# DRONE USA, INC.

*Consolidated Financial Statements*
*December 31, 2016*

# DRONE USA, INC.

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*December 31, 2016*

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# DRONE USA, INC.

*Consolidated Balance Sheet - Unaudited*

*December 31, 2016*

| | |
|---|---|
| **ASSETS** | |
| ***Current Assets*** | |
| Cash | $ 627,862 |
| Accounts Receivable | 974,012 |
| Inventory | 156,755 |
| Prepaid expenses and other current assets | 92,047 |
| | 1,850,676 |
| ***Other Assets*** | |
| Goodwill | 1,948,474 |
| Intangible assets - net of accumulated amortization of $88,333 | 1,731,667 |
| | 3,680,141 |
| ***Total Assets*** | $ 5,530,817 |
| **LIABILITIES AND STOCKHOLDERS' (DEFICIENCY)** | |
| ***Current Liabilities*** | |
| Accounts payable and accrued expenses | $ 1,944,410 |
| Note payable - net of unamortized financing costs of $706,897 | 1,924,273 |
| Note payable - related party | 900,000 |
| Line of credit | 50,000 |
| Line of credit - related party | 622,643 |
| Deferred rent | 14,667 |
| | 5,455,993 |
| ***Other Liabilities*** | |
| Note payable - net of unamortized financing costs of ($30,737) | 684,422 |
| Line of credit - related party | 117,000 |
| Earnout payable - related party | 64,500 |
| | 865,922 |
| ***Total Liabilities*** | 6,321,915 |
| ***Stockholders' (Deficiency)*** | |
| Series A preferred stock - $0.0001 par value, 250 shares authorized, issued and outstanding | - |
| Common stock - $0.0001 par value, 200,000,000 shares authorized, 41,719,492 shares issued and outstanding | 4,230 |
| Additional paid-in capital | 3,146,275 |
| Accumulated deficit | (3,941,603) |
| ***Total Stockholders' (Deficiency)*** | (791,098) |
| ***Total Liabilities and Stockholders' (Deficiency)*** | $ 5,530,817 |

*Unaudited - no assurance is provided.*

# DRONE USA, INC.

*Consolidated Statements of Operations - Unaudited*

*For the Three Months Ended December 31, 2016*

| | |
|---|---|
| ***Revenues*** | $ 7,013,603 |
| ***Cost of Goods Sold*** | 6,761,481 |
| ***Gross Profit (Loss)*** | 252,122 |
| ***Selling, General, and Administrative Expenses*** | 519,025 |
| ***Share-based compensation*** | 52,684 |
| ***Amortization*** | 66,250 |
| ***Net (Loss) Before Other Expense*** | (385,837) |
| ***Net (Loss) Before Other Expense*** | |
| Interest and financing costs | 355,051 |
| ***Net (Loss)*** | $ (740,888) |
| ***Basic and Diluted (Loss) Per Share*** | (0.02) |
| ***Weighted Average Number of Common Shares Outstanding - basic and diluted*** | $ 40,378,502 |

# DRONE USA, INC.

*Consolidated Statements of Changes in Stockholder's Equity - Unaudited*

*For the Three Months Ended December 31, 2016*

| | Series A Preferred Stock | | Common Stock | | Additional Paid-in | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | (Deficit) | (Deficiency) |
| **Balance** - October 1, 2016 | 250 | $ - | 41,719,492 | $ 4,172 | $ 3,040,544 | $ (3,200,715) | $ (155,999) |
| Share-based compensation | - | - | - | - | 29,684 | - | 29,684 |
| Shares issued for debt | - | - | 460,200 | 46 | 53,059 | - | 53,105 |
| Shares issued for services | - | - | 115,000 | 12 | 22,988 | - | 23,000 |
| Net (loss) | - | - | - | - | - | (740,888) | (740,888) |
| **Balance** - December 31, 2016 | 250 | $ - | 42,294,692 | $ 4,230 | $ 3,146,275 | $ (3,941,603) | $ (791,098) |

# DRONE USA, INC.

*Statement of Cash Flows - Unaudited*
*For the Three Months Ended December 31, 2016*

| | | |
|---|---|---|
| ***Cash Flows from Operating Activities*** | | |
| Net (loss) | $ | (740,888) |
| Adjustments to reconcile net (loss) to net cash (used in) operating activities: | | |
| Amortization | | 66,250 |
| Interest and financing costs | | 184,410 |
| Share-based compensation expense | | 52,684 |
| Deferred rent | | (2,000) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | | (216,289) |
| Inventory | | 1,083,559 |
| Accounts payable and accrued expenses | | (461,818) |
| | | (34,092) |
| ***Cash Flows from Financing Activities*** | | |
| Proceeds from line of credit | | 417 |
| Proceeds from lines of credit - related parties | | 30,517 |
| | | 30,934 |
| ***Net Increase in Cash and Cash Equivalents*** | | (3,158) |
| ***Cash and Cash Equivalents*** - beginning | | 631,020 |
| ***Cash and Cash Equivalents*** - end | $ | 627,862 |
| ***Supplemental Disclosures of Cash Flow Information*** | | |
| *Cash paid for:* | | |
| Interest | $ | 157,500 |
| *Noncash financing and investing activities:* | | |
| Issuance of common stock to satisfy loan payable | $ | 53,105 |
| Issuance of common stock for consulting services | $ | 23,000 |

## 1 - Organization

Headquartered in New York, New York, Drone USA, Inc. (the "Company") is an Unmanned Aerial Vehicles ("UAV") and related services and technologies company that is engaged in the research, design, development, testing, manufacturing, distribution, exportation and integration of advanced low altitude UAV systems, services and products. The Company also provides procurement, distribution and logistics services through its subsidiary, Howco Distributing Co., ("Howco") (collectively, the "Company") to the United States' Department of Defense and Defense Logistics Agency. The Company has operations based in New York, New York and Vancouver, Washington. The Company continues to seek strategic acquisitions and partnerships with UAV firms that offer superior technologies in high-growth markets, as well as acquisitions and partnerships with firms that have complementary technologies and infrastructure.

On January 26, 2016, Texas Wyoming Drilling, Inc., a company trading on the Over-the-Counter Markets, acquired 100% of the outstanding membership interests of Drone USA, LLC. Pursuant to the merger, the sole member of Drone USA, LLC received 36,702,116 shares of Texas Wyoming Drilling, Inc. common stock. As a result of this merger, the former sole member of Drone USA, LLC owned approximately 90% of the outstanding common stock of Texas Wyoming Drilling, Inc. immediately following the merger. In connection with the merger the name of the company was changed from Texas Wyoming Drilling, Inc. to Drone USA, Inc. (the "Company"). In connection with the merger, effective January 26, 2016, the Company accepted the resignation of the former Chief Executive Officer and any remaining former officers and directors, and appointed a new Chief Executive Officer, President, Chairman, and board member and a new Chief Financial Officer, Secretary, Treasurer, and board member.

The transaction has been accounted for as a reverse merger in which Drone USA, LLC is considered to be the acquirer of Texas Wyoming Drilling, Inc. Accordingly, the reverse merger was accounted for as a recapitalization in which (i) the assets and liabilities of Drone USA, LLC were recorded at their historical book values, (ii) the common stock and additional paid-in capital accounts which replaced Drone USA, LLC's member interests were retroactively restated to give effect to the exchange of the Drone USA, LLC member interests for Texas Wyoming Drilling, Inc. common stock, and (iii) the historical member deficit of Drone USA, LLC was recorded as stockholders' (deficiency). There were no assets, liabilities, or equity to be accounted for related to the former operations of Texas Wyoming Drilling, Inc. In connection with the merger, certain parties were issued 4,139,401 shares of common stock under the 3(a)(10) exemption to effectuate the transaction.

## 2 - Summary of Significant Accounting Policies

A summary of significant accounting policies is as follows:

a. ***Basis of Presentation*** - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

b. ***Principles of Consolidation*** - The accompanying consolidated financial statements for the three months ended December 31, 2016 include the accounts of Drone and Howco. All significant intercompany accounts and transactions have been eliminated in consolidation.

*Continued*

c. ***Cash and Cash Equivalents*** - Cash equivalents consist of liquid investments with maturities of three months or less at the time of purchase. There are no cash equivalents at the balance sheet date.

d. ***Property and Equipment*** - Property and equipment is stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 7 years. Upon disposition of assets, the related cost and accumulated depreciation and amortization is eliminated, and any gain or loss is included in the statement of operations. Expenditures for major improvements are capitalized. Maintenance and repairs are expensed as incurred.

e. ***Revenue Recognition*** - Revenues from product sales are recognized when persuasive evidence of an arrangement exists, delivery has occurred based upon terms established with the customer, the price is fixed or determinable, and collectibility is reasonably assured. Revenue is typically recognized upon shipment of the ordered goods to the customer. Sales are recorded net of discounts, returns, and price adjustments.

f. ***Income Taxes*** - The Company follows the accounting for uncertainty in income taxes guidance, which clarifies the accounting and disclosures for uncertainty in income taxes recognized in the Company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition and measurement of a tax position taken or expected to be taken in a tax return.

   As of December 31, 2016, the Company's tax returns for the tax years 2015, 2014, and 2013 remain subject to audit, primarily by the Internal Revenue Service.

   The Company did not have material unrecognized tax benefits as of December 31, 2016 and does not expect this to change significantly over the next 12 months. The Company will recognize interest and penalties accrued on any unrecognized tax benefits as a component of provision for income taxes.

g. ***Fair Value Measurements*** - The Company follows the FASB *Fair Value Measurements*, as they apply to its financial instruments. This standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements.

   Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The standard establishes a hierarchy in determining the fair value of an asset or liability. The fair value hierarchy has three levels of inputs, both observable and unobservable. Level 1 inputs include quoted market prices for identical assets or liabilities in an active market that the Company has the ability to access at the measurement date. Level 2 inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data. Level 3 inputs are unobservable and corroborated by little or no market data. The standard requires the utilization of the lowest possible level of input to determine fair value.

h. ***Deferred Rent*** - The Company leases office space in New York City whose operating lease agreements contain provisions for future rent increases, or periods in which rent payments are reduced (abated). In accordance with GAAP, the Company records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to *deferred rent,* which is reflected as a separate line item on the accompanying balance sheet.

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

j. ***Net (Loss) Per Share*** - Basic loss per share is calculated by dividing the loss attributable to stockholders by the weighted-average number of shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the earnings (loss) of the Company. Diluted loss per share is computed by dividing the loss available to stockholders by the weighted average number of shares outstanding for the period and dilutive potential shares outstanding unless such dilutive potential shares would result in anti-dilution. The assumed exercise of common stock equivalents was not utilized for the year ended December 31, 2016, since the effect would have been anti-dilutive. As of December 31, 2016, 26,950,000 options were outstanding of which 24,000,000 were exercisable, 500,000 warrants were outstanding of which 500,000 were exercisable, and convertible debt totaling approximately $790,000 was convertible into approximately 530,000 shares of common stock.

k. ***Related Party Transactions*** - All transactions with related parties are in the normal course of operations and are measured at the exchange amount.

l. ***Recent Accounting Pronouncements*** - The Company does not believe that any recently issued but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

## 3 - Income Taxes

The Company recognizes deferred tax assets and liabilities for the tax effects of differences between the financial statements and tax basis of assets and liabilities. A valuation allowance is established to reduce the deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

As of December 31, 2016, the Company has net operating loss carryforwards of approximately $3,900,000 to reduce future taxable income through 2036. A valuation allowance for the entire deferred tax benefit has been established as of December 31, 2016.

## 4 - Acquisition of Subsidiary

On September 9, 2016, the Company purchased a Washington-based entity with customers in the U.S. federal government and Department of Defense. The Company acquired all outstanding shares of stock of this entity. In exchange for these shares, the Company paid $2,600,000 in cash and issued a note payable in the amount of $900,000, bearing interest of 5.5%, with a maturity date of August 26, 2017, to the sellers of this entity. In addition to the payment in the form of cash and notes, warrants for 500,000 shares of common stock and additional contingent earn-out payments are also required. The warrants were granted with an exercise price of $0.01 per share, vest immediately, and have a five year term. Assumptions related to the estimated fair value of these warrants on their date of grant, which the Company estimated using the Black-Scholes option pricing model, are as follows: risk-free interest rate of approximately 1.22%; expected divided yield of 0%; expected option life of 2.5 years; and expected volatility of approximately 41%. The aggregate grant date fair value of the award amounted to $180,000. In addition, the sellers are entitled to additional performance based payments estimated to be approximately $129,000. $1,060,000 of the costs associated with this acquisition was allocated to the customer list and are amortized over a four year period. An additional $760,000 was allocated to the value assigned to the company name. The balance was allocated to goodwill, after a reduction for net assets received, and is evaluated each period for impairment. There was no recognition of impairment during the year ended December 31, 2016.

*Continued*

## 5 - Line of Credit

The Company has a revolving line of credit with a financial institution. This revolving line of credit is in the amount of $50,000, and is personally guaranteed by the Company's Chief Executive Officer ("CEO"). The loan bears interest at a fluctuating rate equal to the prime rate, currently 3.50%, plus 4.25%. As of December 31, 2016, the balance of the line of credit is approximately $50,000.

## 6 - Convertible Notes Payable

The Company has an $840,000 convertible note payable ("Note 1") with an entity controlled by the Company's CEO. Note 1 bears interest at an annual rate of 7% with a maturity date of June 11, 2017, at which time all unpaid principal and interest is due. The holder of Note 1 has the option to convert the outstanding principal and accrued interest, in whole or in part, into shares of common stock at a conversion price equal to the volume weighted average price per share of common stock for the 30-day period prior to conversion. As of December 31, 2016, Note 1 has not been converted and the balance of the note, including accrued interest, is approximately $655,000.

The Company has a $117,000 convertible note payable ("Note 2") with the Company's CEO. Note 2 bears interest at an annual rate of 7% with a maturity date of January 1, 2018, at which time all unpaid principal and interest is due. The holder of Note 2 has the option to convert the outstanding principal and accrued interest, in whole or in part, into shares of common stock at a conversion price equal to the volume weighted average price per share of common stock for the 30-day period prior to conversion. As of December 31, 2016, Note 2 has not been converted and the balance of the note, including accrued interest, is approximately $119,500.

On September 13, 2016, the Company entered into a senior secured credit facility agreement (the "Agreement") with an investment fund to provide capital for this acquisition. The Company can borrow up to $6,500,000, with an initial loan at closing of $3,500,000. The Agreement bears interest at a rate of 18%, requires monthly payments of interest only through February 2017, and monthly payments, including interest and principal, of $298,341 through maturity on March 13, 2018. In connection with this Agreement, the Company was obligated to pay additional advisory fees of $850,000 payable in the form of cash or common stock in accordance with the terms of the Agreement. The Company was also required to reserve 7,000,000 shares of common stock related to this transaction. The reserved shares will be released upon the satisfaction of the loan. As of December 31, 2016, the Company issued 539,204 shares of common stock in satisfaction of the $850,000 in accordance with the terms of the agreement. Based upon the value of the shares, at the time the lender sells the shares, the Company may be required to issue additional shares or the lender may be required to return shares to the Company. As of December 31, 2016, the note payable has not been converted and the balance of the note, including accrued interest, is approximately $3,532,000. The Agreement is only convertible upon default and mutual agreement by both parties.

All unamortized deferred financing costs related to the Company's borrowings are presented in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of these costs is reported as *interest and financing costs.*

## 7 - Related Party Transactions

The Company entered into employment agreements with three of its officers. The employment agreement with the Company's President and CEO provides for annual base compensation of $370,000 for a period of three years, which can, at the Company's election, be paid in cash or Common Stock or deferred if insufficient cash is available, and provides for other benefits, including a provision for the equivalent of 12 months' base salary, and an additional one-time severance payment of $2,500,000 upon termination under certain circumstances, as defined in the agreement. The employment agreement with the Company's Treasurer and CFO provides for annual base compensation of $250,000 for a period of three years, which can, at the Company's election, be paid in cash or Company Common Stock or deferred if insufficient cash is available, and provides for other benefits, including a provision for the equivalent of 12 months' base salary and an additional one-time severance payment of $2,000,000 upon termination under certain circumstances, as defined in the agreement. The employment agreement with the Company's Chief Strategy Officer provides for annual base compensation of $400,000 for a period of three years and provides for other additional benefits as defined in the agreement including a signing bonus of $100,000 payable during the first year of employment. As of December 31, 2016, the bonus has not been paid and is reported as *accounts payable and accrued expenses.*

In connection with the acquisition of Howco, the Company entered into two separate employment agreements with both executive vice presidents of Howco, formerly the owner operators. Each agreement provides for annual base compensation of $125,000 for a period of two years.

## 8 - Exclusive Agreement

During July 2016, the Company granted options for 2,000,000 shares of common stock (See Note 11) in accordance with a joint venture agreement with a Brazilian entity in the drone technology market. The agreement provides that the Company will acquire exclusive rights to this entity's UAV technology and intellectual property that includes research and development efforts completed by this entity. The Company will also secure exclusive export and representation rights to this entity's products along with the option to acquire full ownership of this entity should the companies agree at a later date it would be in the best interest of both businesses.

## 9 - Common Stock

As of December 31, 2016, the Company is authorized to issue 200,000,000 shares of $0.0001 par value common stock, of which 42,294,692 shares have been issued.

The Company issued 115,000 shares of common stock to an entity as partial compensation for acquisition-related services.

## 10 - Preferred Stock

As of December 31, 2016, the Company is authorized to issue 250 shares of $0.0001 par value Series A preferred stock, of which 250 shares have been issued. These preferred shares have voting rights per share equal to the total number of issued and outstanding shares of common stock divided by 0.99.

As of December 31, 2016, the Company is authorized to issue 4,999,750 shares of $.0001 par value preferred stock, with designations, voting, and other rights and preferences to be determined by the Board of Directors, of which no shares have been issued.

## 11 - Stock Incentive Plan

The Company established a stock incentive plan (the "Plan") that permits the granting of incentive stock options and other common stock awards. The maximum number of shares available under the Plan is 100,000,000 shares. The Plan is open to all employees, officers, directors, and consultants of the Company.

## 12 - Share Based Payments

On July 1, 2016, the Company granted options to purchase 17,500,000 shares of its common stock to two employees, an additional 7,450,000 to certain consultants, and an additional 2,000,000 in accordance with a joint venture agreement (See Note 8) at an exercise price of $0.20 per share. The fair value of the underlying common stock at the date of grant was $0.20 per share. The options issued to the employees and 6,500,000 of the options issued to the consultants vested immediately and have a ten year term. The remaining 2,950,000 options vest 50% per year over the following two year period and have a ten year term. Assumptions related to the estimated fair value of these stock options on their date of grant, which the Company estimated using the Black-Scholes option pricing model, are as follows: risk-free interest rate of approximately 1.46%; expected divided yield of 0%; expected option life of 5 years for the shares that vest immediately; expected option life of 5.75 years for the shares that vest over a two year period; and expected volatility of approximately 41%. The aggregate grant date fair value of the award amounted to $2,042,275. During the three months ended December 31, 2016, the Company granted options to purchase 620,000 and 250,000 shares of its common stock, respectively, at an exercise price of $0.20 per share, to employees and certain consultants.

The Company recorded $29,684 of compensation expense for the three months ended December 31, 2016 related to these options. Total unamortized compensation expense related to unvested stock options at December 31, 2016 amounted to $178,106. The weighted average period over which share-based compensation expense related to these options will be recognized is approximately 2 years.

A summary of the Company's stock options is as follows:

| ***Stock Options*** | ***Shares*** | ***Weighted-Average Exercise Price*** | ***Remaining Contractual Term (Years)*** | ***Average Grant-Date Fair Value*** | ***Aggregate Intrinsic Value*** |
|---|---|---|---|---|---|
| Outstanding at October 1, 2016 | 26,950,000 | $ - | - | $ - | $ - |
| Granted | - | 0.20 | - | 0.20 | - |
| Outstanding at December 31, 2016 | 26,950,000 | $ 0.20 | 9.50 | - $ - | $ - |
| Exercisable at December 31, 2016 | 24,000,000 | $ 0.20 | 9.50 | $ - | $ - |

As of December 31, 2016, 24,000,000 of the 26,950,000 outstanding stock options were exercisable. The following table summarizes information about stock options at December 31,

| *Range of Exercise Prices* | *Remaining Number Outstanding* | *Weighted Average Contractual Life (Years)* | *Weighted Average Exercise Price* |
|---|---|---|---|
| $ 0.20 | 26,950,000 | 9.5 | $ 0.20 |

All options were issued at an options price equal to the market price on the date of the grant. As of December 31, 2016, total 26,950,000 outstanding options had no aggregate intrinsic value. The Company issues new shares of common stock upon exercise of stock options.

## 13 - Commitments and Contingencies

In May 2016, the Company entered into a lease agreement for office space in New York, New York. The lease provides for base monthly rent of approximately $5,000 per month with a rent-free period from May 1, 2016 through July 31, 2016. The lease term begins May 1, 2016 and expires April 30, 2017. A security deposit of $10,000 required by this lease agreement is reported as *prepaid expenses and other current assets*. The Company entered into two additional leases for additional space with rent-free periods through November 1, 2016. Each lease has a term of one year beginning July 1, 2016 and September 1, 2016, requiring monthly lease payments after the rent-free period of approximately $2,500 and $3,500, respectively. An additional security deposit of $6,000 was required for the additional space.

At December 31, 2016, net minimum future rental payments pursuant to these leases for the 12 months ending December 31, 2017, is approximately $63,000.

In connection with the acquisition of Howco on September 9, 2016, the Company assumed a lease agreement for industrial space in Vancouver, Washington. The lease provides for base monthly rent of approximately $4,600 per month. The lease term begins June 1, 2016 and expires May 3, 2017. At December 31, 2016, net minimum future rental payments pursuant to these leases for the 12 months ending December 31, 2017, is approximately $18,000.

During August 2016, the Company entered into an agreement with a third party who had purchased certain payables from the Company's vendors of approximately $102,000. The agreement provides for the issuance of free trading shares of common stock under the 3(a)(10) exemption as satisfaction of the payable to this third party. The value of the common stock will be based upon a discount of 35% to the lowest intraday price during the ten-day period prior to the request for the shares of common stock. In addition, 11,500 shares were issued as a settlement fee. In connection with this agreement, the Company was required to reserve 2,000,000 shares of common stock related to this transaction. During the three months ended December 31, 2016, the Company issued 460,200 shares of common stock to satisfy the remaining balance of $53,105. Upon satisfaction of the debt the reserved shares were released.

As of December 31, 2016, the Company has entered into an agreement with the Portuguese government, the National Aviation Authority of Portugal, and Aeroportos de Portugal (the Airport Authority of Portugal) enabling the Company to fly and test all classes of UAVs at the airport of Santa Maria island in the Azores archipelago in Portugal. The Company is one of five companies, and the only foreign company, to have been granted access to the airport for such purposes.

As of December 31, 2016, the Company is registered with the U.S. State Department and has met the requirements of the Arms Export Control Act and International Traffic in Arms Regulations ("ITAR"). The registration allows for the company to apply for export, and temporary import, of product, technical data, and services related to defense articles.

The Company entered into an agreement with a manufacturer in Pismo Beach, California. The agreement provides for certain services to be provided by the manufacturer as needed by the Company. The agreement has an initial term of three years with one year renewals. In connection with this agreement, the Company has agreed to sublease space from the manufacturer for the purposes of the development and manufacturing of unmanned aerial vehicles. The lease provides for base monthly rent of approximately $15,000 for the initial term to be increased to $16,500 per month upon extension. The lease term begins February 1, 2017 and expires January 31, 2019 with the option to extend the term an additional two years.

## 14 - Concentration of Credit Risk

The Company places its cash with high quality credit institutions. Cash in banks is insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per institution. At times, balances may be in excess of the FDIC insurance limit. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

## OTC Pink Basic Disclosure Guidelines

### 1) Name of the issuer and its predecessors (if any)

In answering this item, please also provide any names used by predecessor entities in the past five years and the dates of the name changes.

Drone USA, Inc. (as of May 2016)
(formerly Texas Wyoming Drilling, Inc.)

### 2) Address of the issuer's principal executive offices

Company Headquarters
Address 1: One World Trade Center
Address 2: 285 Fulton Street, 85th Floor
Address 3: New York, NY 10007
Phone: (212) 220-8795
Email: info@droneusainc.com
Website(s): www.droneusainc.com

IR Contact
Address 1: Porter, LeVay & Rose, Inc.
Address 2: Seven Penn Plaza
Address 3: Suite 810
Phone: 212-564-4700
Email: info@plrinvest.com
Website(s): www.plrinvest.com

### 3) Security Information

****Please see the Balance Sheet as well as Notes 9 & 10 in Consolidated Financial Statements****
Trading Symbol: DRUS
Exact title and class of securities outstanding: _____
CUSIP: 26210T107
Par or Stated Value: _____
Total shares authorized: _____ as of: _____
Total shares outstanding: _____ as of: _____

Additional class of securities (if necessary):
Trading Symbol: _____
Exact title and class of securities outstanding: _____
CUSIP: _____
Par or Stated Value: _____
Total shares authorized: _____ as of: _____
Total shares outstanding: _____ as of: _____

Transfer Agent
Name: Action Stock Transfer Company
Address 1: 2469 E. Fort Union Blvd Suite #214
Address 2: Salt Lake City, Utah 84121
Address 3: _____
Phone: (801) 274-1088
Is the Transfer Agent registered under the Exchange Act?* Yes: ☒ No: ☐

*To be included in the OTC Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

List any restrictions on the transfer of security:

None

Describe any trading suspension orders issued by the SEC in the past 12 months.

None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

- 2/25/16 – 1 for 150 reverse split
- 5/19/16 – 1 for 12 reverse split
- Please see Note 1 & 4 in the Consolidated Financial Statements.

**4) Issuance History**

Please see Statements of Changes in Stockholder's Equity as well as Notes 1, 4, 6, 12 in the Consolidated Financial Statements.

**5) Financial Statements**

Please see Consolidated Financial Statements contained herein.

**6) Describe the Issuer's Business, Products and Services**

Describe the issuer's business so a potential investor can clearly understand the company. In answering this item, please include the following:

A. a description of the issuer's business operations;

Please see Note 1 in the Consolidated Financial Statements

B. Date and State (or Jurisdiction) of Incorporation:

June 28, 1972 Delaware Corporation

C. the issuer's primary and secondary SIC Codes;

Please see OTC markets profile

D. the issuer's fiscal year end date;

09/30

E. principal products or services, and their markets;

Please see company website www.droneusainc.com. Also, please see Note 1 of the Consolidated Financial Statements.

**7) Describe the Issuer's Facilities**

Please see Notes 13 in the Consolidated Financial Statements.

## 8) Officers, Directors, and Control Persons

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant shareholders.

A. Names of Officers, Directors, and Control Persons. In responding to this item, please provide the names of each of the issuer's executive officers, directors, general partners and control persons (control persons are beneficial owners of more than five percent (5%) of any class of the issuer's equity securities), as of the date of this information statement.

Mike Bannon, Chairman of the Board & CEO
Dennis Antonelos, CFO & Board Member
Paulo Ferro, Chief Strategy Officer & Board Member
Rodrigo Kuntz Rangel, CTO
Paul C. Joy, Executive VP, Howco Distributing Co.
Kathy Joy, Executive VP, Howco Distributing Co.
Dylan Bruno, Board Member
David Y. Williams, Board Member

B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

   No

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

   No

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

   No

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

   No

C. Beneficial Shareholders. Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

Mike Bannon, Chairman of the Board & CEO (90% of the Issued and Outstanding Common)
One World Trade Center, 285 Fulton Street, Suite 8500, New York, NY 10007

## 9) Third Party Providers

Please provide the name, address, telephone number, and email address of each of the following outside providers that advise your company on matters relating to operations, business development and disclosure:

Legal Counsel
Name:
Firm: Akerman LLP
Address 1: 666 5th Ave, 20th Floor
Address 2: New York, NY 10103
Phone: 212-880-3800
Email: _____

Accountant or Auditor
Name: _____
Firm: Salberg & Co, P.A.
Address 1: 2295 NW Corporate Blvd., Suite 240
Address 2: Boca Raton, FL 33431-7328
Phone: Phone: (561) 995-8270 Ext. 301
Email: _____

Investor Relations Consultant
Address 1: Porter, LeVay & Rose, Inc.
Address 2: Seven Penn Plaza
Address 3: Suite 810
Phone: 212-564-4700
Email: info@plrinvest.com
Website(s): www.plrinvest.com

## 10) Issuer Certification

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles, but having the same responsibilities).

The certifications shall follow the format below:

I, Mike Bannon certify that:

1. I have reviewed this Quarterly Disclosure Statement for quarter ending December 31, 2016 of Drone USA Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

02/21/17 [Date]

/s/ Mike Bannon, CEO

_(Digital Signatures should appear as "/s/ [OFFICER NAME]")

CEO [Title]