

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

FORM 8-K/A

(Amendment No. 2)

CURRENT REPORT

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

Date of Report (Date of earliest event reported): **November 14, 2022 (October 7, 2022)**

DRAGONFLY ENERGY HOLDINGS CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

001-40730

(Commission File Number)

85-1873463

(IRS Employer
Identification No.)

1190 Trademark Drive #108

Reno, Nevada 89521

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(775) 622-3448**

Not Applicable

(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, par value \$0.0001 per share	DFLI	The Nasdaq Global Market
Redeemable warrants, exercisable for common stock at an exercise price of \$11.50 per share, subject to adjustment	DFLIW	The Nasdaq Capital Market

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 ☒ x

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

EXPLANATORY NOTE

This Amendment No. 2 on Form 8-K/A (“Amendment No. 2”) amends the Current Report on Form 8-K of Dragonfly Energy Holdings Corp., a Delaware corporation (the “Company”) (f/k/a Chardan NexTech Acquisition 2 Corp.), originally filed by the Company on October 7, 2022 (as amended on October 12, 2022 by Amendment No. 1, the “Original Report”), in which the Company reported, among other events, the consummation of the Transactions (as defined in the Original Report) on October 7, 2022.

This Amendment No. 2 is being filed solely for the purpose of supplementing the historical consolidated financial statements and pro forma condensed combined financial information provided under Item 9.01(a) and 9.01(b) in the Original Report to include (i) the unaudited condensed consolidated financial statements of Dragonfly Energy Corp., a Nevada corporation (“Legacy Dragonfly”), as of September 30, 2022 and for the nine months ended September 30, 2022 and 2021, (ii) the related Management’s Discussion and Analysis of Financial Condition and Results of Operations of Legacy Dragonfly as of September 30, 2022 and for the nine months ended September 30, 2022 and 2021 and (iii) the unaudited pro forma condensed combined financial information of Legacy Dragonfly and Chardan NexTech Acquisition 2 Corp. as of and for the nine months ended September 30, 2022.

This Amendment No. 2 does not amend any other item of the Original Report or purport to provide an update or a discussion of any developments at the Company or its subsidiaries subsequent to the filing date of the Original Report. The information previously reported in or filed with the Original Report is hereby incorporated by reference to this Amendment No. 2.

Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

The unaudited condensed consolidated financial statements of Legacy Dragonfly as of September 30, 2022 and for the nine months ended September 30, 2022 and 2021, and the related notes thereto are attached as Exhibit 99.1 and are incorporated herein by reference. Also included as Exhibit 99.2 and incorporated herein by reference is the Management’s Discussion and Analysis of Financial Condition and Results of Operations of Legacy Dragonfly as of September 30, 2022 and for the nine months ended September 30, 2022 and 2021.

(b) Pro forma financial information.

The unaudited pro forma condensed combined financial information of Legacy Dragonfly and Chardan NexTech Acquisition 2 Corp. as of and for the nine months ended September 30, 2022 is filed as Exhibit 99.3 hereto and incorporated herein by reference.

(d) Exhibits

Exhibit Number	Description
<u>99.1</u>	<u>Unaudited condensed consolidated financial statements of Legacy Dragonfly as of September 30, 2022 and for the nine months ended September 30, 2022 and 2021.</u>
<u>99.2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations of Legacy Dragonfly as of September 30, 2022 and for the nine months ended September 30, 2022 and 2021.</u>
<u>99.3</u>	<u>Unaudited pro forma condensed combined financial information of Legacy Dragonfly and Chardan NexTech Acquisition 2 Corp. as of and for the nine months ended September 30, 2022.</u>
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

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.

DRAGONFLY ENERGY HOLDINGS CORP.

Date: November 14, 2022

By: /s/ Denis Phares

Name: Denis Phares

Title: President and Chief Executive Officer

DRAGONFLY ENERGY CORP.
FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

DRAGONFLY ENERGY CORP.

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DRAGONFLY ENERGY CORP.
UNAUDITED CONDENSED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	September 30, 2022	December 31, 2021
Current Assets		
Cash	\$ 10,517	\$ 25,586
Restricted cash	3,044	3,044
Accounts receivable, net of allowance for doubtful accounts	3,820	783
Inventory	39,487	27,127
Prepaid expenses	1,552	293
Prepaid inventory	3,729	7,461
Prepaid income tax	296	-
Other current assets	3,901	1,787
Total Current Assets	<u>66,346</u>	<u>66,081</u>
Property and Equipment		
Machinery and equipment	9,004	3,615
Office furniture and equipment	275	201
Leasehold improvements	1,709	1,307
Vehicle	234	195
	<u>11,222</u>	<u>5,318</u>
Less accumulated depreciation and amortization	<u>(1,406)</u>	<u>(857)</u>
Property and Equipment, Net	9,816	4,461
Operating lease right of use asset	4,878	5,709
Deferred tax asset	1,254	-
	<u>1,254</u>	<u>-</u>
Total Assets	<u><u>\$ 82,294</u></u>	<u><u>\$ 76,251</u></u>
Current Liabilities		
Accounts payable	6,477	11,360
Accrued payroll and other liabilities	4,374	2,608
Customer deposits	287	434
Income tax payable	-	631
Notes payable- current portion net of debt issuance costs	16,529	1,875
Operating lease liability, current portion	1,157	1,082
Total Current Liabilities	<u>28,824</u>	<u>17,990</u>
Long-Term Liabilities		
Notes payable-noncurrent, net of debt issuance costs	24,182	37,053
Deferred tax liabilities	-	453
Operating lease liability, net of current portion	3,821	4,694
Total Long-Term Liabilities	<u>28,003</u>	<u>42,200</u>
Total Liabilities	<u>56,827</u>	<u>60,190</u>
Commitments and Contingencies (See Note 2)		
Redeemable Preferred Stock		
Preferred stock, 10,000,000 shares at \$0.0002 par value, authorized, 10,000,000 shares issued and outstanding	2,000	2,000
Equity		
Common stock, 40,000,000 shares at \$0.0002 par value, authorized, 22,634,276 shares issued and outstanding as of September 30, 2022, 20,875,475 shares issued and outstanding as of December 31, 2021	5	4
Additional paid in capital	18,480	1,619
Retained earnings	4,982	12,438
Total Equity	<u>23,467</u>	<u>14,061</u>
Total Liabilities, Redeemable Preferred Stock and Shareholders' Equity	<u><u>\$ 82,294</u></u>	<u><u>\$ 76,251</u></u>

The accompanying notes are an integral part of these financial statements.

DRAGONFLY ENERGY CORP.
UNAUDITED CONDENSED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	Nine Months Ended September 30,	
	2022	2021
Net Sales	<u>\$ 66,042</u>	<u>\$ 57,821</u>
Cost of Goods Sold	46,481	34,314
Gross Profit	19,561	23,507
Operating Expenses		
Research and development	1,951	1,899
General and administrative	13,716	8,428
Selling and marketing	9,331	6,654
Total Operating Expenses	<u>24,998</u>	<u>16,981</u>
(Loss) Income From Operations	(5,437)	6,526
Other Expense		
Interest expense	(3,657)	-
Loss on disposition of assets	(62)	(124)
Total Other Expense	<u>(3,719)</u>	<u>(124)</u>
(Loss) Income Before Taxes	<u>(9,156)</u>	<u>6,402</u>
(Benefit) Provision for Income Taxes	<u>(1,700)</u>	<u>1,981</u>
Net (Loss) Income	<u>\$ (7,456)</u>	<u>\$ 4,421</u>
(Loss) Earnings Per Share- Basic	<u>\$ (0.35)</u>	<u>\$ 0.15</u>
(Loss) Earnings Per Share- Diluted	<u>\$ (0.35)</u>	<u>\$ 0.13</u>
Weighted Average Number of Shares-Basic	<u>21,131,993</u>	<u>20,063,211</u>
Weighted Average Number of Shares-Diluted	<u>21,131,993</u>	<u>21,926,105</u>

The accompanying notes are an integral part of these financial statements.

DRAGONFLY ENERGY CORP.
UNAUDITED CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(IN THOUSANDS, EXCEPT SHARE DATA)

	Redeemable Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Total
	Shares	Amount	Shares	Amount			
Balance - January 1, 2021	<u>10,000,000</u>	<u>\$ 2,000</u>	<u>20,040,470</u>	<u>\$ 4</u>	<u>\$ 451</u>	<u>\$ 8,100</u>	<u>\$ 8,555</u>
Net income	-	-	-	-	-	4,421	4,421
Stock compensation expense	-	-	-	-	428	-	428
Exercise of stock options	-	-	49,727	-	26	-	26
Balance - September 30, 2021	<u>10,000,000</u>	<u>\$ 2,000</u>	<u>20,090,197</u>	<u>\$ 4</u>	<u>\$ 905</u>	<u>\$ 12,521</u>	<u>\$ 13,430</u>
Balance - January 1, 2022	<u>10,000,000</u>	<u>\$ 2,000</u>	<u>20,875,475</u>	<u>\$ 4</u>	<u>\$ 1,619</u>	<u>\$ 12,438</u>	<u>\$ 14,061</u>
Net loss	-	-	-	-	-	(7,456)	(7,456)
Stock compensation expense	-	-	-	-	1,155	-	1,155
Stock purchase agreement	-	-	1,267,502	1	14,999	-	15,000
Exercise of stock options	-	-	491,299	-	707	-	707
Balance - September 30, 2022	<u>10,000,000</u>	<u>\$ 2,000</u>	<u>22,634,276</u>	<u>\$ 5</u>	<u>\$ 18,480</u>	<u>\$ 4,982</u>	<u>\$ 23,467</u>

The accompanying notes are an integral part of these financial statements.

DRAGONFLY ENERGY CORP.
UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(IN THOUSANDS)

	For the Nine Months Ended September, 30	
	2022	2021
Cash flows from Operating Activities		
Net (Loss) Income	\$ (7,456)	\$ 4,421
Adjustments to Reconcile Net (Loss) Income to Net Cash		
(Used in) Provided by Operating Activities		
Stock based compensation	1,155	428
Amortization of debt discount	1,783	-
Deferred tax liability	(1,707)	(148)
Depreciation and amortization	648	432
Loss on disposal of property and equipment	62	124
Changes in Assets and Liabilities		
Accounts receivable	(3,037)	402
Inventories	(12,360)	(11,183)
Prepaid expenses	(1,259)	206
Prepaid inventory	3,732	(5,254)
Other current assets	(2,114)	170
Other assets	831	880
Income taxes payable	(927)	(57)
Accounts payable and accrued expenses	(3,915)	7,602
Uncertain tax position liability	-	(19)
Customer deposits	(147)	(737)
Total Adjustments	(17,255)	(7,154)
Net Cash Used in Operating Activities	(24,711)	(2,733)
Cash Flows From Investing Activities		
Purchase of property and equipment	(6,065)	(2,540)
Proceeds from disposal of property and equipment	-	61
Net Cash Used in Investing Activities	(6,065)	(2,479)
Cash Flows From Financing Activities		
Proceeds from exercise of options	707	26
Proceeds from stock purchase agreement	15,000	-
Net Cash Provided by Financing Activities	15,707	26
Net Decrease in Cash and Restricted Cash	(15,069)	(5,186)
Beginning cash and restricted cash	28,630	6,206
Ending cash and restricted cash	<u>\$ 13,561</u>	<u>\$ 1,020</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid for income taxes	\$ 981	\$ 2,077
Cash paid for interest	<u>\$ 1,873</u>	<u>\$ -</u>
Supplemental Non-Cash Items		
Recognition of right of use asset obtained in exchange for operating lease liability	<u>\$ -</u>	<u>\$ 3,120</u>

The accompanying notes are an integral part of these financial statements.

DRAGONFLY ENERGY CORP.
UNAUDITED NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 1 - NATURE OF BUSINESS

Dragonfly Energy Corp., (the "Company"), was organized as a limited liability company in the State of Nevada on October 15, 2012. The Company was reorganized as a corporation under the laws of the State of Nevada on April 11, 2016. The Company sells lithium-ion battery packs for use in a wide variety of applications. The company sells to distributors under the Dragonfly Energy Corp name, and sells direct to consumers under the trade name Battleborn Batteries. In addition, the Company develops technology for improved lithium-ion battery manufacturing and assembly methods.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information, and with the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The financial statements furnished reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. Unaudited interim results are not necessarily indicative of the results for the full fiscal year. These unaudited condensed consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2021.

DRAGONFLY ENERGY CORP.
UNAUDITED NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently adopted accounting standards:

In May 2021, the FASB issued ASU 2021-04, Earnings Per Share (Topic 260), Debt Modifications and Extinguishments (Subtopic 470 50), Compensation Stock Based Compensation (Topic 718), and Derivatives and Hedging Contracts in Entity's Own Equity (Subtopic 815 40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity Classified Written Call Options. This ASU provides guidance which clarified an issuer's accounting for modification or exchanges of freestanding equity classified written call options that remain equity classified after modification or exchange. The provisions of ASU No. 2021-04 are effective January 1, 2022. This ASU shall be applied on a prospective basis. The adoption of this guidance did not have a material impact on the accompanying consolidated financial statements.

Recently issued accounting pronouncements:

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The FASB subsequently issued amendments to ASU 2016-13, which have the same effective date and transition date of January 1, 2023. These standards replace the existing incurred loss impairment model with an expected credit loss model and requires a financial asset measure at amortized cost to be presented at the net amount expected to be collected. The Company does not expect this change in guidance to have a material impact to its financial statements.

In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)* (“ASU 2020-06”) to simplify accounting for certain financial instruments. ASU 2020-06 eliminates the current models that require separation of beneficial conversion and cash conversion features from convertible instruments and simplifies the derivative scope exception guidance pertaining to equity classification of contracts in an entity's own equity. The new standard also introduces additional disclosures for convertible debt and freestanding instruments that are indexed to and settled in an entity's own equity. ASU 2020-06 amends the diluted earnings per share guidance, including the requirement to use the if-converted method for all convertible instruments. The amendments in this update will be effective for the Company on January 1, 2024 and may be early adopted at the beginning of fiscal year 2023. The Company is currently assessing the impact, if any, that ASU 2020-06 would have on its financial position, results of operations or cash flows.

Immaterial error correction

The Company corrected an immaterial error and recognized \$857 in expenses during the third quarter ending September 30, 2022 related to costs previously incorrectly deferred within other current assets on the balance sheet. Of this amount, \$450 is related to costs incurred during the fourth quarter ending December 31, 2021 and the remaining \$407 were incurred during the nine months ended September 30, 2022.

DRAGONFLY ENERGY CORP.
UNAUDITED NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Restricted Cash, and Cash Equivalents

The Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents as of September 30, 2022 and December 31, 2021. The Company also maintains a restricted cash balance to satisfy its note payable requirements (Refer to Note 5).

From time to time the Company has amounts on deposit with financial institutions that exceed federally insured limits. The Company has not experienced any significant losses in such accounts, nor does management believe it is exposed to any significant credit risk.

Accounts Receivable

The Company's trade receivables are recorded when billed and represent claims against third parties that will be settled in cash. Generally, payment is due from customers within 30 days of the invoice date and the contracts do not have significant financing components. Trade accounts receivables are recorded gross and are net of any applicable allowance. The Company has an allowance for doubtful accounts as of September 30, 2022 and December 31, 2021 of \$54 and \$50, respectively.

Inventory

Inventories (Note 3), which consist of raw materials, work in process and finished goods, are stated at the lower of cost (weighted average) or net realizable value, net of reserves for obsolete inventory. We continually analyze our slow moving and excess inventories. Based on historical and projected sales volumes and anticipated selling prices, we established reserves. Inventory that is in excess of current and projected use is reduced by an allowance to a level that approximates its estimate of future demand. Products that are determined to be obsolete are written down to net realizable value. As of September 30, 2022 and December 31, 2021, no such reserves were necessary.

Property and Equipment

Property and equipment are stated at cost, including the cost of significant improvements and renovations. Costs of routine repairs and maintenance are charged to expense as incurred. Depreciation and amortization are calculated by the straight line method over the estimated useful lives for owned property, or, for leasehold improvements, over the shorter of the asset's useful life or term of the lease. Depreciation expense for the Nine months ended September 30, 2022 and 2021 was \$648 and \$432, respectively. The various classes of property and equipment and estimated useful lives are as follows:

Office furniture and equipment	3 to 7 years
Vehicles	5 years
Machinery and equipment	3 to 7 years
Leasehold improvements	Remaining Term of Lease

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.

DRAGONFLY ENERGY CORP.
UNAUDITED NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Revenue Recognition

Under Topic 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five step model to contracts when it is probable the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services promised within each contract and determines those that are performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. The Company excludes from the transaction price all taxes that are assessed by a governmental authority and imposed on and concurrent with the Company's revenue transactions, and therefore presents these taxes (such as sales tax) on a net basis in operating revenues on the Statements of Operations.

Revenue is recognized when control of the promised goods is transferred to the customer or reseller, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods and services. Revenue associated with products holding rights of return are recognized when the Company concludes there is not a risk of significant revenue reversal in the future periods for the expected consideration in the transaction. There are no material instances including discounts and refunds where variable consideration is constrained and not recorded at the initial time of sale. Generally, our revenue is recognized at a point in time for standard promised goods at the time of shipment when title and risk of loss pass to the customer.

The Company may receive payments at the onset of the contract before delivery of goods for customers in the retail channel. Payment terms for distributors and OEMs are due within 30-60 days after shipment. In such instances, the Company records a customer deposit liability. The Company recognizes these contract liabilities as sales after the revenue criteria are met. The company had \$1,779 of contract liabilities as of January 1, 2021. As of September 30, 2022 and December 31, 2021, the contract liability related to the Company's customer deposits approximated \$287 and \$434, respectively. The entire contract liability balance as of December 31, 2021 was recognized as revenue during the Nine months ended September 30, 2022.

DRAGONFLY ENERGY CORP.
UNAUDITED NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Disaggregation of Revenue

The following table presents our disaggregated revenues by distribution channel:

Sales	For the Nine Months Ended September 30,	
	2022	2021
Retail	\$ 35,211	\$ 44,221
Distributor	6,544	6,910
Original equipment manufacture	24,287	6,690
Total	<u>66,042</u>	<u>57,821</u>

Shipping and Handling

Shipping and handling fees paid by customers are recorded within net sales, with the related expenses recorded in cost of sales. Shipping and handling costs associated with outbound freight are included in Sales and marketing expenses. Shipping and handling costs associated with outbound freight totaled \$4,042 and \$3,912 for the Nine months ended September 30, 2022 and 2021, respectively.

Concentrations

Receivables from one customer comprised approximately 43% of accounts receivable as of September 30 2022. Receivables from two customers comprised approximately 42% and 16%, respectively, of accounts receivable as of December 31, 2021.

For the nine months ended September 30, 2022, one customer accounted for approximately 20% of the Company's total revenue. There are no significant revenue concentrations for the nine months ended September 30, 2021.

Payables to one vendor comprised approximately 45% of accounts payable as of September 30, 2022. There are no significant payable concentrations as of December 31, 2021

For the nine months ended September 30, 2022, one vendor accounted for approximately 24% of the Company's total purchases. For the nine months ended September 30, 2021, two vendors accounted for approximately 20% and 12% of the Company's total purchases.

Research and Development

The Company expenses research and development costs as incurred. Research and development expenses include salaries, contractor and consultant fees, supplies and materials, as well as costs related to other overhead such as depreciation, facilities, utilities, and other departmental expenses. The costs we incur with respect to internally developed technology and engineering services are included in research and development expenses as incurred as they do not directly relate to acquisition or construction of materials, property or intangible assets that have alternative future uses.

Advertising

The Company expenses advertising costs as they are incurred and are included in selling and marketing expenses. Advertising expenses amounted to \$1,777 and \$1,069 for the nine months ended September 30, 2022 and 2021, respectively.

DRAGONFLY ENERGY CORP.
UNAUDITED NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-Based Compensation

The Company accounts for stock based compensation arrangements with employees and non employee consultants using a fair value method which requires the recognition of compensation expense for costs related to all stock based payments, including stock options (Note 6). The fair value method requires the Company to estimate the fair value of stock based payment awards to employees and non employees on the date of grant using an option pricing model. Stock based compensation costs are based on the fair value of the underlying option calculated using the Black Scholes option pricing model and recognized as expense on a straight line basis over the requisite service period, which is the vesting period. The Company measures equity based compensation awards granted to non employees at fair value as the awards vest and recognizes the resulting value as compensation expense at each financial reporting period.

Determining the appropriate fair value model and related assumptions requires judgment, including estimating stock price volatility, expected dividend yield, expected term, risk free rate of return, and the estimated fair value of the underlying common stock. Due to the lack of company specific historical and implied volatility data, the Company has based its estimate of expected volatility on the historical volatility of a group of similar companies that are publicly traded. The historical volatility is calculated based on a period of time commensurate with the expected term assumption. The group of representative companies have characteristics similar to the Company, including stage of product development and focus on the lithium ion battery industry. The Company uses the simplified method, which is the average of the final vesting tranche date and the contractual term, to calculate the expected term for options granted to employees as it does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. The risk free interest rate is based on a treasury instrument whose term is consistent with the expected term of the stock options. The Company uses an assumed dividend yield of zero as the Company has never paid dividends and has no current plans to pay any dividends on its common stock. The Company accounts for forfeitures as they occur.

Earnings per Common Share

We calculate basic earnings per share pursuant to the two-class method as a result of the issuance of Series A Preferred stock in 2016. Our Series A Preferred Stock is considered a participating security because, in the event that we pay a dividend or make a distribution on the outstanding common stock, we shall also pay each holder of the Series Preferred Stock a dividend on an as-converted basis. The two-class method is an earnings allocation formula that determines earnings per share for common stock and participating securities according to dividend and participation rights in undistributed earnings. Under this method, all earnings, distributed and undistributed, are allocated to common shares and participating securities based on their respective rights to receive dividends. Diluted earnings per common share is calculated using the treasury stock method for options.

The following table sets forth the information needed to compute basic and diluted earnings per share for the Nine months ended September 30, 2022 and 2021:

	September 30, 2022	September 30, 2021
Basic (Loss) Earnings per common share		
Net (Loss) Income	\$ (7,456)	\$ 4,421
(Loss) Income available for distribution	(7,456)	4,421
Income allocated to participating securities	-	(1,469)
Net (Loss) Income available to common shareholders	\$ (7,456)	\$ 2,952

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	September 30, 2022	September 30, 2021
Basic (loss) Earnings per common share:		
Net (Loss) Income available to common shareholders	\$ (7,456)	\$ 2,952
Weighted average number of common shares-basic	21,384,734	20,063,211
(Loss) Earnings per share, basic	\$ (0.35)	\$ 0.15
Diluted (loss) earnings per common share:		
Net (Loss) Income available to common shareholders	\$ (7,456)	\$ 2,952
Weighted average number of common shares-basic	21,384,734	20,063,211
Dilutive effect related to stock options	-	1,862,894
Weighted average diluted shares outstanding	21,384,734	21,926,105
(Loss) Earnings per share, diluted	\$ (0.35)	\$ 0.13

The following table sets forth the number of potential shares of common stock that have been excluded from diluted net (loss) income per share net (loss) income per share because their effect was anti-dilutive:

	September 30, 2022	September 30, 2021
Options	3,100,524	-
Weighted average number of common shares-basic	3,100,524	-

Income Taxes

Deferred income tax assets and liabilities (Note 5) are determined based on the estimated future tax effects of net operating loss, credit carryforwards and temporary differences between the tax basis of assets and liabilities and their respective financial reporting amounts measured at the current enacted tax rates.

The Company recognizes a tax benefit for an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position.

The Company's accounting policy is to include penalties and interest related to income taxes if any, in selling, general and administrative expenses.

Segment Reporting

Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the Company's Chief Executive Officer to make decisions with respect to resource allocation and assessment of performance. To date, the Company has viewed its operations and manages its business as one operating segment.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COVID-19

The Company is closely monitoring the impact of COVID-19 on its business, including how it will affect its customers, workforce, suppliers, vendors, and production and distribution channels, as well as its financial statements. The extent to which COVID-19 impacts the Company's business and financial results will depend on numerous evolving factors, including, but not limited to: the magnitude and duration of COVID-19, the extent to which it will impact macroeconomic conditions, including interest rates, employment rates and consumer confidence, the speed of the anticipated recovery, and governmental, business and individual consumer reactions to the pandemic. While there was not a material impact to the Company's financial statements as of September 30, 2022 and December 31, 2021 and for the nine months ended September 30, 2022 and 2021, respectively, COVID-19 could result in material impacts to the Company's financial statements in future reporting periods.

NOTE 3 - INVENTORY

On September 30, 2022 and December 31, 2021 inventory consists of the following:

	September 30, 2022	December 31, 2021
Raw material	\$ 29,631	\$ 22,885
Finished goods	9,856	4,242
Total inventory	<u>\$ 39,487</u>	<u>\$ 27,127</u>

NOTE 4 - OPERATING LEASES

The Company has leased premises that expire at various dates through September of 2025 with options to renew for an additional 5 years subject to various operating leases. The Company originally had leases related to the main office, warehouse space, research and development lab, engineering office, and sales office, all located in Reno, Nevada. The original leases required annual escalating monthly payments ranging from \$4 to \$11. In December of 2020, the Company entered a fourth amendment lease and effective April 30, 2021, the Company terminated its original main office, warehouse and sales office lease and moved these spaces to a larger premise that is also located in Reno, Nevada that required annual escalating monthly payments ranging from \$56 to \$63. In December of 2021, the Company entered into another lease for additional warehouse space located in Reno, Nevada that required annual escalating monthly payments ranging from \$47 to \$55.

On February 2, 2022, the Company entered into a 124-month lease agreement in Reno, Nevada. The lease calls for monthly base rent of \$230, \$23 of fix operating expense costs, and estimated monthly property taxes of \$21. The monthly base rent and fixed operating expense costs are subject to escalation of 3% and 2.4%, respectively, on an annual basis. The first payment is due upon substantial completion of construction of the building which is expected to be within 2 years from the effective date. As of September 30, 2022, the lease has not commenced as the Company does not have control over the asset.

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NOTE 4 - OPERATING LEASES (CONTINUED)

The following table presents the breakout of the operating leases as of:

	September 30, 2022	December 31, 2021
Operating lease right-of-use assets	\$ 4,878	\$ 5,709
Short-term operating lease liabilities	1,157	1,082
Long-term operating lease liabilities	3,821	4,694
Total operating lease liabilities	<u>\$ 4,978</u>	<u>\$ 5,776</u>
Weighted average remaining lease term	3.8 years	4.6 years
Weighted average discount rate	5.2%	5.2%

Assumptions used in determining our incremental borrowing rate include our implied credit rating and an estimate of secured borrowing rates based on comparable market data.

At September 30, 2022, the future minimum lease payments under these operating leases are as follows:

2022	\$ 342
2023	1,399
2024	1,435
2025	1,440
2026	893
Total lease payments	<u>5,509</u>
Less imputed interest	<u>531</u>
Total operating lease liabilities	<u>\$ 4,978</u>

NOTE 5 - LONG TERM DEBT

Financing - Trust Indenture

On November 24, 2021, the Company entered into agreements to issue \$45,000 in fixed rate senior notes (Series 2021-6 Notes) pursuant to a Trust Indenture held by UMB Bank, as trustee and disbursing agent, and Newlight Capital, LLC as servicer. The trust and debt documents also require a Lender Collateral Residual Value Insurance Policy (the "Insurance Policy", with UMB Bank as named insured for \$45,000), and a placement agent, which is Tribe Capital Markets, LLC.

On the closing date of the financing, the Company received a wire for \$35,474, which is comprised of the gross proceeds of \$45,000 less \$3,188 in deposits to certain reserve accounts (see "Reserve Accounts" below), and \$6,338 in expenses withdrawn from the gross proceeds, which included \$4,725 in prepaid policy premiums and related costs underlying the Insurance Policy (see "Collateral" below), a prepaid loan monitoring fee of \$60 and \$1,553 in debt issuance costs.

The obligation for the Series 2021-6 Notes underlying the Trust Indenture is \$45,000 in principal on the date of the closing of the financing. The debt bears interest at 5.50% per annum accruing monthly on a 360-day basis. Late payments will be subject to a \$50 late fee and default interest based on a rate 5 percentage points above the applicable interest immediately prior to such default. The Company is making interest-only payments on the unpaid principal amount in arrears, commencing December 1, 2021 and ending on November 1, 2022 (for interest accruing from the Closing Date through October 31, 2022). Beginning on December 1, 2022, the Company will repay the debt in twenty-four equal installments of principal in the amount of \$1,875, plus accrued interest on the unpaid principal amount. Any remaining obligations will be due and payable on November 1, 2024 (the "Maturity Date").

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NOTE 5 - LONG TERM DEBT (CONTINUED)

Financing - Trust Indenture (continued)

The obligations under the Trust Indenture will be deemed to be repaid or prepaid to the same extent, in the same amounts and at the same times, as the Series 2021-6 Notes are redeemed with funds provided except for payments made from the proceeds of the Insurance Policy (see "Collateral" below) as such funds must be reimbursed by the Company to the insurer.

During the nine months ended September 30, 2022, a total of \$1,873 of interest expense was incurred under the debt. Amortization of the debt issuance costs amounted to \$1,783 during the nine months ended September 30, 2022. The net balance of \$40,712 at September 30, 2022 consists of \$45,000 in principal less \$4,288 in unamortized debt discount. In connection with the Business Combination on October 7, 2022, the outstanding principal balance of the loan was paid in full.

Reserve Accounts

Initial deposits into the reserve accounts consisted of the following items:

Payment Reserve Fund	\$ 3,044
Capitalized Interest Fund	144
Total	<u>\$ 3,188</u>

The Payment Reserve Fund is a debt service fund to be maintained by UMB Bank, and the initial deposit is equal to the maximum amount of monthly interest and principal debt service payment due on the Series 2021-6 notes, plus interest earned on special redemptions (redemptions related to certain defaults on the debt). These funds may be utilized by UMB Bank to fund certain shortfalls and a special redemption, but otherwise such funds are released pro rata to the Company based on principal payments made by the Company on the Series 2021-6 Notes. Since this is a deposit account maintained by the trustee and restricted for release upon the occurrence of future events, this deposit will be treated as restricted cash. The balance at September 30, 2022 remained at \$3,044.

The Capitalized Interest Fund was created to hold the interest that will accrue from the closing date until the first payment due on December 15, 2021. The initial deposit, therefore, was treated as prepaid interest. These funds were utilized to pay the interest incurred through that first payment date, therefore the balance as of September 30, 2022 was \$0.

Both above funds, to the extent that they are deposited into interest-bearing accounts, will earn interest that UMB Bank will transfer into an Interest Earnings Fund, which funds will be held in escrow until the earlier of maturity or when the debt obligations are paid in full (assuming no events of default). There were no funds deposited into interest-bearing accounts at September 30, 2022 or December 31, 2021.

Financial Covenants

The Company is subject to certain financial covenants which include maintaining minimum adjusted EBITDA, Capital Expenditures and Minimum Fixed Charge Coverage Ratio requirements.

The Company was in compliance with all financial covenants as of September 30, 2022 and December 31, 2021.

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NOTE 5 - LONG TERM DEBT (CONTINUED)

Long Term Debt Maturities

At September 30, 2022, the future debt maturities are as follows:

For Years Ended December 31,	
2022 (3 months)	\$ 1,875
2023	22,500
2024	20,625
Total	45,000
Less: Unamortized debt issuance costs, noncurrent	(4,289)
Total debt	40,711
Less: current portion of debt, net of debt discount	(16,529)
Total long-term debt	<u>\$ 24,182</u>

NOTE 6 - REVOLVING NOTE AGREEMENT

On October 6, 2021, the Company entered into a revolving note agreement with a lender to borrow up to \$8,000. The borrowing amount is limited and based on the lesser of maximum principal amount (\$8.0 million) and the sum equal to 80% of eligible accounts receivable and 50% of eligible inventory. Interest on each advance shall accrue at the prime rate announced by Bank from time to time, as and when such rate changes. The revolving credit amount is collateralized by all assets of the Corporation. The Company drew an initial amount of \$5,000 under the facility, which it subsequently re-paid and the revolving note was terminated as a closing condition of the 2021-6 Notes.

NOTE 7 - ASSET PURCHASE AGREEMENT

On January 1, 2022, the Company (the “Buyer”) entered into an asset purchase agreement (the “APA”) with Bourns Production, Inc., a Nevada corporation (the “Seller”) pursuant to which the Buyer acquired machinery and equipment of the Seller as set forth in the APA for a purchase price of \$197 which approximated fair market value.

NOTE 8 - RELATED PARTY

The Company loaned its Chief Financial Officer \$469 to repay amounts owed by him to his former employer and entered into a related Promissory Note with a maturity date of March 1, 2026. The loan was forgiven in full in March of 2022 and was recorded within general and administrative expense.

NOTE 9 - COMMON STOCK

Common stockholders are entitled to dividends if and when declared by the Board of Directors subject to the rights of the preferred stockholders. As of September 30, 2022 and December 31, 2021, no dividends on common stock had been declared by the Company.

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NOTE 9 - COMMON STOCK (CONTINUED)

On July 12, 2022, Dragonfly entered into a Stock Purchase Agreement with THOR Industries, whereby THOR purchased 1,267,502 shares of Dragonfly common stock for \$11.8343 per share or \$15,000 in cash. The Stock Purchase agreement was issued in connection with a binding agreement among the parties whereby the parties would use commercially reasonable efforts to enter into a mutually agreed distribution and joint development agreement. The final terms of the agreement have not yet been determined.

As of September 30, 2022 and December 31, 2021, the Company had reserved shares of common stock for issuance as follows:

	September 30, 2022	December 31, 2021
Convertible preferred stock outstanding	10,000,000	10,000,000
Options issued and outstanding	3,100,524	3,122,398
Common stock outstanding	22,634,276	20,875,475
Shares available for future issuance ¹	540,902	10,327
Total	<u>36,275,702</u>	<u>34,008,200</u>

(1) During March 2022, the Company increased the shares authorized under the plan by 1,000,000

NOTE 10 - STOCK-BASED COMPENSATION

A summary of the Company's option activity and related information follows:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Grant Date Fair Value	Weighted- Average Remaining Contractual Life (in years)	Aggregate intrinsic value
Balances, January 1, 2021	2,563,080	\$ 0.45	\$ -	7.92	\$ 650,965
Options granted	1,000,538	3.41	1.94		-
Options forfeited	(299,939)	1.21	1.83		-
Options exercised	(49,727)	0.53	-		-
Balances, September 30, 2021	<u>3,213,952</u>	<u>\$ 1.30</u>	<u>\$ -</u>	7.80	<u>\$ 7,616,691</u>
Balances, January 1, 2022	3,122,398	\$ 1.98	\$ -	8.52	\$ 6,549,591
Options granted	509,500	4.08	1.81		-
Options forfeited	(40,075)	3.29	2.07		-
Options exercised	(491,299)	1.44	-		-
Balances, September 30, 2022	<u>3,100,524</u>	<u>\$ 2.40</u>	<u>\$ -</u>	8.22	<u>\$ 5,220,204</u>
At September 30, 2022					
Vested and Exercisable	864,984	\$ 1.53		7.83	\$ 2,201,553
Vested and expected to vest	2,235,540	\$ 2.73		8.37	\$ 3,018,651

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NOTE 10 - STOCK-BASED COMPENSATION (CONTINUED)

Share-based compensation expense for options totaling \$1,155 and \$428 was recognized in our statements of income for the nine months ended September 30, 2022 and 2021, respectively. Of the \$1,155 of share-based compensation incurred during the nine months ended September 30, 2022, \$189 is allocated to cost of goods sold, \$307 to research and development, \$326 to selling and marketing, and \$333 to general and administrative expenses. Of the \$428 of share-based compensation incurred during the nine months ended September 30, 2021, \$145 is allocated to cost of goods sold, \$55 to research and development, \$89 to selling and marketing, and \$139 to general and administrative expenses.

As of September 30, 2022, there were 540,902 shares of unissued authorized and available for future awards under the plans.

NOTE 11 - SUBSEQUENT EVENTS

The Company evaluated subsequent events and transactions that occurred after the balance sheet date through November 14, 2022, the date that the condensed financial statements were available to be issued. Based upon this review, other than noted below, the Company did not identify any subsequent events that would have required adjustment to or disclosure in the condensed financial statements.

On October 7, 2022, the Company's stockholders approved the Business Combination, by and among the company formerly known as CNTQ, Dragonfly Energy Corp., and Bronco Merger Sub, Inc., pursuant to which Bronco Merger Sub, Inc. was merged with and into Dragonfly, with Dragonfly surviving the merger.

As a result of the Merger, and upon consummation of the Merger and other transactions contemplated by the Business Combination Agreement, Dragonfly became a wholly owned subsidiary of CNTQ. Upon the closing of the Business Combination the Company changed its name to Dragonfly Energy Holdings Corp. ("New Dragonfly"), with stockholders of Dragonfly becoming stockholders of New Dragonfly.

The following transactions at closing of the Merger included:

- Merger sub merged with and into Dragonfly, with Dragonfly surviving as a wholly owned subsidiary of New Dragonfly;
- each issued and outstanding share of capital stock of Dragonfly converted into a number of shares of New Dragonfly Common Stock equal to the product of (x) the conversion ratio applicable to such share, under Dragonfly's certificate of incorporation multiplied by (y) 1.182, which is the quotient obtained by dividing (a) 41,500 by (b) the number of Fully-Diluted Shares as defined in the Business Combination Agreement;
- each Dragonfly Option converted into an option to purchase a number of shares of New Dragonfly Common Stock in Accordance with the terms and subject to the conditions of the Business Combination Agreement;
- each Dragonfly Warrant, to the extent outstanding and unexercised, converted into a warrant to acquire shares of New Dragonfly Common Stock in accordance with the terms and subject to the conditions of the Business Combination Agreement, and
- each share of CNTQ Class A Common Stock that was issued and outstanding immediately prior to the Merger became one share of New Dragonfly Common Stock.

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NOTE 11 - SUBSEQUENT EVENTS (CONTINUED)

In connection with the term loan agreement issued in the PIPE financing (as described in note 1 of the financial statements), the Company entered into (i) the penny warrant to issue penny warrants to the Term Loan Lenders under the Term Loan exercisable to purchase 2,593,056 shares, which is equal to approximately 5.6% of Common Stock calculated on an agreed fully diluted outstanding basis on the issuance date (the "Penny Warrants") and (ii) the \$10 warrant to issue warrants to the Term Loan Lenders under the Term Loan exercisable to purchase 1,600,000 shares of Common Stock at \$10 per share (the "\$10 Warrants" and, together with the Penny Warrants, the "Warrants"). The additional shares of Common Stock will dilute the pro forma ownership of the other Company stockholders of proportionately.

On October 7, 2022, the Company entered into a purchase agreement and registration rights agreement with CCM LLC. Pursuant to the purchase agreement, the Company has the right to sell to CCM LLC an amount of shares of common stock, up to a maximum aggregate purchase price of \$150 million, from time to time, pursuant to the terms of the Purchase Agreement. In addition, the Company appointed LifeSci Capital, LLC as a "qualified independent underwriter" with respect to the transactions contemplated by the Purchase agreement.

On November 4, 2022, the Board of the Company announced that Sean Nichols, the Company's Chief Operating Officer, would be leaving the Company. Mr. Nichols and the Company have entered into a separation and release agreement (the "Separation Agreement") on November 2, 2022. Pursuant to the Separation Agreement, Mr. Nichols will receive a cash payment of \$100,000 in one installment in December 2022 and a cash payment of \$1,000,000 in 24 monthly installments commencing in December 2022. Mr. Nichols' outstanding equity awards granted by the Company will fully vest and, in the case of options, will be exercisable for 12 months following his termination date. The Separation Agreement also provides the Company will pay a portion of Mr. Nichols' premiums to continue participation in the Company's health insurance plans for up to 18 months following his termination. The Separation Agreement includes a general release of claims by Mr. Nichols and certain restrictive covenants in favor of the Company, including non-competition and non-solicitation covenants for 12 months following his termination date.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

References in this section to “we,” “our,” “us,” and “Legacy Dragonfly” generally refer to Dragonfly Energy Corp. and its consolidated subsidiaries prior to the business combination with Chardan NexTech Acquisition 2 Corp. (the “Business Combination”). References in this section to “Dragonfly” generally refer to Dragonfly Energy Holdings Corp. and its consolidated subsidiaries after giving effect to the Business Combination. The following discussion and analysis of our results of operations and financial condition should be read in conjunction with the unaudited condensed consolidated financial statements as of September 30, 2022 and for the nine months ended September 30, 2022 and 2021, together with related notes thereto filed as Exhibit 99.1 to the Amendment No. 2 to the Current Report on Form 8-K/A (the “Form 8-K/A”) to which this Exhibit is filed. This discussion contains forward-looking statements based upon expectations, estimates and projections that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements due to, among other considerations, the matters discussed below and in Dragonfly’s Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission (the “SEC”) on October 7, 2022, as amended on October 12, 2022 by Amendment No. 1, particularly in the sections titled “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements.”

Percentage amounts included in the Form 8-K/A and the Exhibits thereto have not in all cases been calculated on the basis of such rounded figures, but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this discussion and analysis may vary from those obtained by performing the same calculations using the figures in our consolidated financial statements included elsewhere in the Form 8-K/A and the exhibits thereto. Certain other amounts that appear in the Form 8-K/A and the Exhibits thereto may not sum due to rounding.

Overview

Founded in 2012 and based in Reno, Nevada, we are a manufacturer of non-toxic deep cycle lithium-ion batteries that are designed to displace lead acid batteries in a number of different storage applications and end markets including RV, marine vessel, and solar and off-grid industries, with disruptive solid-state cell technology currently under development. Our mission is to develop technology to deliver environmentally impactful and affordable solutions for energy storage to everyone globally.

Since 2018, we have sold over 188,000 batteries. For the nine months ended September 30, 2021 and 2022, we sold 59,082 and 62,691 batteries, respectively, and had \$57.8 million and \$66.0 million in net sales, respectively. We currently offer a line of batteries across our “Battle Born” and “Dragonfly” brands, each differentiated by size, power and capacity, consisting of eight different models, four of which come with a heated option. We primarily sell “Battle Born” branded batteries directly to consumers and “Dragonfly” branded batteries to OEMs.

Our increased total sales are a reflection of strong growth in original equipment manufacturer (“OEM”) sales, partially offset by a decline in direct sales to consumers (“DTC”) sales. Our RV OEM customers currently include Keystone, THOR, Airstream, and REV, and we are in ongoing discussions with a number of additional RV OEMs to further increase adoption of our products. Related efforts include seeking to have RV OEMs “design in” our batteries as original equipment and entering into arrangements with members of the various OEM dealer networks to stock our batteries for service and for aftermarket replacement sales.

We currently source the lithium iron phosphate cells incorporated into our batteries from a limited number of carefully selected suppliers that can meet our demanding quality standards and with whom we have developed long-term relationships.

To supplement our battery offerings, we are also a reseller of accessories for battery systems. These include chargers, inverters, monitors, controllers and other system accessories from brands such as Victron Energy, Progressive Dynamics, Magnum Energy and Sterling Power.

In addition to our conventional LFP batteries, our experienced research and development team, headed by our founder and CEO, is currently developing the next generation of LFP solid-state cells. Since our founding, we have been developing proprietary solid-state cell technology and manufacturing processes for which we have issued patents and pending patent applications, where appropriate. Solid-state technology eliminates the use of a liquid electrolyte, which addresses the residual heat and flammability issues arising from traditional lithium-ion batteries. The unique competitive advantage of our solid-state battery cell is highlighted by our dry deposition technology, which completely displaces the need for toxic solvents in the manufacturing process and allows for the rapid and scalable production of solid-state cells having an intercalation anode, like graphite or silicon. Other solid-state technology companies are focused on a denser lithium metal anode, which tends to form icicle-like dendrites inside the cell and lacks the cyclability of an intercalation anode. Our design allows for a much safer, more efficient cell that we believe will be a key differentiator in the energy storage market. Additionally, our internal production of solid-state cells will streamline our supply chain, allowing us to vertically integrate our cells into our batteries, thereby lowering our production costs as a result of our proprietary cost-effective manufacturing processes.

The Business Combination

On October 7, 2022, we consummated the Business Combination. Pursuant to the Business Combination Agreement, Bronco Merger Sub, Inc., a Nevada corporation and newly formed wholly-owned subsidiary of CNTQ (“**MergerSub**”) merged with and into Legacy Dragonfly, with Legacy Dragonfly surviving the merger and becoming a wholly-owned direct subsidiary of Chardan NexTech Acquisition 2 Corp. (“**CNTQ**”). Thereafter, Merger Sub ceased to exist and CNTQ was renamed Dragonfly Energy Holdings Corp. Dragonfly is deemed the accounting acquirer, which means that Legacy Dragonfly’s financial statements for previous periods will be disclosed in our future periodic reports filed with the SEC.

The Business Combination is anticipated to be accounted for as a reverse recapitalization. Under this method of accounting, CNTQ will be treated as the acquired company for financial statement reporting purposes. See “*Unaudited Pro Forma Condensed Combined Financial Information*” in the Form 8-K/A and the Exhibits thereto.

As a result of becoming a publicly traded company, we continue to need to hire additional personnel and implement procedures and processes to address public company regulatory requirements and customary practices. We expect to incur additional annual expenses as a public company for, among other things, directors’ and officers’ liability insurance, director fees and additional internal and external accounting and legal and administrative resources, including increased audit and legal fees.

Key Factors Affecting Our Operating Results

Our financial position and results of operations depend to a significant extent on the following factors:

End Market Consumers

The demand for our products ultimately depends on demand from consumers in our current end markets. We generate sales through (1) DTC and (2) through OEMs, particularly in the RV market.

An increasing proportion of our sales has been and is expected to continue to be derived from sales to RV OEMs, driven by continued efforts to develop and expand sales to RV OEMs with whom we have longstanding relationships. Our RV OEM sales have been on a purchase order basis, without firm revenue commitments, and we expect that this will likely continue to be the case. Therefore, future RV OEM sales will be subject to risks and uncertainties, including the number of RVs these OEMs manufacture and sell, which in turn may be driven by the expectations these OEMs have around end market consumer demand.

Demand from end market consumers is impacted by a number of factors, including travel restrictions (as a result of COVID-19 or otherwise), fuel costs and energy demands (including an increasing trend towards the use of green energy), as well as overall macro-economic conditions. Sales of our batteries have benefited from the increased adoption of the RV lifestyle and the demand for additional appliances and electronics in RVs during the COVID-19 pandemic. However, in recent months rising fuel costs and other macro-economic conditions have caused a downward shift in decisions taken by end market consumers around spending. We have also experienced delays and disruptions in our supply chain, as well as labor shortages and shutdowns, which disrupted the production of our batteries and impacted our ability to keep up with customer demand. In addition, the spreading of the virus may make it more difficult for us to find alternative suppliers due to the high concentration of such suppliers located in China.

Our strategy includes plans to expand into new end markets that we have identified as opportunities for our LFP batteries, including industrial, rail, specialty and work vehicles, material handling, solar integration, and emergency and standby power, in the medium term, and data centers, telecom, and distributed on-grid storage in the longer term. We believe that our current LFP batteries and, eventually, our solid-state batteries, will be well-suited to supplant traditional lead-acid batteries as a reliable power source for the variety of low power density uses required in these markets (such as powering the increasing number of on-board tools needed in emergency vehicles). The success of this strategy requires (1) continued growth of these addressable markets in line with our expectations and (2) our ability to successfully enter these markets. We expect to incur significant marketing costs understanding these new markets, and researching and targeting customers in these end markets, which may not result in sales. If we fail to execute on this growth strategy in accordance with our expectations, our sales growth would be limited to the growth of existing products and existing end markets.

Supply

We currently rely on two carefully selected cell manufacturers located in China, and a single supplier, also located in China, to manufacture our proprietary battery management system, and we intend to continue to rely on these suppliers going forward. Our close working relationships with our China-based LFP cell suppliers, reflected in our ability to increase our purchase order volumes (qualifying us for related volume-based discounts) and order and receive delivery of cells in anticipation of required demand, has helped us moderate increased supply-related costs associated with inflation, currency fluctuations and U.S. government tariffs imposed on our imported battery cells and to avoid potential shipment delays. To mitigate against potential adverse production events, we opted to build our inventory of key components, such as battery cells. In connection with these stockpiling activities, we experienced a significant increase in prepaid inventory compared to prior periods as suppliers required upfront deposits in response to global supply chain disruptions.

As a result of our battery chemistry and active steps we have taken to manage our inventory levels, we have not been subject to the shortages or price impacts that have been present for manufacturers of nickel manganese cobalt and nickel cobalt aluminum batteries. As we look toward the production of our solid-state cells, we have signed a Memorandum of Understanding with a lithium mining company located in Nevada for the supply of lithium, which we expect will enable us to further manage our cost of goods.

Product and Customer Mix

Our product sales consist of sales of eight different models of LFP batteries, along with accessories for battery systems (individually or bundled). These products are sold to different customer types (e.g., consumers, OEMs and distributors) and at different prices and involve varying levels of costs. In any particular period, changes in the mix and volume of particular products sold and the prices of those products relative to other products will impact our average selling price and our cost of goods sold. Despite our work to moderate increased supply-related costs, the price of our products may also increase as a result of increases in the cost of components due to inflation, currency fluctuations and tariffs. OEM sales typically result in lower average selling prices and related margins, which could result in margin erosion, negatively impact our growth or require us to raise our prices. However, this reduction is typically offset by the benefits of increased sales volumes. Sales of third-party sourced accessories (whether sold individually or as part of a bundle) typically have lower related margin. We expect DTC accessory sales to increase as we further develop full-system design expertise and product offerings and consumers increasingly demand more sophisticated systems, rather than simple drop-in replacement. In addition to the impacts attributable to the general sales mix across our products and accessories, our results of operations are impacted by the relative margins of products sold. As we continue to introduce new products at varying price points, our overall gross margin may vary from period to period as a result of changes in product and customer mix.

Production Capacity

All of our battery assembly currently takes place at our 99,000 square foot headquarters and manufacturing facility located in Reno, Nevada. We currently operate two LFP battery production lines. Consistent with our operating history, we plan to continue to automate additional aspects of our battery production lines. Our existing facility has the capacity to add four additional LFP battery production lines and construct and operate a pilot production line for our solid-state cells, all designed to maximize the capacity of our manufacturing facility. Although our automation efforts are expected to reduce our costs of goods, we may not fully recognize the anticipated savings when planned and could experience additional costs or disruptions to our production activities.

Competition

We compete with traditional lead-acid battery manufacturers and lithium-ion battery manufacturers, who primarily either import their products or components or manufacture products under a private label. As we continue to expand into new markets, develop new products and move towards production of our solid-state cells, we will experience competition with a wider range of companies. These competitors may have greater resources than we do, and may be able to devote greater resources to the development of their current and future technologies. Our competitors may be able to source materials and components at lower costs, which may require us to evaluate measures to reduce our own costs, lower the price of our products or increase sales volumes in order to maintain our expected levels of profitability.

Research and Development

Our research and development is primarily focused on the advanced manufacturing of solid-state lithium-ion batteries using an LFP catholyte, a solid electrolyte and an intercalation-based anolyte (intercalation being the reversible inclusion of a molecule or ion into layered solids). The next stage in our technical development is to construct the battery to optimize performance and longevity to meet and exceed industry standards for our target storage markets. Ongoing testing and optimizing of more complicated batteries incorporating layered pouch cells will assist us in determining the optimal cell chemistry to enhance conductivity and increase the number of cycles (charge and discharge) in the cell lifecycle. This is expected to require significant additional expense, and we may need to raise additional funds to continue these research and development efforts.

Components of Results of Operations

Net Sales

Net sales is primarily generated from the sale of our LFP batteries to OEMs and DTC, as well as chargers and other accessories, either individually or bundled.

Cost of Goods Sold

Cost of goods sold includes the cost of cells and other components of our LFP batteries, labor and overhead, logistics and freight costs, and depreciation of manufacturing equipment.

Gross Profit

Gross profit, calculated as net sales less cost of goods sold, may vary between periods and is primarily affected by various factors including average selling prices, product costs, product mix, and customer mix.

Operating Expenses

Research and development

Research and development costs include personnel-related expenses for scientists, experienced engineers and technicians as well as the material and supplies to support the development of new products and our solid-state technology. As we work towards completing the development of our solid-state lithium-ion cells and the manufacturing of batteries that incorporate this technology, we anticipate that research and development expenses will increase significantly for the foreseeable future as we continue to invest in product development and optimizing and producing solid-state cells.

General and administrative

General and administrative costs include personnel-related expenses attributable to our executive, finance, human resources, and information technology organizations, certain facility costs, and fees for professional services.

Selling and marketing

Selling and marketing costs include outbound freight, personnel-related expenses, as well as trade show, industry event, marketing, customer support, and other indirect costs. We expect to continue to make the necessary sales and marketing investments to enable the execution of our strategy, which includes expanding into additional end markets.

Total Other Income (Expense)

Other income (expense) consists primarily of interest expense and debt issuance costs.

Results of Operations for the Nine Months Ended September 30, 2022 and 2021

The following table sets forth our results of operations for the nine months ended September 30, 2022 and 2021. This data should be read together with our unaudited financial statements and related notes included in Exhibit 99.1 to the Form 8-K/A, and is qualified in its entirety by reference to such financial statements and related notes.

	Nine months ended September 30,			
	2022	% Net Sales	2021	% Net Sales
	(in thousands)			
Net Sales	\$ 66,042	100.0	\$ 57,821	100.0
Cost of Goods Sold	46,481	70.4	34,314	59.3
Gross profit	19,561	29.6	23,507	40.7
Operating expenses				
Research and development	1,951	3.0	1,899	3.3
Sales and marketing	9,331	14.1	6,654	11.5
General and administrative	13,716	20.8	8,428	14.6
Total Operating expenses	24,998	37.9	16,981	29.4
(Loss) Income From Operations	(5,437)	(8.2)	6,526	11.3
Other (Expense) Income				
Interest (Expense) Income	(3,657)	(5.5)	0	0.0
Loss on Disposition of Assets	(62)	(0.1)	(124)	(0.2)
Total Other (Expense) Income	(3,719)	(5.6)	(124)	(0.2)
(Loss) Income Before Taxes	(9,156)	(13.9)	6,402	11.1
(Benefit) Provision for Income Tax	(1,700)	(2.6)	1,981	3.4
Net (Loss) Income	\$ (7,456)	(11.3)	\$ 4,421	7.6

	Nine months ended September 30,	
	2022	2021
	(in thousands)	
Retailer	35,211	44,221
Distributor	6,544	6,910
DTC	41,755	51,131
% Net Sales	63.2	88.4
OEM	24,287	6,690
% Net Sales	36.8	11.6
Net Sales	\$ 66,042	\$ 57,821

Net Sales

Net sales increased by \$8.2 million, or 14.2%, to \$66.0 million for the nine months ended September 30, 2022, as compared to \$57.8 million for the nine months ended September 30, 2021. This increase was primarily due to strong growth in the Company's OEM business partially offset by a decline in DTC sales. For the nine months ended September 30, 2022, OEM revenue increased by \$17.6 million primarily as a result of increased sales to RV OEM customers. DTC revenue decreased by \$9.4 million compared to the nine months ended September 30, 2021, primarily due to lower unit volumes as a result of decreased demand due to macro-economic conditions.

Cost of Goods Sold

Cost of revenue increased by \$12.2 million, or 35.5%, to \$46.5 million for the nine months ended September 30, 2022, as compared to \$34.3 million for the nine months ended September 30, 2021. This increase was primarily due to growth in unit sales, higher material, shipping and logistics costs (which we expect are likely to continue) in the amount of \$9.0 million, a \$2.0 million increase in overhead expense associated with the new manufacturing facility, and higher labor costs due to growth in the Company's operations.

Gross Profit

Gross profit decreased by \$3.9 million, or 16.8%, to \$19.6 million for the nine months ended September 30, 2022, as compared to \$23.5 million for the nine months ended September 30, 2021. The decrease in gross profit was primarily due to a change in revenue mix that included a larger percentage of lower margin OEM sales a lower percentage of DTC sales, together with an increase in cost of goods sold as noted above.

Research and Development Expenses

Research and development expenses increased by \$0.1 million, or 2.7%, to \$2.0 million for the nine months ended September 30, 2022, as compared to \$1.9 million for the nine months ended September 30, 2021. This increase was primarily due to higher wage expense partially offset by lower material costs in relation to research and development.

General and Administrative Expenses

General and administrative expenses increased by \$5.3 million, or 62.7%, to \$13.7 million for the nine months ended September 30, 2022, as compared to \$8.4 million for the nine months ended September 30, 2021. This increase was primarily due to higher professional fees associated with the Business Combination process in the amount of \$1.9 million, a \$2.0 million increase in costs associated with systems and personnel needed for public company readiness, and higher insurance fees due to growth in our operations.

Selling and Marketing Expenses

Sales and marketing expenses increased by \$2.7 million, or 40.2%, to \$9.3 million for the nine months ended September 30, 2022, as compared to \$6.7 million for the nine months ended September 30, 2021. This increase was primarily due to an additional \$1.6 million in wage expenses as a result of higher headcount to support growth initiatives in our existing and new adjacent markets, as well as increases across advertising, sponsorship and other sales and marketing expenses.

Total Other (Expense) Income

Other expense totaled \$3.7 million for the nine months ended September 30, 2022 as compared to total other expense of \$0.1 million for the nine months ended September 30, 2021. Other expense in 2022 is comprised primarily of interest expense related to \$45.0 million in senior secured notes issued in November 2021. Interest expense will increase significantly as a result of approximately \$75 million in post-closing indebtedness following completion of the Business Combination.

Income Tax (Benefit) Provision

Income tax benefit was \$1.7 million for the nine months ended September 30, 2022, as compared to a \$2.0 million expense for the nine months ended September 30, 2021. The income tax benefit reflects the Company's expected use of losses in the period against future tax obligations.

Net (Loss) Income

We experienced a net loss of \$7.5 million for the nine months ended September 30, 2022, as compared to net income of \$4.4 million for the nine months ended September 30, 2021. As described above, this result was driven primarily by higher sales offset by increased cost of goods sold, higher operating expenses, and increased other expense.

Non-GAAP Financial Measures

The Form 8-K/A and the Exhibits thereto include a non-GAAP measure that we use to supplement our results presented in accordance with U.S. GAAP. EBITDA is defined as earnings before interest and other income, tax and depreciation and amortization. Adjusted EBITDA is calculated as EBITDA adjusted for stock-based compensation, ERP implementation, non-recurring debt transaction and business combination expenses. Adjusted EBITDA is a performance measure that we believe is useful to investors and analysts because it illustrates the underlying financial and business trends relating to our core, recurring results of operations and enhances comparability between periods.

Adjusted EBITDA is not a recognized measure under U.S. GAAP and is not intended to be a substitute for any U.S. GAAP financial measure and, as calculated, may not be comparable to other similarly titled measures of performance of other companies in other industries or within the same industry. Investors should exercise caution in comparing our non-GAAP measure to any similarly titled measure used by other companies. This non-GAAP measure excludes certain items required by U.S. GAAP and should not be considered as an alternative to information reported in accordance with U.S. GAAP.

The table below presents our adjusted EBITDA, reconciled to net income for the nine months ended September 30, 2022 and 2021.

	Nine months ended September 30,	
	2022	2021
	(in thousands)	
Net income	\$ (7,456)	\$ 4,421
Interest Expense	3,657	—
Taxes	(1,700)	1,981
Depreciation and Amortization	648	432
EBITDA	(4,851)	6,834
<i>Adjusted for:</i>		
Stock-Based Compensation ⁽¹⁾	1,155	428
ERP Implementation ⁽²⁾	198	190
Promissory Note Forgiveness ⁽³⁾	469	—
Business Combination Expenses ⁽⁴⁾	1,886	—
Adjusted EBITDA	\$ (1,143)	\$ 7,452

(1) Stock-Based Compensation is comprised of costs associated with option grants made to our employees and consultants.

(2) ERP Implementation is comprised of costs and expenses associated with our implementation of an ERP system in anticipation of the Business Combination and becoming a public company.

(3) Promissory Note Forgiveness is comprised of the loan that was forgiven in connection with the promissory note, with a maturity date of March 1, 2026, between the Company and its Chief Financial Officer.

(4) Business Combination Expenses is comprised of fees and expense, including legal, accounting and other others, associated with the Business Combination.

Liquidity and Capital Resources

Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations, including working capital needs, debt service, acquisitions, contractual obligations and other commitments. We assess liquidity in terms of our cash flows from operations and their sufficiency to fund our operating and investing activities. As of September 30, 2022, our principal source of liquidity was cash totaling \$13.6 million. We intend to utilize borrowings under the Term Loan (as defined below) and equity issuances under the ChEF Equity Facility (as defined below), pursuant to which we have the option to direct Chardan Capital Markets LLC (“CCM”) to purchase up to \$150.0 million of common stock, pursuant to, on the terms of and subject to satisfaction the terms and conditions of availability in the purchase agreement. Following the consummation of the Business Combination, as of November 1, 2022, we had cash totaling \$18.9 million.

In connection with the growth of our business and in anticipation of future needs and to protect against supply-chain and logistics related shortages, during the third quarter of 2022, we continued to increase our inventory purchasing activities. As a result, our inventory balance at September 30, 2022 increased by \$12.4 million to \$39.5 million, compared to \$27.1 million at December 31, 2021.

We expect our capital expenditures and working capital requirements to increase materially in the near future, as we continue our research and development efforts (particularly those related to solid-state lithium-ion battery development), expand our production lines, scale up production operations and look to enter into adjacent markets for our batteries (with operating expenses expected to increase across all major expense categories). We expect to deploy a significant amount of capital to continue our optimization and commercialization efforts dedicated to our solid-state technology development, as well as continued investment to automate and increase the production capacity of our existing assembly operation. We believe that our cash on hand following the closing of the Business Combination, which we assume will include utilization of the borrowings under the Term Loan and equity issuances under the ChEF Equity Facility, will be sufficient to meet our working capital and capital expenditure requirements for a period of at least twelve months from the date of this Form 8-K/A. We may, however, need additional cash if there are material changes to our business conditions or other developments, including unanticipated delays in production, supply chain challenges, disruptions due to the COVID-19 pandemic, competitive pressures and regulatory developments, or if we decide to accelerate our research and development efforts and/or any of our other growth strategies. To the extent that our resources are insufficient to satisfy our cash requirements, we may need to seek additional equity or debt financing. If the financing is not available, or if the terms of financing are less desirable than we expect, we may be forced to take actions to reduce our capital or operating expenditures, including by not seeking potential acquisition opportunities, eliminating redundancies, or reducing or delaying our production facility expansions, which may adversely affect our business, operating results, financial condition and prospects.

In addition to the foregoing, based on our current assessment, we do not expect any material adverse effect on our long-term liquidity due to the COVID-19 pandemic. However, we will continue to assess the effect of the pandemic to our operations. The pandemic has in recent periods moderated in the United States following the availability of vaccines (although vaccination rates often vary by geography, age and other factors) and increased immunity (including natural immunity from infection). However, the extent to which the COVID-19 pandemic will affect our business and operations will depend on future developments that are highly uncertain and cannot be predicted with confidence. These uncertainties include the ultimate geographic spread of the disease (including emergence of new variants against which existing vaccinations or treatments may be ineffective), the duration of the pandemic and the perceived effectiveness of actions taken in the United States and other countries to contain and treat the disease. While the potential economic impact of COVID-19 may be difficult to assess or predict, a widespread pandemic alone or in combination with other events, such as the Russia/Ukraine conflict, could result in significant disruption of global financial markets and supply chains, reducing our ability to access capital in the future or access required raw materials and components, which could result in price increases. In addition, a recession or long-term market correction resulting from the spread of COVID-19 or other events could materially affect our business and the value of our common stock.

Historically, we funded development of our solid-state and cell manufacturing technologies internally through operationally generated cash and, in recent periods, with proceeds from our secured borrowings in November 2021 and in October 2022 (in connection with the consummation of the Business Combination). Additionally, we intend to utilize our borrowings under the Term Loan and equity issuances under our ChEF Equity Facility, subject to the terms and conditions thereof, along with our cash generated by operations, to fund the continued development of our solid-state technologies. To date, our focus has been on seeking to prove the fundamental soundness of our manufacturing techniques and our solid-state chemistry. Moving forward, our solid-state related investments will focus on chemistry optimization and establishing a pilot line for pouch cell production. Over the next two to three years, we expect to spend in excess of \$50 million on solid-state development and cell manufacturing technologies.

Financing Obligations and Requirements

As of September 30, 2022, we had cash totaling \$13.6 million. Since inception and until recently, we funded ourselves from internally generated cash and \$2 million in equity raised in 2017. On November 24, 2021, we issued \$45 million of fixed rate senior notes, secured by among other things, a security interest in our intellectual property. As part of the Business Combination, we entered into a series of transactions that is expected to provide us additional cash to fund our capital and liquidity requirements in the short and long-term. Following the consummation of the Business Combination, as of November 1, 2022, we had cash totaling \$18.9 million.

The proceeds from the \$75 million aggregate principal amount senior secured term loan facility (the “**Term Loan**”) entered into in connection with the Business Combination were used to (i) to support the Business Combination, (ii) to prepay the fixed rate senior notes at closing of the Business Combination, (iii) to pay fees and expenses in connection with the foregoing, (iv) to provide additional growth capital and (v) for other general corporate purposes. The Term Loan will mature four years from the closing of the Business Combination and will be subject to quarterly amortization of 5% per annum beginning 24 months after the closing of the Business Combination.

The definitive documents for the Term Loan (the “**Term Loan Agreement**”) incorporate certain mandatory prepayment events and certain affirmative and negative covenants and exceptions thereto. The financial covenants for the Term Loan include a maximum senior leverage ratio covenant, a minimum liquidity covenant, a springing fixed charge coverage ratio covenant and a maximum capital expenditures covenant.

The Term Loan accrues interest (i) until April 1, 2023 at a per annum rate equal to adjusted SOFR plus a margin equal to 13.5%, of which 7% will be payable in cash and 6.5% will be paid in-kind, (ii) thereafter until October 1, 2024, at a per annum rate equal to adjusted SOFR plus 7% payable in cash plus an amount ranging from 4.5% to 6.5%, depending on the senior leverage ratio of the consolidated company, which will be paid-in-kind and (iii) at all times thereafter, at a per annum rate equal to adjusted SOFR plus a margin ranging from 11.5% to 13.5% payable in cash, depending on the senior leverage ratio of the consolidated company. In each of the foregoing cases, adjusted SOFR will be no less than 1%.

Dragonfly may elect to prepay all or any portion of the amounts owed prior to Maturity Date (as defined in the Term Loan Agreement), provided that Dragonfly provides notice to the Administrative Agent and the amount is accompanied by the applicable prepayment premium, if any. Prepayments of the Term Loan are required to be accompanied by a premium of 5% of the principal amount so prepaid if made prior to the first anniversary of the closing of the Business Combination, 3% if made on and after the first anniversary but prior to the second anniversary of the closing of the Business Combination, 1% if made after the second anniversary of the Closing Date but prior to the third anniversary of the closing of the Business Combination, and 0% if made on or after the third anniversary of the closing of the Business Combination. If the Term Loan is accelerated following the occurrence of an event of default, Legacy Dragonfly is required to immediately pay to lenders the sum of all obligations for principal, accrued interest, and the applicable prepayment premium.

Pursuant to the Term Loan Agreement, the obligations of Legacy Dragonfly are guaranteed by Dragonfly and will be guaranteed by any of Legacy Dragonfly’s subsidiaries that are party thereto from time to time as guarantors. Pursuant to the Term Loan Agreement, each of Dragonfly and Legacy Dragonfly granted the Administrative Agent, a security interest in substantially all of its personal property, rights and assets to secure the payment of all amounts owed to lenders under the Term Loan Agreement. In addition, we entered into a Pledge Agreement pursuant to which Dragonfly pledged to the Administrative Agent its equity interests in Legacy Dragonfly as further collateral security for the obligations under the Term Loan Agreement.

At the closing of the Business Combination, Dragonfly issued to the Term Loan Lenders (i) warrants to initially acquire 2,593,056 shares of common stock at an exercise price of \$0.01 per share and (ii) the warrants to initially acquire 1,600,000 shares of common stock at an initial \$10.00 per share exercise price.

In addition, pursuant to the purchase agreement dated October 7, 2022 between Dragonfly and CCM, establishing an equity facility (the “**ChEF Equity Facility**”). On the terms of and subject to the satisfaction of the conditions therein, including the filing and effectiveness of a registration statement registering the resale by CCM of the shares of common stock issued to it under the purchase agreement, Dragonfly will have the right from time to time at its option to direct CCM to purchase up to a specified maximum amount of shares of common stock, up to a maximum aggregate purchase price of \$150 million over the term of the ChEF Equity Facility.

For additional detail on the Term Loan and the ChEF Equity Facility and their respective terms and conditions, see Dragonfly’s Current Report on Form 8-K filed with the SEC on October 7, 2022.

Cash Flow — Nine months ended September 30, 2022 and 2021

	Nine months ended September 30,	
	2022	2021
	(in thousands)	
Net cash provided by/(used in) operating activities	\$ (24,711)	\$ (2,733)
Net cash provided by/(used in) investing activities	\$ (6,065)	\$ (2,479)
Net cash provided by/(used in) financing activities	\$ 15,707	\$ 26

Operating Activities

Net cash used in operating activities was \$24.7 million for the nine months ended September 30, 2022 primarily due to a net loss during the period, an increase in purchased inventory to support future growth and to protect against potential supply disruptions, and an increase in accounts payable and accrued expenses as a result of the increased sales to OEM customers.

Net cash used in operating activities was \$2.7 million for the nine months ended September 30, 2021 primarily due to net income during the period which was more than offset by an increase in working capital as a result of growth in the Company’s operations.

Investing Activities

Net cash used in investing activities was \$6.1 million for the nine months ended September 30, 2022, as compared to net cash used in investing activities of \$2.5 million for the nine months ended September 30, 2021. The increase in cash used in investing activities was primarily due to an increase in capital expenditures to support the Company’s growing manufacturing base as well as its efforts to develop solid-state battery technology and manufacturing processes.

Financing Activities

Net cash provided by financing activities was \$15.7 million for the nine months ended September 30, 2022, as compared to net cash provided by financing activities of \$0.03 million for the nine months ended September 30, 2021, and was primarily due to the strategic investment made by Thor Industries.

Contractual Obligations

Our estimated future obligations consist of short-term and long-term operating lease liabilities. As of September 30, 2022, we had \$1.2 million in short-term operating lease liabilities and \$3.8 million in long-term operating lease liabilities.

Quantitative and Qualitative Disclosures about Market Risk

We have not experienced any significant losses in such accounts, nor does management believe it is exposed to any significant credit risk. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected term of the stock options. We use an assumed dividend yield of zero as we have never paid dividends and have no current plans to pay any dividends on our common stock. We account for forfeitures as they occur.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates, assumptions and judgments that can significantly impact the amounts we report as assets, liabilities, revenue, costs and expenses and the related disclosures. We base our estimates on historical experience and other assumptions that we believe are reasonable under the circumstances. Our actual results could differ significantly from these estimates under different assumptions and conditions. We believe that the accounting policies discussed below are critical to understanding our historical and future performance as these policies involve a greater degree of judgment and complexity.

Revenue Recognition

Under Topic 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. We only apply the five-step model to contracts when it is probable the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, we assess the goods or services promised within each contract and determines those that are performance obligations and assesses whether each promised good or service is distinct. We then recognize as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. We exclude from the transaction price all taxes that are assessed by a governmental authority and imposed on and concurrent with our revenue transactions, and therefore present these taxes (such as sales tax) on a net basis in operating revenues on the Statement of Income.

Revenue is recognized when control of the promised goods is transferred to the customer or distributor, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods and services. Revenue associated with products holding rights of return are recognized when we conclude there is no risk of significant revenue reversal in the future periods for the expected consideration in the transaction. There are no material instances including discounts and refunds where variable consideration is constrained and not recorded at the initial time of sale. Generally, our revenue is recognized at a point in time for standard promised goods at the time of shipment when title and risk of loss pass to the customer.

We may receive payments at the onset of the contract and before delivery of goods for customers in the retail channel. In such instances, we record a customer deposit liability. Payment terms for distributors and OEMs are due within 30-60 days after shipment. We recognize these contract liabilities as sales after the revenue criteria are met. As of September 30, 2022, the contract liability related to our customer deposits approximated \$0.3 million compared to approximately \$0.4 million as of December 31, 2021. The entire contract liability balance as of December 31, 2021 was recognized as revenue during the nine months ended September 30, 2022.

Inventory

Inventories, which consist of raw materials, work in process and finished goods, are stated at the lower of cost (weighted average) or net realizable value, net of reserves for obsolete inventory. We continually analyze our slow moving and excess inventories. Based on historical and projected sales volumes and anticipated selling prices, we established reserves. Inventory that is in excess of current and projected use is reduced by an allowance to a level that approximates its estimate of future demand. Products that are determined to be obsolete are written down to net realizable value. As of September 30, 2022 and 2021, no such reserves were necessary.

Property and Equipment

Property and equipment are stated at cost, including the cost of significant improvements and renovations. Costs of routine repairs and maintenance are charged to expense as incurred. All our facilities are leased and none are owned. Depreciation and amortization are calculated by the straight-line method over the estimated useful lives for owned property, or, for leasehold improvements, over the shorter of the asset’s useful life or term of the lease. Depreciation expense for the nine months ended September 30, 2022 and 2021 was \$0.6 million and \$0.4 million, respectively. The various classes of property and equipment and estimated useful lives are as follows:

Office furniture and equipment	3 to 7 years
Vehicles	5 years
Machinery and equipment	3 to 7 years
Leasehold improvements	Remaining Term of Lease

As we add to our production capabilities and make related capital expenditures (including with respect to our solid-state battery capabilities) we expect our depreciation expenses to increase.

Research and Development

We expense research and development costs as incurred. Research and development expenses include salaries, contractor and consultant fees, supplies and materials, as well as costs related to other overhead such as depreciation, facilities, utilities, and other departmental expenses. The costs we incur with respect to internally developed technology and engineering services are included in research and development expenses as incurred as they do not directly relate to acquisition or construction of materials, property or intangible assets that have alternative future uses. We expect our research and development costs to increase as we continue to develop our proprietary solid-state cell technology and manufacturing processes.

Recent Accounting Pronouncements

For information regarding recently issued accounting pronouncements and recently adopted accounting pronouncements, please see Note 2, Summary of Significant Accounting Policies, to our consolidated financial statements included in Exhibit 99.1 to the Form 8-K/A.

JOBS Act Accounting Election

As an emerging growth company under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, Dragonfly can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will not be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies. We intend to rely on other exemptions provided by the JOBS Act, including without limitation, not being required to comply with the auditor attestation requirements of Section 404(b) of Sarbanes-Oxley. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

We will remain an emerging growth company until the earliest of (i) the last day of the fiscal year following the fifth anniversary of the consummation of the CNTQ IPO, (ii) the last day of the fiscal year in which we have total annual gross revenue of at least \$1.235 billion, (iii) the last day of the fiscal year in which we are deemed to be a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock held by non-affiliates exceeded \$700.0 million as of the last business day of the second fiscal quarter of such year, or (iv) the date on which we have issued more than \$1.0 billion in non-convertible debt securities during the prior three-year period.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Defined terms included below shall have the same meaning as terms defined and included elsewhere in this prospectus. Unless the context otherwise requires, references in this section to “Legacy Dragonfly” and the “Company” prior to the closing of the Business Combination are intended to mean Dragonfly Energy Corp., a Nevada corporation and “CNTQ” refers to Chardan NexTech Acquisition 2 Corp. prior to the Closing. References in this section to “Dragonfly” and the “Company” after the closing of the Business Combination are intended to mean, Dragonfly Energy Holdings Corp. and its consolidated subsidiaries.

Introduction

The following unaudited pro forma condensed combined financial information presents the combination of the financial information of CNTQ and Legacy Dragonfly adjusted to give effect to the Business Combination and related transactions. The following unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 “Amendments to Financial Disclosures about Acquired and Disposed Businesses.” Defined terms included below have the same meaning as terms defined and included elsewhere in this prospectus.

The historical financial information of CNTQ was derived from the unaudited financial statements of CNTQ as of September 30, 2022 and for the nine months ended September 30, 2022 and the audited financial statements of CNTQ as of December 31, 2021, included elsewhere in this prospectus. The historical financial information of Legacy Dragonfly was derived from the unaudited financial statements of Legacy Dragonfly as of September 30, 2022 and for the nine months ended September 30, 2022 and the audited financial statements of Legacy Dragonfly as of December 31, 2021, included elsewhere in this prospectus. Such unaudited pro forma financial information has been prepared on a basis consistent with the audited financial statements of CNTQ and Legacy Dragonfly, respectively, and should be read in conjunction with the audited historical financial statements and related notes, each of which is included elsewhere in this prospectus. This information should be read together with CNTQ’s and Legacy Dragonfly’s financial statements and related notes, the sections titled “*CNTQ’s Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and “*Dragonfly’s Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and other financial information included elsewhere in this prospectus.

The Business Combination is accounted for as a reverse recapitalization, with no goodwill or other intangible assets recorded, in accordance with GAAP. Under this method of accounting, CNTQ is treated as the “acquired” company for financial reporting purposes. Legacy Dragonfly has been determined to be the accounting acquirer because Legacy Dragonfly, as a group, retained a majority of the outstanding shares of Dragonfly at closing of the Business Combination, they nominated five of the seven members of the board of directors at the closing of the Business Combination, Legacy Dragonfly’s management continues to manage Dragonfly and Legacy Dragonfly’s business comprises the ongoing operations of Dragonfly.

The unaudited pro forma condensed combined balance sheet as of September 30, 2022 assumes that the Business Combination and related transactions occurred on September 30, 2022. The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2022 and for the year ended December 31, 2021 give pro forma effect to the Business Combination and related transactions as if they had occurred on January 1, 2021. CNTQ and Legacy Dragonfly did not have any historical relationship prior to the Business Combination. Accordingly, no pro forma adjustments were required to eliminate activities between the companies.

These unaudited pro forma condensed combined financial statements are for informational purposes only. They do not purport to indicate the results that would have been obtained had the Business Combination and related transactions actually been completed on the assumed date or for the periods presented, or which may be realized in the future. The pro forma adjustments are based on the information currently available and the assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes. Actual results may differ materially from the assumptions within the accompanying unaudited pro forma condensed combined financial information.

Description of the Business Combination

On October 7, 2022, we consummated the previously announced merger pursuant to the Business Combination Agreement. CNTQ's stockholders approved the Transactions at a special meeting of stockholders held on October 6, 2022.

At the Closing, the total consideration received by Legacy Dragonfly Equity Holders (shares and options) from CNTQ had an aggregate deemed value equal to \$415,000,000, payable, in the case of Legacy Dragonfly Equity Holders, solely in new shares of common stock. The new shares of common stock were delivered to Legacy Dragonfly Equity Holders (including to holders of the Legacy Dragonfly preferred shares to be converted to common shares) and were allocated pro rata between the holders of Legacy Dragonfly common stock and options to acquire Legacy Dragonfly common stock. Based on the number of shares of Legacy Dragonfly common stock outstanding as of September 30, 2022 (together, solely for the purposes of this calculation, with additional Legacy Dragonfly shares issued upon exercise of Legacy Dragonfly Convertible Preferred Stock) on a fully-diluted and as-converted basis, taking into account the assumptions further described below, Legacy Dragonfly Stockholders have received 38,576,648 shares of common stock.

The former holders of shares of Legacy Dragonfly common stock (including shares received as a result of the Dragonfly Preferred Stock Conversion) are entitled to receive their pro rata share of up to 40,000,000 additional Earnout Shares of common stock. The Earnout Shares are issuable in three tranches. The first tranche of 15,000,000 shares is issuable if Dragonfly's 2023 total audited revenue is equal to or greater than \$250 million and Dragonfly's 2023 audited operating income is equal to or greater than \$35 million. The second tranche of 12,500,000 shares is issuable upon achieving a volume-weighted average trading price threshold of at least \$22.50 on or prior to December 31, 2026 and the third tranche of 12,500,000 is issuable upon achieving a volume-weighted average trading price threshold of at least \$32.50 on or prior to December 31, 2028. To the extent not previously earned, the second tranche is issuable if the \$32.50 price target is achieved by December 31, 2028.

Dragonfly accounts for the Earnout Shares as either equity-classified or liability-classified instruments based on an assessment of the Earnout Shares specific terms and applicable authoritative guidance in ASC 480, Distinguishing Liabilities from Equity ("ASC 480") and ASC 815, as defined below. Dragonfly has preliminarily determined that the Earnout Shares are indexed to Dragonfly's stock and are therefore not precluded from equity classification. Such accounting determination will be assessed at each financial statement reporting date to determine whether equity classification remains appropriate. If the Earnout Shares are later determined to be liability-classified instruments, Dragonfly would recognize subsequent changes in the fair value of such Earnout Shares within earnings at each reporting period during the earnout period. The pro forma value of the Earnout Consideration was prepared utilizing a Monte Carlo simulation model. The significant assumptions utilized in determining the fair value of Earnout Consideration include the following: (1) a price for our common stock of approximately \$14.00; (2) a risk-free rate of 4.24%; (3) projected revenue and EBITDA of \$255,100,000 and \$41,000,000 respectively; (4) expected volatility of future annual revenue and future annual EBITDA of 37.0% and 62.0% respectively; (5) discount rates ranging from 4.2%-8.8%; and (6) expected probability of change in control of 15.0%. The preliminary fair value of the Earnout Shares has been determined to be \$391.3 million.

The accounting treatment of the Earnout Shares have been recognized at fair value upon the closing of the Business Combination and classified in stockholders' equity. Because the Business Combination is accounted for as a reverse recapitalization, the issuance of the Earnout Shares has been treated as a deemed dividend and since Dragonfly does not have retained earnings on Closing, the issuance has been recorded within additional-paid-in-capital. The unaudited pro forma condensed combined financial information does not reflect pro forma adjustments related to the recognition of these shares because there is no net impact on additional paid-in capital on a pro forma combined basis.

PIPE Investment

Pursuant to the subscription agreement, dated as of May 15, 2022 (the “**Subscription Agreement**”), by and between CNTQ and Chardan NexTech Investments 2 LLC (or an affiliate thereof if assigned pursuant to the Subscription Agreement, the “**Sponsor**”), the Sponsor agreed to purchase, and CNTQ agreed to sell to the Sponsor, an aggregate of 500,000 shares of CNTQ Common Stock for gross proceeds to CNTQ of \$5 million in a private placement (the “**PIPE Investment**”). On September 28, 2022, the Sponsor and CCM entered into an assignment, assumption and joinder agreement, pursuant to which the Sponsor assigned all of the Sponsor’s rights, benefits and obligations under the Subscription Agreement to CCM.

Under the Subscription Agreement, the number of shares of CNTQ Common Stock that CCM was obligated to purchase was to be reduced by the number of shares of CNTQ Common Stock that CCM purchased in the open market, provided that such purchased shares were not redeemed, and the aggregate price to be paid under the Subscription Agreement was to be reduced by the amount of proceeds received by the Company because such shares are not redeemed (the “**Offset**”). During the week of September 26, 2022 CCM acquired in the open market in total 485,000 shares of common stock at purchase prices per share ranging from \$10.33 to \$10.38 (such shares, the “**Purchased Shares**”). The Purchased Shares were not redeemed, resulting in (i) the Company’s receipt of \$5,016,547 from the Trust Account (based on a per share redemption price of \$10.34) and (ii) a reduction in CCM’s purchase commitment under the Subscription Agreement to zero in accordance with the Offset. At the Closing, the Company issued an additional 15,000 shares to CCM pursuant to the terms of the Subscription Agreement.

Debt Financing

Term Loan Agreement

Consistent with the commitment letter entered into concurrently with signing of the Business Combination Agreement (the “**Debt Commitment Letter**”) between CNTQ and Legacy Dragonfly, CCM Investments 5 LLC, an affiliate of CCM (“**CCM 5**,” and in connection with the Term Loan, the “**Chardan Lender**”), and EICF Agent LLC (“EIP” and, collectively with the Chardan Lender, the “Initial Term Loan Lenders”), in connection with the Closing, CNTQ, Legacy Dragonfly and the Initial Term Loan Lenders entered into the Term Loan, Guarantee and Security Agreement (the “**Term Loan Agreement**”) setting forth the terms of a senior secured term loan facility in an aggregate principal amount of \$75 million (the “**Term Loan**”). The Chardan Lender backstopped its commitment under the Debt Commitment Letter by entering into a backstop commitment letter, dated as of May 20, 2022 (the “**Backstop Commitment Letter**”), with a certain third-party financing source (the “**Backstop Lender**” and collectively with EIP, the “**Term Loan Lenders**”), pursuant to which the Backstop Lender committed to purchase from the Chardan Lender the aggregate amount of the Term Loan held by the Chardan Lender (the “**Backstopped Loans**”) immediately following the issuance of the Term Loan on the Closing Date. Pursuant to an assignment agreement, the Backstopped Loans were assigned by CCM 5 to the Backstop Lender on the Closing Date. The accounting treatment for the Term Loan remains preliminary and is subject to final analysis.

Term Loan Warrants

In connection with the entry into the Term Loan Agreement, and as a required term and condition thereof, the Company issued (i) the penny warrants to the Term Loan Lenders exercisable to purchase an aggregate of 2,593,056 shares, which is equal to approximately 5.6% of common stock calculated on an agreed fully diluted outstanding basis on the issuance date (the “**Penny Warrants**”) and (ii) the \$10 warrants to issue warrants to the Term Loan Lenders exercisable to purchase an aggregate of 1,600,000 shares of common stock at \$10 per share (the “**\$10 Warrants**” and, together with the Penny Warrants, the “**Term Loan Warrants**”). The \$10 Warrants were exercised on a cashless basis on October 10, 2022, with the Company agreeing to issue 457,142 shares of Common Stock in connection with such exercise. The additional shares of common stock will dilute the pro forma ownership of the other Company stockholders of proportionately. None of CCM 5 or any of its affiliates have received or will receive any Term Loan Warrants. The Company preliminarily concluded equity, however based on the terms finalized as part of the merger, the warrants will be accounted for as liabilities. As such, the estimated fair value is recognized as a liability each reporting period, with changes in the fair value recognized within income each period. Additionally, the Penny Warrants are not considered in the weighted average number of outstanding shares for basic earnings per share as a result of this liability classification.

ChEF Equity Facility

Consistent with the equity facility letter agreement between Legacy Dragonfly and CCM 5, the Company and CCM entered into the Purchase Agreement and a Registration Rights Agreement (the “**ChEF RRA**”) in connection with the Closing (the “**ChEF Equity Facility**”). In addition, the Company appointed LifeSci Capital, LLC as “qualified independent underwriter” with respect to the transactions contemplated by the Purchase Agreement.

Pursuant to, on the terms of and subject to the satisfaction of the conditions in the Purchase Agreement, including the filing and effectiveness of this or another registration statement registering the resale by CCM of the shares of common stock issued to it under the Purchase Agreement, the Company will have the right from time to time at its option to direct CCM to purchase an amount of shares of common stock, up to a maximum aggregate purchase price of \$150 million over the term of the equity facility.

The pro forma adjustments giving effect to the Business Combination and related transactions are summarized below, and are discussed further in the footnotes to these unaudited pro forma condensed combined financial statements:

- the consummation of the Business Combination and reclassification of cash held in CNTQ’s Trust Account to cash and cash equivalents, net of redemptions (see below);
- the redemptions prior to Closing;
- the consummation of the Subscription Agreement;
- the consummation of the Term Loan;
- the repayment of existing debt; and
- the accounting for certain offering costs and transaction costs incurred by both CNTQ and Dragonfly.

Prior to the Closing, CNTQ’s public stockholders holding 2,031,910 ordinary shares elected to redeem such shares.

The following summarizes the pro forma ownership of common stock of Dragonfly following the Business Combination and related transactions:

	Number of Shares	Percentage of Outstanding Shares
Dragonfly existing shareholders ⁽¹⁾	38,576,648	90.1%
Chardan existing public stockholders ⁽²⁾⁽³⁾	576,438	1.3%
Initial Stockholders ⁽⁴⁾⁽⁵⁾	3,662,500	8.6%
Pro forma Common Stock⁽⁶⁾	42,815,586	100.0%

(1) Excludes 40,000,000 Earnout Shares of common stock as the earnout contingencies have not yet been met.

(2) Excludes 9,487,500 shares of common stock underlying the public warrants.

(3) Reflects the redemptions of 9,556,652 Public Shares in connection with the Charter Amendment and 2,031,910 Public Shares prior to Closing, and excludes 485,000 Public Shares purchased on the open market by an affiliate of the Sponsor pursuant to the PIPE Subscription.

(4) Excludes 4,627,858 shares of common stock underlying the private warrants.

(5) Includes shares of common stock held by the Sponsor and its affiliates, including 500,000 shares of common stock pursuant to the PIPE Subscription held by CCM, an affiliate of the Sponsor, of which 485,000 shares were purchased in the open market and the remaining 15,000 shares issued at Closing.

(6) Excludes shares of common stock issuable pursuant to the ChEF Equity Facility after Closing.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF SEPTEMBER 30, 2022
(in thousands, except share and per share amounts)

	CNTQ (Historical)	Legacy Dragonfly (Historical)	Transaction Accounting Adjustments		Pro Forma Combined
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 316	\$ 10,517	\$ 31,996	A	\$ 22,644
			73,486	B	
			(29,342)	C	
			(39,312)	D	
			(4,000)	H	
			(21,017)	J	
Restricted cash	—	3,044	(3,044)	D	—
Accounts receivable	—	3,820	—		3,820
Inventory	—	39,487	—		39,487
Prepaid expenses and other current assets	171	5,749	(2,709)	C	3,211
Prepaid inventory	—	3,729	—		3,729
Total current assets	487	66,346	6,058		72,891
Investments held in Trust Account	31,996	—	(31,996)	A	—
Deferred issuance costs	—	—	1,000	I	1,000
Property and equipment, net	—	9,816	—		9,816
Deferred tax asset	—	1,254	—		1,254
Operating lease right of use asset	—	4,878	—		4,878
Total assets	<u>\$ 32,483</u>	<u>\$ 82,294</u>	<u>\$ (24,938)</u>		<u>\$ 89,839</u>
LIABILITIES, TEMPORARY EQUITY AND STOCKHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable and accrued expenses	\$ 1,174	\$ 10,851	\$ —		\$ 12,025
Customer deposits	—	287	—		287
Income tax payable	39	—	—		39
Notes payable, current portion	—	16,529	(16,529)	D	—
Operating lease liability, current portion	—	1,157	—		1,157
Obligation to issue common stock	—	—	1,000	I	1,000
Promissory note - related party	400	—	(400)	C	—
Total current liabilities	1,613	28,824	(15,929)		14,508
Operating lease liability, net of current portion	—	3,821	—		3,821
Notes payable-non current, net of debt discount	—	24,182	20,537	B	18,422
			(2,115)	C	
			(24,182)	D	
Warrant liabilities	1,990	—	52,949	B	54,939
Total liabilities	<u>3,603</u>	<u>56,827</u>	<u>31,260</u>		<u>91,690</u>
Common stock subject to possible redemption	31,706	—	(31,706)	E	—
Convertible preferred stock	—	2,000	(2,000)	F	—
Stockholders' equity (deficit)					
Common stock	—	5	3	E	40
			34	F	
			(2)	J	
Additional paid-in capital	—	18,480	(28,001)	C	307
			31,703	E	
			1,966	F	
			(2,826)	G	
			(21,015)	J	
Accumulated (deficit) earnings	(2,826)	4,982	(1,535)	C	(2,198)
			(1,645)	D	
			2,826	G	
			(4,000)	H	
Total stockholders' equity (deficit)	<u>(2,826)</u>	<u>23,467</u>	<u>(22,492)</u>		<u>(1,851)</u>
Total liabilities, temporary equity and stockholders' equity (deficit)	<u>\$ 32,483</u>	<u>\$ 82,294</u>	<u>\$ (24,938)</u>		<u>\$ 89,839</u>

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022
(in thousands, except share and per share amounts)

	CNTQ (Historical)	Legacy Dragonfly (Historical)	Transaction Accounting Adjustments		Pro Forma Combined
Net Sales	\$ —	\$ 66,042	\$ —		\$ 66,042
Cost of goods sold	—	46,481	—		46,481
Operating expenses:					
Formation and operating costs	1,623	—	—		1,623
Franchise tax expense	151	—	—		151
Research and development	—	1,951	—		1,951
General and administrative	—	13,716	—		13,716
Selling and marketing	—	9,331	—		9,331
Loss from operations	<u>(1,774)</u>	<u>(5,437)</u>	<u>—</u>		<u>(7,211)</u>
Other income (expense):					
Interest expense	—	(3,657)	3,657	DD	(12,826)
			(12,826)	EE	
Loss on disposition of assets	—	(62)	—		(62)
Net gain on investments held in Trust Account	469	—	(469)	AA	—
Change in fair value of warrant liability	46	—	—		46
Total other income (expense)	<u>515</u>	<u>(3,719)</u>	<u>(9,638)</u>		<u>(12,842)</u>
Income (loss) before income taxes	(1,259)	(9,156)	(9,638)		(20,053)
Income tax benefit	39	(1,700)	—		(1,661)
Net income (loss)	<u>\$ (1,298)</u>	<u>\$ (7,456)</u>	<u>\$ (9,638)</u>		<u>\$ (18,392)</u>
			—		—
Net income (loss) per share (Note 4):					
Weighted average shares outstanding - basic	13,957,179	21,131,993			
Net income per share - basic	\$ (0.09)	\$ (0.35)			
Weighted average shares outstanding - diluted	13,957,179	21,131,993			
Net income per share - diluted	\$ (0.09)	\$ (0.35)			
Weighted average shares outstanding - basic and diluted					42,815,586
Net loss per share - basic and diluted					\$ (0.43)

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands, except share and per share amounts)

	CNTQ (Historical)	Legacy Dragonfly (Historical)	Transaction Accounting Adjustments	Pro Forma Combined
Net Sales	\$ —	\$ 78,000	\$ —	\$ 78,000
Cost of goods sold	—	48,375	—	48,375
Operating expenses:				
Formation and operating costs	292	—	—	292
Franchise tax expense	66	—	—	66
Research and development	—	2,689	—	2,689
General and administrative	—	10,621	19,626	34,247
			4,000	CC
Selling and marketing	—	9,848	—	9,848
(Loss) income from operations	(358)	6,467	(23,626)	(17,517)
Other income (expense):				
Other income	—	1	—	1
Interest expense	—	(519)	519	DD (14,002) EE
Loss on extinguishment of indebtedness	—	—	(1,645)	DD (1,645)
Warrant issuance costs	(19)	—	—	(19)
Loss on sale of private warrants	(1,254)	—	—	(1,254)
Net gain on investments held in Trust Account	24	—	(24)	AA —
Change in fair value of warrant liability	3,517	—	—	3,517
Total other income (expense)	2,268	(518)	(15,152)	(13,402)
Income (loss) before income taxes	1,910	5,949	(38,778)	(30,919)
Income tax expense	—	1,611	—	1,611
Net income (loss)	\$ 1,910	\$ 4,338	\$ (38,778)	\$ (32,530)
Net income (loss) per share (Note 4):				
Weighted average shares outstanding - basic	7,732,021	20,101,129		
Net income per share - basic	\$ 0.25	\$ 0.15		
Weighted average shares outstanding - diluted	7,991,952	21,931,108		
Net income per share - diluted	\$ 0.24	\$ 0.13		
Weighted average shares outstanding - basic and diluted				42,815,586
Net loss per share - basic and diluted				\$ (0.76)

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Note 1. Basis of Presentation

The Business Combination has been accounted for as a reverse recapitalization, with no goodwill or other intangible assets recorded, in accordance with GAAP. Under this method of accounting, CNTQ has been treated as the “accounting acquiree” and Legacy Dragonfly as the “accounting acquirer” for financial reporting purposes. Accordingly, for accounting purposes, the Business Combination has been treated as the equivalent of Legacy Dragonfly issuing shares for the net assets of CNTQ, followed by a recapitalization. The net assets of Legacy Dragonfly have been stated at historical cost. Operations prior to the Business Combination are those of Legacy Dragonfly.

The unaudited pro forma condensed combined balance sheet as of September 30, 2022 gives effect to the Business Combination and related transactions as if they occurred on September 30, 2022. The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2022 and for the year ended December 31, 2021 give effect to the Business Combination and related transactions as if they occurred on January 1, 2021. These periods are presented on the basis that Legacy Dragonfly is the acquirer for accounting purposes.

The pro forma adjustments reflecting the consummation of the Business Combination and the related transaction are based on certain currently available information and certain assumptions and methodologies that the Company believes are reasonable under the circumstances. The unaudited condensed combined pro forma adjustments, which are described in the accompanying notes, may be revised as additional information becomes available and is evaluated. Therefore, it is likely that the actual adjustments will differ from the pro forma adjustments, and it is possible that the difference may be material. The Company believes that its assumptions and methodologies provide a reasonable basis for presenting all of the significant effects of the Business Combination and the related transactions based on information available to management at this time and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined financial information does not give effect to any anticipated synergies, operating efficiencies, tax savings, or cost savings that may be associated with the Business Combination. The unaudited pro forma condensed combined financial information is not necessarily indicative of what the actual results of operations and financial position would have been had the Business Combination and related transactions taken place on the dates indicated, nor are they indicative of the future consolidated results of operations or financial position of the post-combination company. They should be read in conjunction with the historical financial statements and notes thereto of CNTQ and Legacy Dragonfly.

Note 2. Accounting Policies and Reclassifications

Upon consummation of the Business Combination, management is performing a comprehensive review of the two entities’ accounting policies. As a result of the review, management may identify differences between the accounting policies of the two entities which, when conformed, could have a material impact on the financial statements of the post-combination company. Based on its initial analysis, management did not identify any differences that would have a material impact on the unaudited pro forma condensed combined financial information. As a result, the unaudited pro forma condensed combined financial information does not assume any differences in accounting policies.

Preferred Stock Conversion

Immediately prior to the consummation of the Business Combination, each share of Legacy Dragonfly’s pre-merger preferred stock has been converted into one share of Dragonfly common stock. Upon the closing of the Business Combination (after giving effect to the conversion of Legacy Dragonfly preferred stock into Legacy Dragonfly common stock), all shares of Legacy Dragonfly common stock outstanding have been converted into shares of Dragonfly common stock.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Accounting for Stock Option Conversion

The Company accounts for stock-based compensation arrangements with employees and non-employee consultants using a fair value method which requires the recognition of compensation expense for costs related to all stock-based payments, including stock options. As of the Effective Time, each Legacy Dragonfly option prior to the business combination that was then outstanding has been converted into an option to purchase shares of Dragonfly common stock upon substantially the same terms and conditions as were in effect with respect to such option immediately prior to the Effective Time, subject to specific terms and conditions. As the Legacy Dragonfly post-merger options contain only service-based vesting conditions, management will recognize the incremental fair value related to the portion of the fully vested post-merger option and subject to service-based vesting conditions as consideration transferred. As there was no change in the terms of the options, management does not expect to recognize any incremental fair value.

Note 3. Adjustments to Unaudited Pro Forma Condensed Combined Financial Information

The unaudited pro forma condensed combined financial information has been prepared to illustrate the effect of the Business Combination and related transactions and has been prepared for informational purposes only.

The following unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 “Amendments to Financial Disclosures about Acquired and Disposed Businesses.” Release No. 33-10786 replaces the existing pro forma adjustment criteria with simplified requirements to depict the accounting for the transaction (“Transaction Accounting Adjustments”) and present the reasonably estimable synergies and other transaction effects that have occurred or are reasonably expected to occur (“Management’s Adjustments”). Dragonfly has elected not to present Management’s Adjustments and will only be presenting Transaction Accounting Adjustments in the unaudited pro forma condensed combined financial information. CNTQ and Legacy Dragonfly have not had any historical relationship prior to the Business Combination. Accordingly, no pro forma adjustments were required to eliminate activities between the companies.

The pro forma basic and diluted earnings per share amounts presented in the unaudited pro forma condensed combined statement of operations are based upon the number of Legacy Dragonfly’s ordinary shares outstanding, assuming the Business Combination and related transactions occurred on January 1, 2021.

Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet

The adjustments included in the unaudited pro forma condensed combined balance sheet as of September 30, 2022 are as follows:

- A. Reflects the reclassification of \$32.0 million held in the Trust Account, inclusive of interest earned on the Trust Account, to cash and cash equivalents that is available at closing of the Business Combination, prior to the additional redemptions before the closing.
 - B. Represents cash proceeds of approximately \$73.5 million pursuant to the Term Loan. The Term Loan involves the issuance of \$75.0 million in principal amount of term loans (with an original issue discount of 3%) and the related issuance of the Term Loan Warrants (i.e., the Penny Warrants and the \$10 Warrants) for net proceeds of approximately \$73.5 million. Until April 1, 2023, interest will accrue on all outstanding principal amount of the term loans at 13.5% per annum, payable quarterly and partially paid-in-kind. The Company preliminarily determined that the Term Loan Warrants will be liability-classified instruments to be recognized as warrant liabilities on the balance sheet based on their fair values at issuance, and as an offset to the debt instrument to be amortized over the life of the debt instrument, with changes in fair value of the warrant liabilities being recognized within earnings at each reporting period. If the Term Loan Warrants are determined to be equity-classified instruments, the Term Loan Warrants would be recognized within equity and an offset to the debt instrument based on their relative fair values. Certain transaction costs totaling \$1.5 million have been allocated to these liability-classified instruments and have been expensed (see adjustment C). For purposes of the unaudited pro forma condensed combined balance sheet, the preliminary fair value of the Term Loan Warrants of \$52.9 million has been recorded as warrant liabilities with an offset against the debt as debt issuance costs. The fair value of the Term Loan Warrants was based on a Black-Scholes simulation with key inputs and assumptions such as stock price, term, dividend yield, risk-free rate, and volatility. An additional \$2.1 million of transaction costs have been allocated to the Term Loan as debt issuance costs offset against the debt (see adjustment C).
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- C. Represents the repayment of CNTQ related party promissory note of \$0.4 million at closing, and payment of estimated transaction costs of \$31.7 million in relation to the Business Combination, of which \$28.9 million was paid at closing, and \$2.7 million was paid prior to closing and included within other current assets of Legacy Dragonfly. Certain transaction costs totaling \$0.7 million have been identified as direct and incremental to the execution of the Term Loan and Term Loan Warrants, of which \$0.4 million was recognized as an offset against the debt, and \$0.3 million was expensed based on allocation to these instruments based on their relative fair values. Certain transaction costs totaling \$12.8 million, which include legal, accounting, and other services incurred related to the Business Combination have been allocated between the following financial instruments issued and assumed in the Business Combination based on their relative fair values at Closing: shares of CNTQ Common Stock, CNTQ Warrants, the Earnout Shares, the Term Loan, and the Term Loan Warrants. The allocation of these costs resulted in \$1.7 million recognized as debt issuance costs offset against the Term Loan, \$9.9 million recognized as equity issuance costs offset to additional paid-in capital, and \$1.2 million recognized within expense. CNTQ incurred an estimated \$18.1 million, inclusive of \$4.1 million pursuant to a Business Combination Marketing Agreement with CCM, \$7.1 million in legal costs, and \$6.8 million of printing, legal, financial advisory, insurance, and accounting services including the Duff & Phelps fairness opinion, all of which were expensed and recognized to CNTQ's accumulated deficit and reclassified to additional paid-in capital at Closing to reflect the reclassification of CNTQ's historical accumulated deficit. Dragonfly continues to evaluate eligible costs that may need to be allocated to the respective instruments issued or assumed pursuant to the Business Combination which could impact amounts reported as equity or debt issuance costs.
 - D. Represents repayment of outstanding principal indebtedness of Legacy Dragonfly totaling \$42.4 million and the write off of unamortized debt discount and other settlement fees incurred totaling \$1.6 million.
 - E. Reflects the reclassification of approximately \$31.7 million of common stock subject to possible redemption to permanent equity.
 - F. Represents recapitalization of Legacy Dragonfly's outstanding equity as a result of the reverse recapitalization and the issuance of common stock to Legacy Dragonfly Equity Holders as consideration for the reverse recapitalization.
 - G. Reflects the reclassification of CNTQ's historical accumulated deficit into additional paid-in capital as part of the reverse recapitalization.
 - H. Represents transaction bonus payments of \$4.0 million to certain Legacy Dragonfly executives. The bonus payments were contingent on the cash remaining after the Business Combination after the payment of transaction expenses and repayment of existing indebtedness of Legacy Dragonfly, as well as the amount of public warrants exercised following completion of the Business Combination.
 - I. Represents an obligation to issue shares of Dragonfly common stock with a discount of up to \$1.0 million over the term of the ChEF Equity Facility, payable by way of a reduction of the VWAP Purchase Price. Dragonfly may terminate the facility at any time subject to the full payment of a commitment fee of \$1.0 million.
 - J. Reflects the additional redemptions of 2,031,910 Public Shares prior to closing, for aggregate payments to redeeming Public Shareholders of \$21.0 million at a redemption price of \$10.34 per share allocated to common stock and additional paid-in capital using par value \$0.001 per share.
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Adjustments to Unaudited Pro Forma Condensed Combined Statements of Operations

The pro forma adjustments included in the unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2022 and the year ended December 31, 2021 are as follows:

AA. Reflects elimination of investment income on the Trust Account.

BB. Reflects transaction costs of \$19.6 million as if incurred on January 1, 2021, the date the Business Combination occurred for the purposes of the unaudited pro forma condensed combined statement of operations. This is a non-recurring item.

CC. Represents transaction bonus payments of \$4.0 million to certain Legacy Dragonfly executives. The bonus payments were contingent on the cash remaining after the Business Combination after the payment of transaction expenses and repayment of existing indebtedness of Dragonfly, as well as the amount of public warrants exercised following completion of the Business Combination.

DD. Represents the elimination of interest expense recognized on Legacy Dragonfly indebtedness and the recognition of a loss on extinguishment of Legacy Dragonfly indebtedness as if the Business Combination closed, and the indebtedness was settled, on January 1, 2021 (see adjustment D).

EE. Represents the recognition of interest expense on the Term Loan as if the facility was executed on January 1, 2021, consisting of \$7.6 million and \$10.1 million of interest expense for the nine months ended September 30, 2022 and the year ended December 31, 2021, respectively, calculated using an approximated rate of 13.50% per annum (as further detailed in the Term Loan Agreement), and \$5.2 million and \$3.9 million of amortization of debt issuance costs related to the Term Loan for the for the nine months ended September 30, 2022 and the year ended December 31, 2021, respectively. The amortization of debt issuance costs was calculated using an effective interest rate of 70.1% based on an estimated initial book value of the Term Loan of \$18.4 million after deducting the proceeds allocated to the Term Loan Warrants of \$52.9 million, allocated transaction costs of \$2.1 million, and a \$1.5 million original issue discount (or 3% of proceeds).

Note 4. Net Loss per Share

Net loss per share was calculated using the historical weighted average shares outstanding, and the issuance of additional shares in connection with the Business Combination and the related transactions, assuming the shares were outstanding since January 1, 2021. As the Business Combination and the related transactions are being reflected as if they had occurred at the beginning of the period presented, the calculation of weighted average shares outstanding for basic and diluted net loss per share assumes that the shares issuable relating to the Business Combination and related have been outstanding for the entirety of all periods presented.

	Nine Months Ended September 30, 2022 ⁽¹⁾	Year Ended December 31, 2021 ⁽¹⁾
Pro forma net loss	\$ (18,392)	\$ (32,530)
Weighted average shares outstanding - basic and diluted ⁽²⁾	42,815,586	42,815,586
Pro forma net loss per share - basic and diluted	\$ (0.43)	\$ (0.76)
<i>Excluded securities:⁽³⁾</i>		
Earnout Shares	40,000,000	40,000,000
Public Warrants	9,487,500	9,487,500
Private Warrants	4,627,858	4,627,858
Dragonfly Options	3,664,975	3,664,975
Penny Warrants	2,593,056	2,593,056
\$10 Warrants	1,600,000	1,600,000

(1) Pro forma income (loss) per share includes the related pro forma adjustments as referred to within the section “Unaudited Pro Forma Condensed Combined Financial Information.”

(2) Excludes shares of common stock issuable after Closing pursuant to the ChEF Equity Facility.

(3) The potentially dilutive outstanding securities were excluded from the computation of pro forma net loss per share, basic and diluted, because their effect would have been anti-dilutive or the issuance or vesting of such shares is contingent upon the satisfaction of certain conditions which were not satisfied by the end of the periods presented.