation model based on the assumptions noted in the table below. The expected terms of options represent the period that the Company’s stock-based awards are expected to be outstanding.

The risk-free interest rate for periods related to the expected life of the options is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected volatility is based on volatilities noted by similar public companies. The expected dividend yield is zero, as the Company does not anticipate paying dividends in the near future.

Stock-based compensation expense recognized during the three months ended March 31, 2021 and 2020 was \$17,089 and \$16,297, respectively. As of March 31, 2021 and 2020, the total unrecognized stock-based compensation balance for unvested options was \$190,441 and \$259,434, respectively, which is expected to be recognized ratably through October 2025.

The following valuation assumptions were used to determine stock-based compensation for the three - month periods ended March 31, 2021 and 2020:

Expected term	7.5
Volatility	96%
Risk-free interest rate	0.87%
Dividend yield	-0-%

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American Robotics, Inc. Notes to Financial Statements March 31, 2021 and 2020

The following table summarizes stock option activity for the three-month periods ended March 31, 2021 and 2020:

	Number of Options Outstanding	Weighted Average Exercise Price per Share	Aggregate Intrinsic Value
Balance at December 31, 2019	172,349	\$ 3.62	\$ -
Options granted	-	\$ -	\$ -
Options exercised	-	\$ -	\$ -
Options cancelled or forfeited	(945)	\$ (3.56)	\$ -
Options expired	-	\$ -	\$ -
Balance at March 31, 2020	171,404	\$ 3.66	\$ -
Balance at December 31, 2020	174,803	\$ 4.37	\$ -
Options granted	-	\$ -	\$ -
Options exercised	(13,000)	\$ (3.56)	\$ -
Options forfeited	(17,500)	\$ (3.56)	\$ -
Options expired	-	\$ -	\$ -
Balance at March 31, 2021	144,303	\$ 6.04	\$ -

8. INCOME TAXES

The Company’s estimated interim deferred income tax assets as of March 31, 2021 and 2020 are as follows:

	March 31, 2021	March 31, 2020
Deferred tax assets		
Net operating loss carryforwards	\$ 2,113,000	\$ 743,000
Temporary differences	-	-
	2,113,000	743,000
Valuation allowance	(2,113,000)	(743,000)
Total net deferred tax assets	\$ -	\$ -

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American Robotics, Inc. Notes to Financial Statements March 31, 2021 and 2020

Deferred tax assets result primarily from unutilized net operating losses, stock- based compensation, and fixed assets. As of March 31, 2021, the Company has approximately \$876,000 in federal net operating loss carryforwards available to offset future taxable income that will begin to expire in 2037 and approximately \$9,187,000

in federal net operating loss carryforwards available to offset future taxable income that have an indefinite life. In addition, the company has approximately \$9,008,000 in state loss carryforwards available to offset future income.

In assessing the realizability of the Company's deferred tax assets, management considers whether or not it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management's assessment is based upon the weight of available evidence, including cumulative losses since inception and expected future losses and as such, management does not believe it is more likely than not that the deferred tax assets will be realized. Accordingly, a full valuation allowance has been established and no deferred tax assets and related tax benefits have been recognized in the accompanying financial statements.

9. PAYMENT PROTECTION PROGRAM ("PPP") AND ECONOMIC INJURY DISASTER LOAN ("EIDL")

On April 21, 2020, the Company executed an unsecured promissory note (the "PPP loan") for \$247,029 through the PPP established under the Coronavirus Aid, Relief, and Economic Security Act, and administered by the United States Small Business Administration ("SBA"). The PPP loan is guaranteed by the SBA. The PPP loan may be forgiven, in whole or in part, if the Company was eligible for the PPP loan at the time of application, used the loan proceeds for eligible expenses within the defined 8 or 24-week period after the PPP loan was disbursed ("covered period"), and otherwise satisfied PPP requirements. The PPP loan was made through Silicon Valley Bank (the "Lender"), has a two-year term, bears interest at 1.00% per annum, and matures on April 21, 2022. If the PPP loan is not forgiven, monthly principal and interest payments are deferred until the end of the covered period.

When it applied for the loan, the Company believed it would qualify to have the loan forgiven under the terms of PPP, and therefore considered the loan to be a conditional government grant. The Company has performed initial calculations for PPP loan forgiveness and expects that the PPP loan will be forgiven in full because 1) the Company has, prior to March 31, 2021, utilized all of the proceeds for payroll and other qualified expenses and 2) upon application for forgiveness in April 2021, Company believes it has complied with other terms and conditions necessary for forgiveness as outlined in the application. Accordingly, the Company has recognized the \$247,029 of PPP funding as grant income in April 2020.

The Company submitted the PPP loan forgiveness application on April 30, 2021. Although the Company believes it is probable that the PPP loan will be forgiven, the Company's application must be evaluated by the lender and SBA before forgiveness is formally granted. Therefore, there is no guarantee that any portion of the PPP loan proceeds will be forgiven, and the Company is legally obligated to repay the PPP loan until such time as legal release is received.

Similarly, on February 2, 2021, the Company executed a second promissory note under round two of the PPP program outlined in detail earlier. The second PPP loan was made through the same lender and has similar terms to the first-round note. The Company recognized \$235,846 of grant income related to this note and will apply for forgiveness in July 2021 once the covered period lapses and all funds are utilized.

The Company also received an economic injury disaster loan ("EIDL") grant of \$10,000 in May 2020. This grant is grouped as part of grant income on the statement of operations.

10. RISK AND UNCERTAINTIES

Management is currently evaluating the impact of the COVID-19 virus on its business operations. While it is reasonably possible that the virus could have a negative impact on the financial condition and results of operations, the specific impact is not readily determinable as of the date of these financial statements.

11. RELATED PARTY TRANSACTIONS

As of March 31, 2021 and 2020, \$0- and \$50,000, respectively, of convertible notes were issued to immediate family members of the Company's CEO. These notes have the same terms as outlined in Note 5 to the financial statements.

12. SUBSEQUENT EVENTS

Company is pending a sale of business where the transaction is expected to close during the second quarter of 2021. In anticipation of the sale, the Company was issued a loan for \$2,000,000 in exchange for negotiation exclusivity. Loan proceeds are to be used for the production of units and increasing headcount for the duration of the negotiations. Any remaining proceeds at the time of sale, if any, will revert to the new combined entity.

The Company has evaluated subsequent events through May 21, 2021 date the financial statements were available to be issued and has determined that, with the exception of the matter noted above, there were no other events which occurred requiring disclosure in or adjustments to the financial statements.

Ondas Holdings Inc.
Notes to Unaudited Pro Forma
Condensed Combined Financial Statements

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On May 17, 2021, Ondas Holdings Inc. (the “Company”) entered into an Agreement and Plan of Merger (the “Agreement”) to acquire American Robotics, Inc. (“American Robotics”). American Robotics is a developer of specialized drone technology. American Robotics manufactures an autonomous remote sensing drone solution consisting of a custom-designed drone and proprietary base station, the American Robotics Scout system, for use primarily in the agriculture industry. American Robotics was principally in the research and development phase and has commenced sales as it continues to build and enhance its product as it brings it to market. In January 2021, American Robotics received approval from the Federal Aviation Administration (“FAA”) permitting American Robotics to sell its product commercially.

The Agreement provides that the Company will acquire American Robotics in exchange for (a) cash consideration in an amount equal to (i) \$7,500,000 less certain transaction expenses as described in the Agreement; (b) 6,750,000 validly issued, fully paid and non-assessable shares of the Company’s common stock, \$0.0001 par value per share, as such number may be adjusted by the terms of the Agreement; (c) warrants, in the form of Exhibit E of the Agreement, exercisable for 1,875,000 shares of the Company’s common stock, \$0.0001 par value per share (each a “Warrant”), as such number may be adjusted pursuant to the terms of the Agreement; and (d) the cash released to the Company Stockholders from the PPP Loan Escrow Amount (as defined in the Agreement) (if any). Each Warrant entitles the holder to purchase a number of shares of common stock of the Company at a price equal to the average of the high and low prices of one share of common stock as reported on Nasdaq on the trading day immediately preceding the closing date of the Mergers. Each Warrant shall be exercisable in three equal annual installments commencing on the one year anniversary of the closing date of the Mergers and shall have a term of ten years. The foregoing description of the Warrant is qualified, in its entirety, by the full text of the Form of Warrant, a copy of which is attached hereto as Exhibit 4.1, and is incorporated by reference herein.

If American Robotics’ PPP loans are not forgiven by the U.S. Small Business Administration (the “SBA”) prior to the closing of the Mergers, a portion of the Cash Consideration equaling Indebtedness owed by American Robotics on either of its PPP loans plus an amount equal to the amount of interest that would have accrued on such PPP loans as of their maturity dates, will be held in escrow with American Robotics’ PPP lender. If an escrow account is established to hold the PPP Loan Escrow Amount at the closing, such amount or a portion thereof, as applicable, will be distributed as merger consideration to American Robotics’ Stockholders upon a determination by the SBA that one or both of the PPP loans are forgivable under the CARES Act.

The following unaudited pro forma condensed combined financial statements are based on the Company’s audited and unaudited interim historical consolidated financial statements and American Robotics’ audited historical and unaudited interim financial statements as adjusted to give effect to the Company’s acquisition of American Robotics. The unaudited pro forma condensed combined balance sheet as of March 31, 2021 gives effect to these transactions as if they occurred on March 31, 2021. The unaudited pro forma condensed combined statements of operations for the twelve months ended December 31, 2020 and the three months ended March 31, 2021 give effect to these transactions as if they occurred on January 1, 2020.

The unaudited pro forma condensed combined financial statements should be read together with the Company’s audited historical financial statements, which are included in the Company’s most recent Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 8, 2021, and the most recent Quarterly Report on Form 10-Q, which was filed with the Securities and Exchange Commission on May 17, 2021, and American Robotics’ audited historical financial statements as of and for the year ended December 31, 2020 and unaudited financial statements as of and for the three months ended March 31, 2021 included in this Form 8-K.

Ondas Holdings Inc.
Notes to Unaudited Pro Forma
Condensed Combined Financial Statements

The unaudited pro forma combined financial information is provided for informational purpose only and is not intended to represent or be indicative of the consolidated results of operations or financial position that the Company would have reported had the American Robotics transaction closed on the dates indicated and should not be taken as representative of our future consolidated results of operations or financial position.

The pro forma adjustments related to the Agreement are described in the notes to the unaudited pro forma combined financial information and principally include the following:

- Pro forma adjustment to eliminate the American Robotics liabilities and owners’ equity not acquired.
- Pro forma adjustment to record the merger of the Company and American Robotics.

The adjustments to fair value and the other estimates reflected in the accompanying unaudited pro forma condensed consolidated financial statements may be materially different from those reflected in the combined company’s consolidated financial statements subsequent to the merger. In addition, the unaudited pro forma condensed combined financial statements do not purport to project the future financial position or results of operations of the combined companies. Reclassifications and adjustments may be required if changes to American Robotics’ financial presentation are needed to conform American Robotics’ accounting policies to the accounting policies of Ondas Holdings, Inc.

These unaudited pro forma condensed combined financial statements do not give effect to any anticipated synergies, operating efficiencies or cost savings that may be associated with the Agreement. These financial statements also do not include any integration costs the companies may incur related to the transactions as part of combining the operations of the companies.

ONDAS HOLDINGS INC.
PRO FORMA CONDENSED COMBINED BALANCE SHEETS
As of March 31, 2021
(Unaudited)

Ondas Holdings Inc.	American Robotics	Transaction Accounting Adjustments	Notes	Pro Forma Combined
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ASSETS

Current Assets:

Cash and cash equivalents	\$ 24,026,187	\$ 725,483	\$ (9,500,000)	A	\$ 15,251,670
Accounts receivable, net	19,226	5,643	-		24,869
Inventory, net	1,152,247	-	-		1,152,247
Other current assets	1,003,482	-	-		1,003,482
Total current assets	<u>26,201,142</u>	<u>731,126</u>	<u>(9,500,000)</u>		<u>17,432,268</u>

Property and equipment, net	<u>196,223</u>	<u>156,146</u>	<u>-</u>		<u>352,369</u>
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Other Assets:

Intangible assets, net	332,603	-	40,986,000	B	41,318,603
Goodwill	-	-	19,655,280	B	19,655,280
Lease deposits	118,577	-	-		118,577
Deferred offering costs	99,958	-	-		99,958
Operating lease right of use assets	-	501,589	-		501,589
Other assets	-	24,166	-		24,166
Total other assets	<u>551,138</u>	<u>525,755</u>	<u>60,641,280</u>		<u>61,718,173</u>
Total assets	<u>\$ 26,948,503</u>	<u>\$ 1,413,027</u>	<u>\$ 51,141,280</u>		<u>\$ 79,502,810</u>

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities:

Accounts payable	\$ 1,934,803	\$ 305,268	\$ -		\$ 2,240,071
Operating lease liabilities	-	173,014	-		173,014
Accrued transaction costs	-	-	2,000,000	C	2,000,000
Accrued expenses and other current liabilities	2,181,299	212,999	(212,999)	D	2,181,299
Secured promissory note, net of debt discount of \$59,914 and \$120,711, respectively	7,064,364	-	-		7,064,364
Deferred revenue	56,184	77,500	-		133,684
Notes payable	104,343	-	-		104,343
Total current liabilities	<u>11,340,993</u>	<u>768,781</u>	<u>1,787,001</u>		<u>13,896,775</u>

Long-Term Liabilities:

Notes payable	861,748	-	-		861,748
Accrued interest	36,829	-	-		36,829
Operating lease liabilities - net of current portion	-	346,025	-		346,025
Convertible notes	-	2,200,000	(2,200,000)	D	-
Convertible notes - related party	-	525,000	(525,000)	D	-
Total long-term liabilities	<u>898,577</u>	<u>3,071,025</u>	<u>(2,725,000)</u>		<u>1,244,602</u>
Total liabilities	<u>12,239,570</u>	<u>3,839,806</u>	<u>(937,999)</u>		<u>15,141,377</u>

Stockholders' Equity (Deficit):

Common stock - par value \$0.0001	2,667	-	732	E	3,399
Common stock warrants	-	-	5,887,500	E	5,887,500
Owners' Equity	-	(2,426,779)	2,426,779	F	-
Additional paid in capital	83,093,932	-	49,648,643	E	132,742,575
Accumulated deficit	(68,387,666)	-	(5,884,375)	C, E	(74,272,041)
Total stockholders' equity (deficit)	<u>14,708,933</u>	<u>(2,426,779)</u>	<u>52,079,279</u>		<u>64,361,433</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 26,948,503</u>	<u>\$ 1,413,027</u>	<u>\$ 51,141,280</u>		<u>\$ 79,502,810</u>

ONDAS HOLDINGS INC.
PRO FORMA CONDENSED COMBINED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2021
(Unaudited)

	Ondas Holdings Inc.	American Robotics	Transaction Accounting Adjustments	Notes	Pro Forma Combined
Revenues, net	\$ 1,164,764	\$ 50,000	\$ -		\$ 1,214,764
Cost of goods sold	<u>555,350</u>	<u>-</u>	<u>-</u>		<u>555,350</u>
Gross profit	<u>609,414</u>	<u>50,000</u>	<u>-</u>		<u>659,414</u>
Operating expenses:					
General and administration	2,408,854	617,291	759,786	D, E	3,785,931
Sales and marketing	187,372	10,659	-		198,031
Research and development	894,576	145,114	-		1,039,690
Amortization	-	-	683,100	B	683,100
Total operating expenses	<u>3,490,802</u>	<u>773,064</u>	<u>1,442,886</u>		<u>5,706,752</u>
Operating loss	<u>(2,881,388)</u>	<u>(723,064)</u>	<u>(1,442,886)</u>		<u>(5,047,338)</u>
Other income (expense)					
Other income (expense)	(34,176)	-	-		(34,176)

Grant income	-	235,846	-		235,846
Interest income	32	-	-		32
Interest expense	(222,587)	(40,582)	40,582	D	(222,587)
Total other income (expense)	<u>(256,731)</u>	<u>195,264</u>	<u>40,582</u>		<u>(20,885)</u>
Loss before provision for income taxes	(3,138,119)	(527,800)	(1,402,304)		(5,068,223)
Provision for income taxes	-	-	-		-
Net loss	<u>(3,138,119)</u>	<u>(527,800)</u>	<u>\$ (1,402,304)</u>		<u>\$ (5,068,223)</u>
Net loss per share - basic and diluted	<u>\$ (0.12)</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ (0.14)</u>
Weighted average number of common shares outstanding, basic and diluted	<u>26,672,040</u>	<u>-</u>	<u>9,197,917</u>	E	<u>35,869,957</u>

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ONDAS HOLDINGS INC.
PRO FORMA CONDENSED COMBINED STATEMENTS OF OPERATIONS
For the Year Ended December 31, 2020
(unaudited)

	Ondas Holdings Inc.	American Robotics	Transaction Accounting Adjustments	Notes	Pro Forma Combined
Revenues, net	\$ 2,163,719	\$ 8,100	\$ -		\$ 2,171,819
Cost of goods sold	1,236,051	-	-		1,236,051
Gross profit	<u>927,668</u>	<u>8,100</u>	<u>-</u>		<u>935,768</u>
Operating expenses:					
General and administration	7,641,234	1,916,171	3,038,171	D, E	12,595,576
Sales and marketing	1,223,767	126,862	-		1,350,629
Research and development	3,586,553	544,537	-		4,131,090
Amortization	-	-	2,732,400	B	2,732,400
Total operating expense	<u>12,451,554</u>	<u>2,587,570</u>	<u>5,770,571</u>		<u>20,809,695</u>
Operating loss	<u>(11,523,886)</u>	<u>(2,579,470)</u>	<u>(5,770,571)</u>		<u>(19,873,927)</u>
Other income (expense)					
Other income (expense)	20,209	-	-		20,209
Grant income	-	257,029	-		257,029
Transaction expenses	-	-	(2,000,000)	C	(2,000,000)
Interest income	251	25	-		276
Interest expense	(1,936,847)	(125,236)	125,236	D	(1,936,847)
Change in fair value of derivative liability	(37,607)	-	-		(37,607)
Total other income (expense)	<u>(1,953,994)</u>	<u>131,818</u>	<u>(1,874,764)</u>		<u>(3,696,940)</u>
Loss before provision for income taxes	(13,477,880)	(2,447,652)	(7,645,335)		(23,570,867)
Provision for income taxes	-	-	-		-
Net loss	<u>\$ (13,477,880)</u>	<u>\$ (2,447,652)</u>	<u>\$ (7,645,335)</u>		<u>\$ (23,570,867)</u>
Net loss per share - basic and diluted	<u>\$ (0.66)</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ (0.80)</u>
Weighted average number of common shares outstanding, basic and diluted	<u>20,428,490</u>	<u>-</u>	<u>9,083,333</u>	E	<u>29,511,823</u>

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Ondas Holdings Inc.
Notes to Unaudited Pro Forma
Condensed Combined Financial Statements

Note 1 – Basis of Presentation

The audited and unaudited interim historical consolidated financial statements have been adjusted in the pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the business combination, (2) factually supportable and (3) with respect to the pro forma condensed combined statements of operations, expected to have a continuing impact on the combined results following the business combination.

The business combination was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. As the acquirer for accounting purposes, the Company has estimated the fair value of American Robotics' assets acquired and liabilities assumed and conformed the accounting policies of American Robotics to its own accounting policies.

The unaudited pro forma condensed combined financial statements are based on our audited and unaudited interim historical consolidated financial statements and American Robotics' audited and unaudited interim historical combined financial statements as adjusted to give effect to the Company's acquisition of American Robotics. The Unaudited Pro Forma Condensed Combined Balance Sheets as of March 31, 2021 gives effect to these transactions as if they occurred on March 31, 2021. The Unaudited Pro Forma Condensed Combined Statements of Operations for the three months ended March 31, 2021 and twelve months ended December 31, 2020 give effect to these transactions as if they occurred on January 1, 2020.

The allocation of the purchase price used in the unaudited pro forma financial statements is based upon a preliminary valuation by management. The final estimate of the fair values of the assets and liabilities will be determined with the assistance of a third-party valuation firm. The Company's preliminary estimates and assumptions are subject to materially change upon the finalization of internal studies and third-party valuations of assets, including investments, property and equipment, intangible assets including goodwill, and certain liabilities.

The Unaudited Pro Forma Condensed Combined Financial Statements are provided for informational purpose only and are not necessarily indicative of what the combined company's financial position and results of operations would have actually been had the transactions been completed on the dates used to prepare these pro forma financial statements. The adjustments to fair value and the other estimates reflected in the accompanying unaudited pro forma condensed combined financial statements may be materially different from those reflected in the combined company's consolidated financial statements subsequent to the transactions. In addition, the Unaudited Pro Forma Condensed Combined Financial Statements do not purport to project the future financial position or results of operations of the combined companies. Reclassifications and adjustments may be required if changes to Ondas Holdings Inc.'s financial presentation are needed to conform Ondas Holdings Inc.'s accounting policies to the accounting policies of the American Robotics.

These unaudited pro forma condensed combined financial statements do not give effect to any anticipated synergies, operating efficiencies or cost savings that may be associated with the transactions. These financial statements also do not include any integration costs the companies may incur related to the transactions as part of combining the operations of the companies.

Ondas Holdings Inc.
Notes to Unaudited Pro Forma
Condensed Combined Financial Statements

Note 2 – Summary of Significant Accounting Policies

The unaudited pro forma condensed combined financial statements have been prepared in a manner consistent with the accounting policies adopted by the Company. The accounting policies followed for financial reporting on a pro forma basis are the same as those disclosed in the Company's 2020 Annual Report on Form 10-K and for American Robotics, the accounting policies followed for financial reporting on a pro forma basis are the same as those disclosed in the audited financial statements included in this Form 8-K. The unaudited pro forma condensed combined financial statements do not assume any differences in accounting policies among the Company and American Robotics. The Company is reviewing the accounting policies of American Robotics to ensure conformity of such accounting policies to those of the Company and, as a result of that review, the Company may identify differences among the accounting policies of the two companies, that when confirmed, could have a material impact on the consolidated financial statements. However, at this time, the Company is not aware of any difference that would have a material impact on the unaudited pro forma condensed combined financial statements.

Note 3 - Purchase Price Allocation

On May 17, 2021, the Company entered into a Plan of Merger and Equity Purchase Agreement (the "Agreement") to acquire American Robotics, Inc. ("American Robotics"). American Robotics is a developer of specialized drone technology. American Robotics manufactures an autonomous remote sensing drone solution consisting of a custom-designed drone and proprietary base station, the American Robotics Scout system, for use primarily in the agriculture industry. American Robotics was principally in the research and development phase and has commenced sales as it continues to build and enhance its product as it brings it to market. In January 2021, American Robotics received approval from the Federal Aviation Administration ("FAA") permitting American Robotics to sell its product commercially.

The Agreement provides that the Company will acquire American Robotics in exchange for (a) cash consideration in an amount equal to (i) \$7,500,000 less certain transaction expenses as described in the Agreement; (b) 6,750,000 validly issued, fully paid and non-assessable shares of the Company's common stock, \$0.0001 par value per share, as such number may be adjusted by the terms of the Agreement; (c) warrants, in the form of Exhibit E of the Agreement, exercisable for 1,875,000 shares of the Company's common stock, \$0.0001 par value per share (each a "Warrant"), as such number may be adjusted pursuant to the terms of the Agreement; and (d) the cash released to the Company Stockholders from the PPP Loan Escrow Amount (as defined in the Agreement) (if any). Each Warrant entitles the holder to purchase a number of shares of common stock of the Company at a price equal to the average of the high and low prices of one share of common stock as reported on Nasdaq on the trading day immediately preceding the closing date of the Mergers. Each Warrant shall be exercisable in three equal annual installments commencing on the one year anniversary of the closing date of the Mergers and shall have a term of ten years. The foregoing description of the Warrant is qualified, in its entirety, by the full text of the Form of Warrant, a copy of which is attached hereto as Exhibit 4.1, and is incorporated by reference herein.

If American Robotics' PPP loans are not forgiven by the U.S. Small Business Administration (the "SBA") prior to the closing of the Mergers, a portion of the Cash Consideration equaling Indebtedness owed by American Robotics on either of its PPP loans plus an amount equal to the amount of interest that would have accrued on such PPP loans as of their maturity dates, will be held in escrow with American Robotics' PPP lender. If an escrow account is established to hold the PPP Loan Escrow Amount at the closing, such amount, or a portion thereof, as applicable, will be distributed as merger consideration to American Robotics' Stockholders upon a determination by the SBA that one or both of the PPP loans are forgivable under the CARES Act.

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The following table summarizes the preliminary allocation of the purchase price based on the estimated fair value of the acquired assets and assumed liabilities as of March 31, 2021:

Purchase price consideration	
Cash	\$ 7,500,000
Parent loan	2,000,000
Common Stock - 6,750,000 Shares	45,765,000
Warrants - 1,875,000 Shares	5,887,500
Total purchase price consideration	<u>\$ 61,152,500</u>
Estimated fair value of assets:	
Cash	\$ 725,483
Accounts receivable	5,643
Property, plant and equipment	156,146
Right of use asset	501,589
Other long-term assets	24,166
	<u>1,413,027</u>
Estimated fair value of liabilities assumed:	
Accounts payable	305,268
Deferred revenue	77,500
Lease liabilities	519,039
	<u>901,807</u>
Net tangible assets	511,220
Intangible assets	40,986,000
Goodwill	<u>19,655,280</u>
Total consideration	<u>\$ 61,152,500</u>

This preliminary purchase price allocation has been used to prepare pro forma adjustments in the pro forma balance sheet and statement of operations. The final purchase price allocation will be determined when the Company has completed the detailed valuations and necessary calculations. The final allocation could differ materially from the preliminary allocation used in the pro forma adjustments. The final allocation may include (1) changes in fair values of property, plant and equipment, (2) changes in allocations to intangible assets such as trade names and technology, as well as goodwill and (3) other changes to assets and liabilities.

This preliminary purchase price allocation has been used to prepare pro forma adjustments in the pro forma balance sheet and statement of operations. The final purchase price allocation will be determined when the Company has completed the detailed valuations and necessary calculations. For purposes of the pro forma condensed combined financial statements, for inventory, property and equipment, leases and other assets and liabilities the Company used the carrying value as reported its unaudited interim financial statement as reported on Form 10-Q for the quarter ended March 31, 2021, and as reported in the unaudited interim financial statements for American Robotics that have been included in this Form 8-K. The final allocation could differ materially from the preliminary allocation used in the pro forma adjustments.

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As discussed above, the purchase price includes a \$7,500,000 in cash and \$2,000,000 Company loan plus \$45,765,000 in common stock and \$5,887,500 in warrants. For purposes of these pro forma combined financial statements, the Company issued 6,750,000 shares of the Company's common stock and warrants for 1,875,000 shares of the Company's common stock. The fair value of the common stock shares was determined based on a per share price of \$6.78, which is the closing price of the Company's common stock on May 25, 2021. The fair value of the warrants was determined based on a per share price of \$3.14, which is the call option value based on a Black-Scholes fair value calculation assuming a term of 5 years, 53.74% volatility rate, and discount rate of 0.84% based on the 5-year treasury yield rate as of May 21, 2021. The following table reflects the impact of a 10% increase or decrease in the per share price on the estimated fair value of the purchase price and goodwill:

	Purchase Price	Estimate Goodwill
As presented in the pro forma combined results	\$ 61,152,500	\$ 19,655,280
10% increase in common stock price	\$ 66,317,750	\$ 24,820,530
10% decrease in common stock price	\$ 55,987,250	\$ 14,490,030

Note 4 – Pro Forma Transaction Accounting Adjustments

The pro forma transaction accounting adjustments are based on our preliminary estimates and assumptions that are subject to change. The following transaction accounting adjustments have been reflected in the unaudited pro forma condensed combined financial information:

- A. This adjustment records the net decrease in cash paid as consideration.
- B. As part of the preliminary valuation analysis, the Company separately identified certain intangible assets with an estimate fair value of \$40,986,000. The fair value was determined primarily using the "income approach", which requires a forecast of the expected future cash flows. Since all the information required to perform a detail valuation analysis of American Robotics' intangible assets could not be obtained as of the date of this filing, for purposes of these unaudited pro forma condensed combined financial statements, the Company used certain assumptions based on publicly available transactions data for the industry. Based on our research and discussions with American Robotics management, we have concluded that the intangible assets have a 15-year useful life, resulting in an adjustment of \$683,100 and \$2,732,400 of amortization expense for the three months ended March 31, 2021 and the twelve months ended December 31, 2020, respectively. These numbers may change significantly when the final allocation of purchase price is calculated.

In addition, this adjustment reflects the recognition of goodwill of \$19,655,280.

- C. This adjustment reflects the accrual of the Company's estimated total transaction costs for legal and other professional fees and expenses, which are estimated to be approximately \$2,000,000.
- D. This adjustment reflects the elimination of convertible notes, convertible notes related party, stock compensation expense, and accrued interest and interest expense on the convertible notes that are expected to be converted to shares in American Robotics prior to closing.

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E. This adjustment records (1) the issuance of 6,750,000 shares of common stock to the sellers as the equity portion of the purchase consideration, valued at \$45,765,000 based on a per share price of \$6.78, which was the closing price of the Company's common stock on May 25, 2021; (2) plus the issuance of warrants for 1,875,000 shares, valued at \$5,887,500 based on a share price of \$3.14, which is the call option value based on a Black-Scholes fair value calculation assuming a term of 5 years, 53.74% volatility rate, and discount rate of 0.84% based on the 5-year treasury yield rate as of May 21, 2021; (3) plus the issuance of 1,375,000 restricted stock units under the Company's incentive stock plan to key members of American Robotics' management and the corresponding stock compensation expense, valued at the Company's stock price of \$6.78 on May 25, 2021, which vest over a three year period, resulting in an adjustment of \$776,875 and \$3,107,500 of stock compensation expense for the three months ended March 31, 2021 and the twelve months ended December 31, 2020, respectively.

F. This adjustment eliminates American Robotics' Equity as reported in the unaudited financial statements as of and for the three months ended March 31, 2021.

Note 5 – Combined Adjusted EBITDA After Pro Forma Adjustments

Adjusted EBITDA is a non-GAAP financial measure and should not be considered as an alternative to operating income or net income as a measure of operating performance or cash flows or as a measure of liquidity. Non-GAAP financial measures are not necessarily calculated the same way by different companies and should not be considered a substitute for or superior to U.S. GAAP.

Combined Adjusted EBITDA Before Pro Forma Adjustments is defined as net income adjusted to add back interest expense including debt extinguishment and depreciation and amortization, and certain charges and expenses, such as impairment loss on intellectual property, non-cash stock-based compensation, change in derivative liability, as these charges and expenses are not considered a part of our core business operations and are not an indicator of ongoing, future company performance.

Adjusted EBITDA is one of the primary metrics used by management to evaluate the financial performance of our business. We present Adjusted EBITDA because we believe it is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. Further, we believe it is helpful in highlighting trends in our operating results, because it excludes, among other things, certain results of decisions that are outside the control of management, while other measures can differ significantly depending on long-term strategic decisions regarding capital structure and capital investments.

The following tables reconcile Combined Adjusted EBITDA After Pro Forma Adjustments to net income based on the Company's audited Consolidated Statement of Operations for the three months ended March 31, 2021 and year ended December 31, 2020 and American Robotics' unaudited Statements of Operations for the three months ended March 31, 2021 and audited Statements of Operations for the year ended December 31, 2020, as reported in this Form 8-K:

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	For the Three Months Ended March 31, 2021			
	Ondas Holdings Inc.	American Robotics	Transaction Accounting Adjustments	Pro Forma Combined
Net Loss	\$ (3,138,119)	\$ (527,800)	\$ (1,402,304)	\$ (5,068,223)
Add back:				
Interest expense	222,587	40,582	(40,582)	222,587
Depreciation and amortization	149,754	-	683,100	832,854
Interest income and miscellaneous income	(34)	(235,846)	-	(235,812)
EBITDA	(2,765,744)	(723,064)	(759,786)	(4,248,594)
Adjustments				
Impairment loss on intellectual property	34,178	-	-	34,178
Non-cash stock based compensation	1,348,462	17,089	759,786	2,125,337
Adjusted EBITDA	\$ (1,383,104)	\$ (705,975)	\$ -	\$ (2,089,079)

	For the Year Ended December 31, 2020			
	Ondas Holdings Inc.	American Robotics	Transaction Accounting Adjustments	Pro Forma Combined
Net Loss	\$ (13,477,880)	\$ (2,447,652)	\$ (7,645,335)	\$ (23,570,867)
Add back:				
Interest expense	1,936,847	125,236	(125,236)	1,936,847
Depreciation and amortization	829,994	6,770	2,732,400	3,569,164
Interest income and miscellaneous income	(20,460)	(257,054)	-	(277,514)
EBITDA	(10,731,499)	(2,572,700)	(5,038,171)	(18,342,370)
Adjustments				
Impairment loss on intellectual property	33,334	-	-	33,334
Non-cash stock based compensation	4,676,362	69,329	3,038,171	7,783,862

Non-cash lease expense	280,354	-	-	280,354
Other Non-recurring costs			2,000,000	2,000,000
Change in derivative liability	37,607	-	-	37,607
Adjusted EBITDA	\$ (5,703,842)	\$ (2,503,371)	\$ -	\$ (8,207,213)