NIGHTINGALE INTELLIGENT SYSTEMS, INC
ARBN 659 369 221

SECOND SUPPLEMENTARY PROSPECTUS

Important information

This is a supplementary prospectus (**Second Supplementary Prospectus**) which supplements the replacement prospectus dated 19 August 2022 (**Prospectus**) issued by Nightingale Intelligent Systems, Inc. ARBN 659 369 221 (**Company**) and is to be read in conjunction with the Prospectus and the first supplementary prospectus dated 26 September 2022 (**First Supplementary Prospectus**).

This Second Supplementary Prospectus is dated 26 October 2022 and was lodged with the Australian Securities and Investments Commission (**ASIC**) on that date. ASIC and its officers take no responsibility for the contents of this Second Supplementary Prospectus.

This Second Supplementary Prospectus is intended to be read together with the Prospectus and the First Supplementary Prospectus. Other than as set out below, all details in relation to the Prospectus and First Supplementary Prospectus remain unchanged. Terms and abbreviations defined in the Prospectus and First Supplementary Prospectus have the same meaning in this Second Supplementary Prospectus unless specified otherwise. If there is a conflict between the Prospectus, the First Supplementary Prospectus and this Second Supplementary Prospectus, this Second Supplementary Prospectus will prevail.

This Second Supplementary Prospectus is available in electronic form on the Company's website at www.nightingale.automicipo.com.au/. A hard copy of this Second Supplementary Prospectus together with the Prospectus and First Supplementary Prospectus is also available on request as set out in the Prospectus.

Under the Corporations Act, the Company has an obligation to update a disclosure document if it becomes aware of new information that is material to investors. Due to the revised Offer under the First Supplementary Prospectus and the time that has elapsed since the Prospectus was lodged with ASIC, ASIC has requested the reviewed 30 June 2022 half year accounts (**30 June 2022 Accounts**) along with a revised pro forma balance sheet for 30 June 2022 (**Revised Pro Forma Balance Sheet**) (together, the **Updated Financial Information**) be provided to potential investors prior to the closing of the Offer. As such, this is an important document and should be read in its entirety. If you do not understand any of the information presented in this Second Supplementary Prospectus, you should consult your professional advisers.

Purpose of this document

This Second Supplementary Prospectus has been prepared to:

1. provide the 30 June 2022 reviewed half year accounts;

2. provide a revised pro forma balance sheet for 30 June 2022;

3. provide a commercial update to investors on the operations of the Company;

4. provide an update on the Company's capital structure as a result of the extension of the Offer which results in additional CDIs being issued on conversion of the interest component of the Company's existing convertible notes; and

5. provide the revised indicative timetable following the extension of the Closing Date from 11 October 2022 to 3 November 2022.

John Murty

REVISED TIMETABLE

On 21 October 2022, the Board resolved to extend the Closing Date for the Offer from 11 October 2022 to 31 October 2022.

The new indicative timetable for the Offer is as follows, which replaces the timetable set out in the Prospectus and First Supplementary Prospectus and references to dates throughout the Prospectus and First Supplementary Prospectus should be deemed to be updated accordingly.

Event	Date
Lodgement of Original Prospectus with ASIC	5 August 2022
Lodgement of Replacement Prospectus with ASIC	19 August 2022
Offer opened	22 August 2022
Offer closes	5:00pm on 31 October 2022
Allotment of CDIs and New Options	7 November 2022
Expected date for dispatch of holding statements	7 November 2022
Trading of CDIs and New Options commences on ASX (on a normal settlement basis)	15 November 2022

These dates and times are indicative only. The Company reserves the right to further vary the dates and times of the Offer without prior notice, subject to the Corporations Act. In particular, the Company reserves the right to close the Offer or any part of it early or to extend the Offer Period relating to any part of the Offer, or to accept late Applications, either generally or in particular cases, in each case without notifying any recipient of this Second Supplementary Prospectus, the Prospectus or any Applicants.

UPDATED KEY OFFER STATISTICS

Company	Nightingale Intelligent Systems, Inc.
Proposed ASX Code for the Shares	NGL
Securities offered	CDIs (each representing one Share) and 1 New Option for every 2 CDIs subscribed for
Ratio of CDIs per Share	1 CDI: 1 Share
Number of Securities on issue at the date of this Supplementary Prospectus	64,112,905[1]
Offer Price per CDI	A$0.22
Number of CDIs and New Options (on a 1 for 2 basis for CDIs subscribed for) available under the Offer (Minimum Subscription)	22,727,723 CDIs and 11,363,636 Options
Number of CDIs and New Options (on a 1 for 2 basis for CDIs subscribed for) available under the Offer (Maximum Subscription)	27,272,727 CDIs and 13,636,364 Options
Gross proceeds from the Offer (Minimum Subscription)	A$5,000,000
Gross proceeds from the Offer (Maximum Subscription)	A$6,000,000
Total number of CDIs on issue on completion of the Offer (Minimum Subscription) (on an undiluted basis)[2,3]	129,000,635
Total number of CDIs on issue on completion of the Offer (Maximum Subscription) (on an undiluted basis)[2,3]	133,546,089

Total number of CDIs on issue on completion of the Offer (Minimum Subscription) (on a fully diluted basis) [2,3]	153,397,662
Total number of CDIs on issue on completion of the Offer (Maximum Subscription) (on a fully diluted basis)[2,3]	160,215,844
Indicative market capitalisation on completion of the Offer (Minimum Subscription) (on an undiluted basis)[2,3,4]	A$28,380,140
Indicative market capitalisation on completion of the Offer (Maximum Subscription) (on an undiluted basis)[2,3,4]	A$29,380,140
Indicative market capitalisation on completion of the Offer (Minimum Subscription) (on a fully diluted basis)[2,3,5,6]	A$33,747,486
Indicative market capitalisation on completion of the Offer (Maximum Subscription) (on a fully diluted basis)[2,3,5,6]	A$35,247,486

[1] *Assuming conversion of all preferred stock into Shares and exercise of the warrants as set out in Section 10.3 of the Prospectus.*

[2] *Assumes all Shares are held in the form of CDIs.*

[3] *On completion of the Offer, in addition to the Securities available under the Offer, the Company will issue:*

a)19,851,471 CDIs on conversion of the Convertible Notes as described in section 10.3 of the Prospectus with a valuation cap of A$10,000,000 and a conversion price of A$0.11 per CDI; and a further 21,908,986 at a 30% discount to the IPO price of A$0.22.

b) 400,000 CDIs to the Lead Manager and Corporate Adviser for services performed with respect to the IPO. Refer to Section 10.17 of the Prospectus for further details.

c) 7,000,000 RSUs and 400,000 options to Directors and management. Refer to Section 10.8 of the Prospectus for further details.

[4] *Calculated as the total number of Securities on issue following the Offer multiplied by the Offer Price per CDI.*

[5] *Calculated as the total number of Securities on issue following the Offer (on a fully diluted basis) (based on the Offer Price) multiplied by the Offer Price per CDI.*

[6] *If all investors under the Bridge Financing convert to CDIs, an additional 5,262,626 will be issued for a total of 158,660,288 CDIs at the Minimum Subscription on a fully diluted basis or 165,478,470 at the Maximum Subscription on a fully diluted basis. Refer to section 9.6 of the Prospectus for further details.*

1. UPDATED FINANCIAL INFORMATION

Due to the revised Offer under the First Supplementary Prospectus and the time that has elapsed since the Prospectus was lodged with ASIC, ASIC has requested the Updated Financial Information be provided to investors and lodged with ASIC by way of this Second Supplementary Prospectus prior to the closing of the Offer.

The Updated Financial Information should be read together with the other information in the Prospectus (including the First Supplementary Prospectus and this Second Supplementary Prospectus) and with the Investigating Accountants Report at Appendix 2.

The remaining terms of the Offer and the rights attaching to the CDIs and New Options are unchanged.

1.1 Update to Historical Consolidated Statement of Operations

The table below presents the reviewed historical consolidated Statements of Operations for the 6 months ended 30 June 2022 (H1 FY2023) and 30 June 2021 (H1 FY2022).

$'000	H1 FY2022 Reviewed	H1 FY2023 Reviewed
Revenue	536	1,142
Cost of revenue	(375)	(736)
Gross profit	**161**	**406**
R&D expenses	(1,188)	(1,121)
General and administration expenses	(738)	(1,033)
Sales & marketing expenses	(26)	(92)
Loss from operations	**(1,791)**	**(1,840)**
Net interest expense	(250)	(648)
Other expense	(278)	(78)
Net loss	**(2,320)**	**(2,566)**

1.2 Update to Historical Consolidated Cash Flows

The table below presents the reviewed historical consolidated Statements of Cash Flows for the 6 months ended 30 June 2022 (H1 FY2023) and 30 June 2021 (H1 FY2022).

$'000	H1 FY2022 Reviewed	H1 FY2023 Reviewed
Cash flows from operating activities		
Reported net loss	**(2,320)**	**(2,566)**
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	39	5
Depreciation and amortisation	120	154
Loss on change in fair value of derivative liability	287	73
Amortisation of debt discount	175	450
Amortisation of debt issuance costs	20	65
Changes in operating assets and liabilities:		
Trade receivables	(199)	(9)
Inventories	(163)	(268)
Prepayments and other current assets	(289)	229
Other assets	-	26
Trade payables	150	282
Accrued expenses	(3)	2
Accrued interest	48	134
Lease liability	-	(74)
Deferred revenue	1,093	(243)
Net operating cash flows	**(1,042)**	**(1,740)**
Investing cash flows		
Purchase of property and equipment	(5)	-
Net cash used in investing activities	**(5)**	**-**
Net operating and investing cash flows	**(1,047)**	**(1,740)**
Financing cash flows		
Net proceeds from convertible notes	-	578
Proceeds from promissory note	278	-
Proceeds from exercise of warrants	-	56
Payment of series C offering costs	(1)	-
Offering costs paid	(16)	(82)
Net proceeds from loan	-	150
Payment of loan	(150)	-
Net financing cash flows	**111**	**702**
Net cash flows	**(936)**	**(1,038)**
Cash at beginning of period	2,685	1,250
Closing cash	1,749	212

1.3 Revised Pro Forma Balance Sheet

The table below sets out the audited historical balance sheet as at 31 December 2021, the reviewed historical balance sheet as at 30 June 2022, the pro forma adjustments that have been made to the reviewed balance sheet (further described in Section 1.2) and the pro forma balance sheet as at 30 June 2022. An unaudited convenience translation in Australian dollars of the Pro Forma Historical consolidated balance sheet as at 30 June 2022 has also been included (the indicative foreign exchange rate applied is A$1.00 : US$0.63).

$'000	As at 31-Dec-21 Audited (US$'000)	As at 30 June 2022 Reviewed (US$'000)	Minimum Subscription pro forma as at 31-Dec-21 (US$'000)	Minimum Subscription pro forma as at 31-Dec-21 (A$'000)	Maximum Subscription pro forma as at 31-Dec-21 (US$'000)	Maximum Subscription pro forma as at 31-Dec-21 (A$'000)
Current assets						
Cash and cash equivalents[1]	1,253	212	2,040	3,238	2,632	4,177
Trade receivables	762	771	771	1,224	771	1,224
Inventories	105	372	372	591	372	591
Prepayments and other assets	319	172	64	102	64	102
Total current assets	**2,439**	**1,527**	**3,247**	**5,155**	**3,839**	**6,094**
Non-current assets						
Property, plant and equipment	66	58	58	91	58	91
Operating lease assets	225	167	167	265	167	265
R&D assets	19	19	19	31	19	31
Right of use assets[2]	-	626	626	993	626	993
Other assets	46	20	20	32	20	32
Total non-current assets	**356**	**890**	**890**	**1,412**	**890**	**1,412**
Total assets	**2,795**	**2,417**	**4,137**	**6,567**	**4,729**	**7,506**
Current liabilities						
Trade payables[3]	132	502	411	652	502	797
Accrued expenses	76	78	78	124	78	124
Accrued interest	207	341	-	-	-	-
Convertible notes[4]	-	2,881	-	-	-	-
Deferred revenue	893	650	650	1,031	650	1,031
Total current liabilities	**1,308**	**4,452**	**1,139**	**1,807**	**1,230**	**1,952**
Non-current liabilities						
Convertible notes[4]	1,926	-	-	-	-	-
Borrowings	-	150	150	238	150	238
Derivative liability	1,906	2,030	-	-	-	-
Lease liabilities[2]	-	639	639	1,014	639	1,014
Total non-current liabilities	**3,832**	**2,819**	**789**	**1,252**	**789**	**1,252**

Total liabilities	**5,140**	**7,271**	**1,928**	**3,059**	**2,019**	**3,204**
Net assets	**(2,345)**	**(4,854)**	**2,209**	**3,508**	**2,710**	**4,302**
Shareholder's equity						
Share capital	22,969	23,030	28,518	45,266	29,019	46,061
Reserves	-	-	-	-	-	-
Accumulated losses	(25,314)	(27,884)	(26,309)	(41,758)	(26,309)	(41,759)
Total shareholder's equity	**(2,345)**	**(4,854)**	**2,209**	**3,508**	**2,710**	**4,302**

1. Cash and cash equivalents: Cash balance has reduced due to the organic cash burn of the business and timing differences. The majority of the trade receivables balance has been received post balance sheet date.
2. Right of use assets and lease liabilities: The Company adopted ASU2016-02, Leases (topic 842) as of 1 January 2022 using the full retrospective method. Refer to Appendix 1 for further information.
3. Trade payables: The increase in trade payables is largely attributable to working capital management and timing differences.
4. Convertible notes: The convertible notes have been reclassified from a non-current liability to a current liability.

1.4 Pro forma adjustments

The following transactions and events contemplated in this Second Supplementary Prospectus which are to take place on or before completion of the Offer, referred to as the Pro Forma Adjustments, are presented as if they, together with the Offer, had occurred on or before 30 June 2022 and are set out below.

With the exception of the pro forma transactions noted below no material transactions have occurred between 30 June 2022 and the date of this Second Supplementary Prospectus, which the Directors consider require disclosure.

Subsequent event transactions:

1.4.1 Remaining proceeds received of approximately $68,000 (A$108,000) in relation to the Bridge Financing which was not receipted prior to 30 June 2022. This was received in July 2022.

1.4.2 The accrual of interest in relation to the Convertible Notes and Bridge Financing notes for the period from 1 July 2022 until the Offer date for a total of $158,000.

1.4.3 The conversion of principal and interest outstanding on all Convertible Notes into 41,760,457 Shares. This will include an adjustment to fair value the derivative liability at the conversion date, with any excess amounts being recorded against retained earnings. A total of $11,756 (A$17,038) of convertible notes and accrued interest will be repaid in cash.

Pro forma transactions:

1.4.4 The completion of the Offer on a Minimum Subscription basis, raising approximately c.$3.15 million (A$5.0 million) and involving the issue of 22,272,723 CDIs (22,272,723 shares);

1.4.5 Expenses associated with the Offer on a Minimum Subscription basis (including advisory, legal, accounting and administrative fees as well as printing, advertising and other expenses), charged against share capital. The total amounts to an estimated $1.0 million (c.A$1.6 million). As at 30 June 2022 the Company has paid $17,000 (A$27,000) of Offer costs with a further $91,000 (A$144,444) recorded against other assets and trade payables. A total of $133,628 (A$212,00) has been paid at Prospectus date;

1.4.6 The issue of an additional 4,545,454 CDIs (4,545,454 shares) to raise an additional c.$0.63 million (A$1.0 million) (Maximum Subscription);

1.4.7 Payment of additional cash offer costs of $39,000 (A$61,000) on a Maximum Subscription basis with a total of $1.1 million (A$1.7 million) being capitalised to share capital; and

1.4.8 Repayment and conversion of the Bridge funding note and associated interest with $375,600 (A$596,000) to be repaid in cash with the remainder converted to shares.

1.5 Pro forma cash and cash equivalents

Table 5: Pro forma cash and cash equivalents summary

$'000	Ref.	Minimum Subscription	Maximum Subscription
		Jun-22	Jun-22
Reviewed cash and cash equivalents as at 30 June 2022		212	212
Subsequent event transactions			
Bridge convertible notes	1.2.1	68	68
Repayment of convertible notes and accrued interest (cash portion)	1.2.3	(12)	(12)
Pro forma transactions			
Offer	1.2.4 & 1.2.6	3,150	3,780
Offer costs	1.2.5 & 1.2.7	(1,003)	(1,041)
Bridge financing repayment	1.2.8	(375)	(375)
Pro forma cash and cash equivalents		2,040	2,632

Nightingale expects that it will have sufficient cash to fund its operational requirements and business objectives following the Offer to at least July 2024.

1.6 Pro forma capital structure

Table 6: Pro forma capital structure as at 30 June 2022

	No. of shares/CDIs	Share capital ($'000)	Accum. Losses ($'000)	SBP reserve ($'000)	Net assets ($'000)
As at 30 June 2022	64,112,905	23,030	(27,884)	-	(4,854)
Subsequent events					
Convertible note accrued interest	-	-	(158)	-	(158)
Convertible Note conversion	41,760,457	3,235	1,980	-	5,215
Pre offer capital structure	**105,873,362**	**26,265**	**(26,062)**	**-**	**203**
Pro forma transactions in relation to the minimum offer					
Public offer	22,727,273	3,150	-	-	3,150
Lead Manager and Corporate Adviser shares	400,000	-	-	-	-
Offer costs	-	(1,020)	-	-	(1,020)
Conversion/repayment of bridge funding note	-	123	(247)		(124)
Total	**129,000,635**	**28,518**	**(26,309)**	**-**	**2,209**
Pro forma					

transactions in relation to the maximum offer					
Public offer	27,272,727	3,780	-	-	3,780
Lead Manager and Corporate Adviser shares	400,000	-	-	-	-
Offer costs	-	(1,149)	-	-	(1,149)
Conversion/repayment of bridge funding note	-	123	(247)		(124)
Total	**133,546,089**	**29,019**	**(26,309)**	**-**	**2,710**

[1] *If all investors under the Bridge Financing convert to CDIs, an additional 5,262,626 will be issued for a total of 158,660,288 CDIs at the Minimum Subscription on a fully diluted basis or 165,478,470 at the Maximum Subscription on a fully diluted basis. Refer to section 9.6 of the Prospectus for further details.*

1.7 Indebtedness and Capitalisation

The below table sets out the indebtedness and capitalisation of Nightingale as at 30 June 2022, before and after having adjusted for the amended pro forma impact of the Offer, which replaces Table 7 in section 6.11 of the Prospectus.

TABLE 7: INDEBTEDNESS AND CAPITALISATION AS AT 30 JUNE 2022

		Minimum Subscription	Maximum Subscription
$'000	**Before completion of the offer**	**After completion of the offer**	**After completion of the offer**
Cash and cash equivalents	212	2,040	2,632
Convertible notes	(2,881)	-	-
Borrowings	(150)	(150)	(150)
Derivative liability	(2,030)	-	-
Total net indebtedness	**(4,849)**	**1,890**	**2,482**
Share capital	23,030	28,518	29,019
Reserves	-	-	-
Accumulated losses	(27,884)	(26,309)	(26,309)
Total equity	**(4,854)**	**2,209**	**2,710**
Total capitalisation and indebtedness	**(9,703)**	**4,099**	**5,192**

1.8 Investigating Accountant's Report

The Historical Financial Information has been reviewed in accordance with the Australian Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Fundraising and/or Prospective Financial Information by the Investigating Accountant, who's Independent Limited Assurance Report on the Historical Financial Information is contained in Appendix 2. Investors should note the scope and limitations of that report.

1.9 30 June 2022 Half Year Accounts

The Company's 30 June 2022 half year financial statements, including the review report, are attached at Appendix 1.

2. CAPITAL STRUCTURE UPDATES

As a result of the extension to the Closing Date as noted on page 1, there has been an increase to the interest payable on the Company's existing convertible notes and consequently an increase to the number of CDIs issued on conversion of the interest component of the Company's existing convertible notes. As such, the capital structure table and escrow tables from Section 10 of the Prospectus are updated as noted below. This information should be read together with the other information in the Prospectus (including the First Supplementary Prospectus and this Second Supplementary Prospectus).

2.1 Capital structure following the Offer

Shortly prior to allotment of CDIs and New Options under the Offer, the Series C Preferred Stock will be converted into Shares in accordance with stockholder consents obtained prior to the Prospectus Date, the terms of issue of the Series C Preferred Stock and conditional upon the Board resolving to allot CDIs and New Options under the Offer. The conversion will occur alongside the conversion of the existing Series Seed, the Series A and Series B Preferred Stock and the Convertible Notes into Shares so that there is only class of shares on issue on and from listing.

Following the extension of the Closing Date as noted on page 1, as at the Allotment Date, the issued share capital of the Company will be as follows based on the Minimum Subscription and Maximum Subscription, noting that the table below replaces the table in section 1 and 10.4 of the Prospectus.

	On completion of the Offer	
Class of Security	**Number of Securities based on Minimum Subscription**	**Number of Securities based on Maximum Subscription**
Shares before IPO	64,112,905	64,112,905
Convertible Noteholders	41,760,457	41,760,457
CDIs issued under the Offer	22,727,273	27,272,727
Adviser CDIs	400,000	400,000
Total	**129,000,635**	**133,546,089**
RSUs	7,000,000	7,000,000
Employee Options	6,012,927	6,012,927
New Options	11,363,636	13,636,364
Silicon Valley Bank Warrants	20,464	20,464
Total CDIs on a fully diluted basis	**153,397,662**	**160,215,844**

[1] If all investors under the Bridge Financing convert to CDIs, an additional 5,262,626 will be issued for a total of 158,660,288 CDIs at the Minimum Subscription on a fully diluted basis or 165,478,470 at the Maximum Subscription on a fully diluted basis. Refer to section 9.6 of the Prospectus for further details.

2.2 Substantial Holders

The table below sets out the interests of the Existing Shareholders as at the date of this Second Supplementary Prospectus, immediately following the Offer who hold a substantial interest in Securities of the Company. The table does not reflect any CDIs which the Existing Shareholders may subscribe for under the Offer, noting that the table below replaces the table in section 1 and 8.11 of the Prospectus.

Name	Shares[1]	%[1]	Options	RSUs	Minimum Subscription (undiluted)	Maximum Subscription (undiluted)	Minimum Subscription (fully diluted)	Maximum Subscription (fully diluted)
	Prospectus Date				On completion of the Offer			
BVM Fund LLC	14,480,907	22.59%	-	-	11.23%	10.84%	9.44%	9.04%
Motasim Faleh H. Hajaj	13,782,660	21.51%	-	-	10.69%	10.33%	8.99%	8.61%
Jack Wu	4,250,000	6.63%	2,200,000	3,500,000	3.29%	3.18%	6.49%	6.21%
John Hsu	4,250,000	6.63%	2,200,000	3,500,000	3.29%	3.18%	6.49%	6.21%
Total	36,763,567	57.36%	4,400,000	7,000,000	28.50%	27.53%	31.41%	30.07%

[1] *Assuming all preference shares and warrants were converted to Shares prior to the Prospectus Date*

2.3 Updated Escrow Table

Certain existing Shareholders will be restricted from dealing in their CDIs or Shares following Listing. These restrictions are imposed by the ASX.

The ASX Listing Rules require that certain persons or entities that are 'significant holders', such as seed capitalists, promoters and related parties, enter into written restriction agreements under which they are restricted from dealing in a specified number of their CDIs or Shares for up to 24 months from the date of quotation of those CDIs or Shares. The restriction agreements will be in the form required by the ASX Listing Rules over such number of CDIs or Shares and for such period of time as determined by the ASX, and restrict the ability of the holder of the CDIs or Shares from disposing of, creating any security interest in or transferring effective ownership or control of such CDIs or Shares. Under the ASX Listing Rules, less significant holders are not always required to enter into formal agreements. The Company may in certain circumstances instead rely on the provisions of an escrow notice and the provisions of its Bylaws under which these restrictions are imposed and instruct the Share Registry to impose a holding lock on their securities. If a Security holder breaches or violates the applicable restrictions, the applicable securities will be automatically converted into Common Prime Stock, as described in section 10.9 of the prospectus, for so long as the breach continues.

Following the extension of the Closing Date as noted on page 1, as at the Allotment Date, the table below sets out the updated escrow arrangements, noting that the table below replaces the table in section 10.10 of the Prospectus.

Holder	CDIs held on completion of the Offer subject to escrow	Options held on completion of the Offer subject to escrow	RSUs held on completion of the Offer subject to escrow	No. of securities subject to 12 months escrow post IPO[5]	No. of securities subject to 24 months escrow post IPO[5]	% subject to escrow restrictions (Minimum Subscription) (undiluted)	% subject to escrow restrictions (Minimum Subscription) (fully diluted)	% subject to escrow restrictions (Maximum Subscription) (undiluted)	% subject to escrow restrictions (Maximum Subscription) (fully diluted)
Jack Wu	4,250,000	2,200,000	3,500,000		4,250,000 CDIs 2,200,000 Options 3,500,000 RSUs	3.29%	6.49%	3.18%	6.21%
John Hsu	4,250,000	2,200,000	3,500,000		4,250,000 CDIs 2,200,000 Options 3,500,000 RSUs	3.29%	6.49%	3.18%	6.21%
Tony Zhang[1]	5,097,605				5,097,605	3.95%	3.32%	3.82%	3.18%
Denis Hébert[2]		100,000			100,000	0.00%	0.07%	0.00%	0.06%
Stratos Karousos		155,927			155,927	0.00%	0.10%	0.00%	0.10%
Alan Braverman[3]	281,006				281,006	0.22%	0.18%	0.21%	0.18%
Motasim Faleh H. Hajaj	6,557,589				6,557,589	5.08%	4.27%	4.91%	4.09%
Lead Manager and Associates	827,098				827,098	0.64%	0.54%	0.62%	0.52%
Corporate Adviser	4,525,730				4,525,730	3.51%	2.95%	3.39%	2.82%
Other Shareholders	1,158,089			1,158,089		0.90%	0.75%	0.87%	0.72%

Noteholders	5,304,808			5,304,808		4.11%	3.46%	3.97%	3.31%
Total[4,5]	32,251,925	4,655,927	7,000,000	6,462,897	37,444,955	24.99%	28.62%	24.15%	27.41%

[1] Tony Zhang holds shares under the entity name BVM Fund LLC

[2] Denis Hébert holds shares under the entity name The Hébert Trust.

[3] Alan Braverman holds shares under the entities Giant Pixel Corporation Inc and Triple AB LP.

[4] If all investors under the Bridge Financing convert to CDIs, an additional 5,262,626 will be issued for a total of 158,660,288 CDIs at the Minimum Subscription on a fully diluted basis or 165,478,470 at the Maximum Subscription on a fully diluted basis. Refer to Section 9.6 of the Prospectus for further details.

[5] From the 5,262,626 shares that may be converted to CDIs, 2,737,374 will have an escrow of 12 months and 2,525,253will have an escrow period of 24 months.

The Company's free float at the time of Listing will be 75.00% on the Minimum Subscription and 75.85% on Maximum Subscription.

2.4 Bridge Financing

As outlined in section 9.6 of the Prospectus, the Company entered into Bridge Financing with certain Subscribers for convertible loans in the Company to the value of an aggregate A$1 million. As a result of market conditions becoming increasingly unfavourable as outlined in the First Supplementary Prospectus and the need to extender the Offer as outlined on page 1, section 9.6 of the Prospectus is amended to reflect the Company extending the Maturity Date of the Bridge Financing from the 5 October 2022 to the 15 November 2022.

2.5 Use of Funds

The Company intends that the funds raised under the amended Offer pursuant to this Second Supplementary Prospectus will be applied as follows, noting that the table below replaces the tables in section 1 and 8.4 of the Prospectus. The table has been updated to reflect the change in AUD:USD exchange rate since the date of the original Prospectus.

USE OF FUNDS

	Minimum Subscription A$'(000)	Minimum Subscription U$'(000)	Minimum Subscription % of funds raised	Maximum Subscription A$'(000)	Maximum Subscription U$'(000)	Maximum Subscription % of funds raised
Sales and Marketing	703	443	14%	659	415	11%
Research and Development	633	398	13%	672	424	11%
Repayment of Bridge Financing	596	376	12%	596	376	10%
Costs of the Offer	1,380	869	28%	1,441	908	24%
Working capital[1]	1,688	1,064	33%	2,632	1,657	44%
Total uses	5,000	3,150	100%	6,000	3,780	100%

[1] The Company will use working capital to pay for deployment expenses such as manufacturing UAS and Base components, establishing new offices and engaging approximately 6-10 new staff members, marketing, advertising and other general administrative costs such as travel, directors' fees, legal, audit and drone registration costs.

The above table is a statement of current intentions as at the date of this Second Supplementary Prospectus. Investors should note that, as with any budget, the allocation of funds set out in the above table may change depending on several factors, including the outcome of sales performance, operational and development activities, regulatory developments, and market and general economic conditions. Considering this, the Board reserves its right to alter the way the funds are applied. In addition, as the proceeds of the Offer will be received in Australian dollars and the expenditure will be primarily in U.S. dollars, the actual amount of the proceeds used for each of the items above will depend on the A$:US$ exchange rate at the time that the funds are converted to U.S. dollars.

The Board believes that the Company's current cash reserves, its cashflow from existing operations, plus the net proceeds of the revised Offer will be sufficient to fund the Company's stated business objectives, including to:

2.5.1 fund and accelerate Nightingale's growth strategy including by hiring 6-10 new staff;

2.5.2 fund the research and development of new products or enhancements to existing products; and

2.5.3 fund working capital requirements.

To the extent that investors exercise the New Options after listing, the Company intends to apply any proceeds of such exercise towards Sales and Marketing, Research and Development and working capital. If all New Options are exercised, a maximum of $3,977,273 would be raised based on the Minimum Subscription and a maximum of $4,772,727 would be raised at the Maximum Subscription.

3. Commercial update

Since the First Supplementary Prospectus, there has been a significant increase in the Company's order book and pipeline. The Company has recently secured purchase orders or proof of concepts from the following:

- a Purchase order from Halliburton Company (NYSE:HAL) one of the worlds largest providers of products and services for the energy industry;
- a purchase order from Vorp Energy LLC, a designer and manufacturer of solar/wind power solutions;
- a purchase order for the Clayton Country Sheriffs office in Jonesboro, Georgia; and
- a proof of concept and a purchase order from The New York Police Department (NYPD)

4. AMENDMENT TO DEFINITIONS

The defined terms in the Glossary in section 11 of the Prospectus set out in column 1 of the table below are amended by replacing their definitions with the definitions set out in the corresponding cell in column 2 of the table below.

Term	Definition
Closing Date	means the date that the Offer closes, being 5:00pm on 31 October 2022.

Second Supplementary Prospectus	This second supplementary prospectus, dated 26 October 2022, which supplements and amends the replacement prospectus dated 19 August 2022 and should be read in conjunction with the Supplementary Prospectus.

5. CONSENTS AND AUTHORISATION

The Company confirms that as at the date of this Second Supplementary Prospectus, each of the parties that have been named as having consented to being named in the Prospectus have not withdrawn that consent.

Directors' authorisations

This Second Supplementary Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with section 720 of the Corporations Act, each Director has consented to the lodgement of this Second Supplementary Prospectus with ASIC.

Jack Wu
Executive Director and Chief Executive Officer
for and on behalf of
Nightingale Intelligent Systems, Inc.

APPENDIX 1

30 JUNE 2022 HALF YEAR REVIEWED ACCOUNTS

Nightingale Intelligent Systems, Inc.

Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2022 and 2021

NIGHTINGALE INTELLIGENT SYSTEMS, INC.
CONTENTS

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Independent Auditor's Report

To the Members of Audit and Risk Committee

Report on the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Nightingale Intelligent Systems, Inc. (the Company) and its subsidiaries (the Group), which comprises the condensed consolidated statement of financial position as at 30 June 2022, and the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, and other selected explanatory notes.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Nightingale Intelligent Systems, Inc. does not comply with accounting principles generally accepted in the United States of America including:

a giving a true and fair view of Nightingale Intelligent Systems, Inc's financial position as at 30 June 2022 and of its performance for the half year ended on that date; and

b complying with accounting principles generally accepted in the United States of America.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES *110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss of $2,566,777 during the half year ended 30 June 2022 and, as of that date, the Group current liabilities exceeded its current assets by $2,923,539. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half-year financial report

The Directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with accounting principles generally accepted in the United States of America and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with accounting principles generally accepted in the United States of America including giving a true and fair view of the Group's financial position as at 30 June 2022 and its performance for the half-year ended on that date.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

C F Farley
Partner – Audit & Assurance

Sydney, 19 October 2022

NIGHTINGALE INTELLIGENT SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
As of June 30, 2022 and December 31, 2021
(Unaudited)

	June 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 212,361	$ 1,253,277
Accounts receivable, net of allowance for doubtful accounts ($158,150 at June 30, 2022 and December 31, 2021)	771,049	761,676
Inventory, net	372,068	104,519
Prepaid expenses and other current assets	172,361	318,972
Total current assets	1,527,839	2,438,444
Leased assets	167,158	225,386
Product development assets	19,342	19,342
Property and equipment, net	57,501	65,551
Right-of-use assets	625,780	-
Other assets	20,418	46,003
Total assets	$ 2,418,038	$ 2,794,726
Liabilities, Convertible Preferred Stock and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 501,825	$ 132,315
Accrued expenses	77,842	75,662
Accrued interest	341,108	207,391
Deferred revenue	649,638	893,074
Convertible notes, current	2,880,965	-
Derivative liability	2,029,750	-
Total current liabilities	6,481,128	1,308,442
Loan payable	149,900	-
Convertible notes, noncurrent	-	1,926,297
Derivative liability	-	1,906,429
Lease liabilities	639,045	-
Total liabilities	7,270,073	5,141,168
Commitments and contingencies (Note 14)		
Convertible preferred stock, $0.00001 par value; 50,036,091 shares authorized at June 30, 2022 and 2021; 27,039,077 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively (aggregate liquidation preference of $11,568,209 as of June 30, 2022 and December 31, 2021)	12,709,219	12,709,219
Stockholders' deficit:		
Common stock, $0.00001 par value; 90,433,860 shares authorized; 22,871,535 and 17,245,269 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively	229	173
Additional paid-in capital	10,320,371	10,259,243
Accumulated deficit	(27,881,854)	(25,315,077)
Total stockholders' deficit	(17,561,254)	(15,055,661)
Total liabilities, convertible preferred stock and stockholders' deficit	$ 2,418,038	$ 2,794,726

See accompanying notes to condensed consolidated financial statements.

NIGHTINGALE INTELLIGENT SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Six Months Ended June 30, 2022 and 2021
(Unaudited)

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Revenue	$ 1,141,604	$ 535,625
Cost of revenue	735,924	375,139
Gross profit	405,680	160,486
Operating expenses:		
Research and development	1,120,911	1,187,606
Sales and marketing	92,389	25,997
General and administrative	1,032,854	738,385
Total operating expenses	2,246,154	1,951,988
Loss from operations	(1,840,474)	(1,791,502)
Other income (expense), net:		
Interest expense, net	(648,229)	(250,156)
Other expense, net	(78,074)	(278,590)
Total other expense, net	(726,303)	(528,745)
Net loss	$ (2,566,777)	$ (2,320,247)
Net loss per share - basic and diluted	$ (0.14)	$ (0.13)
Weighted average shares of common stock - basic and diluted	17,722,655	17,245,269

See accompanying notes to condensed consolidated financial statements.

NIGHTINGALE INTELLIGENT SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND CHANGES IN STOCKHOLDERS' DEFICIT
For the Six Months Ended June 30, 2022 and 2021
(Unaudited)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balances at December 31, 2021	27,039,077	$ 12,709,219	17,245,269	$ 173	$ 10,259,243	$ (25,315,077)	$ (15,055,661)
Stock-based compensation	-	-	-	-	4,921	-	4,921
Proceeds from exercise of warrants	-	-	5,626,266	56	56,207	-	56,263
Net loss	-	-	-	-	-	(2,566,777)	(2,566,777)
Balances at June 30, 2022	27,039,077	$ 12,709,219	22,871,535	$ 229	$ 10,320,371	$ (27,881,854)	$ (17,561,254)

See accompanying notes to condensed consolidated financial statements.

NIGHTINGALE INTELLIGENT SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2022 and 2021
(Unaudited)

	Six Months Ended June 30,	
	2022	**2021**
Cash flows from operating activities:		
Net loss	$ (2,566,777)	$ (2,320,247)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	4,921	38,678
Depreciation and amortization	153,596	119,547
Loss on change in fair value of derivative liability	73,192	286,844
Amortization of debt discount	449,602	175,459
Amortization of debt issuance costs	64,907	20,458
Changes in operating assets and liabilities:		
Accounts receivable	(9,373)	(198,856)
Inventories	(267,549)	(162,570)
Prepaid expenses and other current assets	228,532	(288,544)
Other assets	25,585	371
Accounts payable	281,633	149,677
Accrued expenses	2,180	(2,529)
Accrued interest	133,717	48,328
Lease liability	(74,053)	-
Deferred revenues	(243,436)	1,092,728
Net cash used in operating activities	(1,743,323)	(1,040,657)
Cash flows from investing activities:		
Purchase of property and equipment	-	(4,554)
Net cash used in investing activities	-	(4,554)
Cash flows from financing activities:		
Net proceeds from convertible notes	578,164	-
Proceeds from promissory note	-	278,272
Proceeds from exercise of warrants	56,263	-
Payment of Series C offering costs	-	(591)
Offering costs paid	(81,920)	(16,018)
Net proceeds from loan	149,900	-
Loan payment	-	(150,000)
Net cash provided by financing activities	702,406	111,663
Decrease in cash and cash equivalents	(1,040,916)	(933,549)
Cash and cash equivalents, beginning of period	1,253,277	2,684,865
Cash and cash equivalents, end of period	$ 212,361	$ 1,751,316

See accompanying notes to condensed consolidated financial statements.

NOTE 1: DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

The Company was incorporated under the laws of the State of Delaware on June 13, 2014, as Nightingale Autonomous Systems, Inc. In October 2017, the Company changed its name from Nightingale Autonomous Solutions, Inc. to Nightingale Intelligent Systems, Inc. ("Nightingale" or the "Company"). Nightingale (UK) Operations Ltd, a UK private limited company, is the Company's wholly-owned subsidiary.

The Company designs, develops, builds, deploys, and supports autonomous robotic aerial security technologies that protect critical infrastructure for Fortune 500 companies. The autonomous perimeter security system features networked base stations and mission-ready drones which can be airborne in less than 30 seconds. The system is driven by the Company's Mission Control software ("Mission Manager"), which equips security teams with a real-time decision support system to help keep their facilities safe.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements and notes have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. Accordingly, they do not include all of the information and disclosures required by US GAAP for complete financial statements. In the opinion of the Company's management, the accompanying interim condensed consolidated financial statements reflect all adjustments, which include normal recurring adjustments, necessary to present fairly the Company's interim financial information. Any reference in these notes to applicable guidance is meant to refer to the authoritative US GAAP as found in the Accounting Standards Codification ("ASC") and Accounting Standards Updates ("ASUs") of the Financial Accounting Standards Board ("FASB"). Unless otherwise noted, all amounts are presented in US dollars.

The accompanying interim condensed consolidated financial statements and related notes should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021. The financial results for any interim period are not necessarily indicative of the expected financial results for the full year.

Liquidity

The interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. In order to continue its operations, the Company must raise additional equity or debt financings and achieve profitable operations. Although management has historically been successful in raising capital, there can be no assurance that the Company will be able to obtain additional equity or debt financing on terms acceptable to the Company, or at all. The failure to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on the Company's business, financial position, results of operations, and future cash flows. However, the Company may be unable to raise additional funds or enter into such agreements or arrangements when needed on acceptable terms, or at all.

Since its inception, the Company has incurred significant operating losses and negative cash flows from operations primarily as a result of significant research and development activities related to the development and continued improvement of the Company's Mission Manager Software, drone units and base stations. The Company has funded these activities to date primarily through the issuance of convertible preferred stock and debt. The Company must among other things respond to competitive developments, and attract, retain and motivate qualified personnel. Although the Company has generated revenue from product sales to date, it has not yet been able to achieve profitability and will continue to incur significant research and development and other expenses related to its ongoing operations. Cash and cash equivalents on hand was \$0.2 million and \$1.3 million as of June 30, 2022 and December 31, 2021, respectively. The Company has incurred net losses of \$2.6 million and \$2.3 million for the six months ended June 30, 2022 and 2021, respectively, had an accumulated deficit of \$27.9 million as of June 30, 2022, and a working capital deficit of \$5.0 million. Subsequent to June 30, 2022, the Company raised \$68,000 in proceeds from convertible debt and \$63,000 in proceeds from the exercise of Series C warrants. The Company has reviewed the relevant conditions and events surrounding its ability to continue as a going concern including among others: historical losses, projected future results, including the effects of the novel coronavirus ("COVID-19"), cash requirements for the upcoming year, terms of the Company's current debt arrangements, funding capacity, net working capital, total stockholders' deficit and future access to capital. Sales of additional equity securities by the Company could result in the dilution of the interests of existing stockholders. These factors, along with the Company's cash and cash equivalents, raise substantial doubt about the Company's ability to continue as a going concern for at least one year from the date the interim condensed consolidated financial statements are issued. The interim condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty. If future financing is not achieved, the Company may be required to curtail spending to reduce cash outflows or its operations.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The interim condensed consolidated financial statements include the accounts of Nightingale and its wholly-owned subsidiary, Nightingale (UK) -Operations, Ltd. All significant intercompany transactions and balances have been eliminated in consolidation.

Comprehensive Loss

Comprehensive loss includes all changes in equity during a period from non-owner sources. Through June 30, 2022, there are no components of comprehensive loss which are not included in net loss; therefore, a separate statement of comprehensive loss has not been presented. The Company does not have any significant foreign currency translation adjustments as a component of other comprehensive loss through June 30, 2022, as the functional currency of its subsidiary is the U.S. dollar.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the Company's interim condensed consolidated financial statements and the accompanying notes. The most significant estimates in the Company's interim condensed consolidated financial statements relate to revenue recognition, determination of the cost of the Company's drone units and base stations and their useful lives, assessing assets for impairment, realizability of deferred tax assets, fair value measurements, valuation of financial instruments, valuation of stock options and warrants, and contingencies.

These estimates, as well as assumptions, are based on current facts, historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenues and expenses that are not readily apparent from other sources. Actual results could differ from those estimates.

Financial Instruments – Recognition and Derecognition

The Company's interim condensed consolidated financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, promissory notes, loan payable, convertible notes and a derivative liability. The Company's cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are carried at cost, which management believes approximates fair value due to the short-term nature of these instruments. Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Fair Value Measurements

The Company accounts for fair value measurements under ASC 820, *Fair Value Measurements and Disclosures*, which establishes a framework for measuring fair value and requires disclosures about fair value measurements by establishing a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to Level 1 measurements and lowest priority to Level 3 measurements. The three levels of the fair value hierarchy are described below:

- Level 1 – Observable inputs such as quoted prices in active markets
- Level 2 – Inputs other than quoted market prices in active markets that are observable, either directly or indirectly in active markets
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The estimated fair value of financial instruments disclosed in the interim condensed consolidated financial statements have been determined by using available market information and appropriate valuation methodologies. In certain cases where there is limited activity or less transparency around inputs to valuation, such as the Company's derivative liability, these financial instruments are classified as Level 3.

Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less from the date of purchase to be cash equivalents. The Company places its cash and cash equivalents in highly liquid instruments with financial institutions with high credit ratings.

Risks and Uncertainties

In March 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. The full extent to which the COVID-19 pandemic will directly or indirectly impact the Company's business, results of operations and financial condition, including expenses and research and development costs, will depend on future developments that are highly uncertain, including new information that may emerge concerning COVID-19 and the actions taken to contain or treat COVID-19, as well as the economic impact on local, regional, national and international markets. The Company has made estimates of the impact of COVID-19 within its interim condensed consolidated financial statements and there may be changes to those estimates in future periods. Actual results could differ materially from those estimates.

In February 2022, the Russian Federation and Belarus commenced a military action with the country of Ukraine. As a result of this action, various nations, including the United States, have instituted economic sanctions against the Russian Federation and Belarus. Further, the impact of this action and related sanctions on the world economy are not determinable as of the date of these consolidated financial statements. Although the Company does not have significant customers or operations within the affected geographies, the specific impact on the Company's financial condition, results of operations, and cash flows is also not determinable as of the date of these interim condensed consolidated financial statements.

Concentrations of Credit Risk and Significant Suppliers

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents. Cash and cash equivalent deposits with financial institutions may occasionally exceed the limits of insurance on bank deposits. The Company has not experienced any losses on such accounts and management believes that the Company is not exposed to significant credit risk due to the financial position of the depository institution in which those accounts are held.

The Company is also subject to credit risk from its accounts receivable. The Company extends credit to customers in the normal course of business and generally does not perform evaluations of customers' financial condition and generally does not require collateral. Concentrations of credit risk with respect to accounts receivable exist to the full extent of amounts presented in the interim condensed consolidated financial statements.

The Company is dependent on third-party manufacturers to supply products and services for its drones and base stations. In particular, the Company relies, and expects to continue to rely, on a small number of third-party manufacturers to manufacture and supply the inventory and other materials for its security services. These activities could be adversely affected by a significant interruption in the supply of these items.

Deferred Offering Costs

The Company capitalizes certain legal, professional, accounting and other third-party fees that are directly associated with in-process financings as deferred offering costs until such financings are consummated. After consummation of the financing, these costs are recorded as a reduction of the proceeds received from the financing. If a planned financing is abandoned, the deferred offering costs are expensed as a charge to operating expenses in the interim condensed consolidated statements of operations.

Deferred offering costs were approximately $0.1 million and $16,000 as of June 30, 2022 and December 31, 2021, respectively, and are included in the Company's interim condensed consolidated balance sheets within prepaid expenses and other current assets.

Accounts Receivable

Accounts receivable are derived from sales and rental of proprietary drones and base station assets along with access to the Company's browser-based interface Mission Manager. The Company reviews its receivables for collectability based on historical loss patterns, aging of the receivables, and assessments of specific identifiable customer accounts considered at risk or uncollectible and provides allowances for potential credit losses, as needed. The Company also considers any changes to the financial condition of its customers and any other external market factors that could impact the collectability of the receivables in the determination of the allowance for doubtful accounts. The allowance for doubtful accounts was $158,150 as of both June 30, 2022 and December 31, 2021.

At June 30, 2022, the Company had 4 customers whose accounts receivable balance each totaled 10% or more of the Company's total accounts receivable (36%, 21%, 20%, 16%) compared with three such customers (31%, 30%, 12%) at December 31, 2021.

For the six months ended June 30, 2022, the Company had 3 customers (24%, 17%, 17%) who individually accounted for 10% or more of the Company's total customer revenue compared with 1 such customer (65%) for the six months ended June 30, 2021.

Inventory

Inventory is valued at the lower of cost or net realizable value and is determined using the average cost method. The Company's inventory consists of raw material components, finished drone units, and base stations. Finished drone units and base stations include materials, labor and other direct and indirect costs used in their production. Finished drone units and base stations are valued using a discrete bill of materials, which includes an allocation of labor and direct overhead based on assembly hours. The Company regularly assesses slow-moving, excess and obsolete inventory and maintains balance sheet reserves in amounts required to reduce the recorded value of inventory to the lower of cost or net realizable value.

Equipment on Operating Leases

Equipment is recorded at cost and depreciated over the estimated useful lives. Equipment on operating leases is depreciated to estimated salvage value over the lease term. Depreciation is computed using the straight-line method. Significant improvements are capitalized, and maintenance and repairs are expensed. See Note 4 - *Inventory & Equipment on Operating Leases*.

Property and Equipment

Property and equipment is stated at cost and includes computers, automobiles, leasehold improvements and machinery and equipment. Depreciation is computed using the straight-line method over the estimated useful lives of two to five years for computers, automobiles, machinery and equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful lives. Expenditures for repairs and maintenance, which do not extend the useful life of the property and equipment, are expensed as incurred and improvements and betterments are capitalized. Gains and losses associated with dispositions are reflected as a non-operating gain or loss in the interim condensed consolidated statements of operations.

Impairment of Long-Lived Assets

The Company assesses the impairment of long-lived assets whenever events or changes in circumstances indicate that their carrying value may not be recoverable from the estimated future cash flows expected to result from their use or eventual disposition. If estimates of future undiscounted net cash flows are insufficient to recover the carrying value of the assets, the Company will record an impairment loss in the amount by which the carrying value exceeds the fair value. If the assets are determined to be recoverable, but the useful lives are shorter than originally estimated, the Company will depreciate or amortize the net book value of the assets over the newly determined remaining useful lives. The Company recorded reserves of $140,000 against certain early-generation drone units determined to be obsolete as of both June 30, 2022 and December 31, 2021. None of the Company's drone units, base stations or property and equipment was determined to be impaired as of June 30, 2022 and December 31, 2021.

Deferred Revenue

When the Company is entitled to bill its customers and receive payment from its customers in advance of its obligation to provide services or transfer goods to its customers, the Company includes the amounts in deferred revenue on its interim condensed consolidated balance sheets.

Revenue Recognition

The Company accounts for all revenue contracts in accordance with ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). A performance obligation is a promise in a contract to transfer distinct goods or services to a customer, and it is the unit of account in ASC 606. A contract's transaction price is allocated to each distinct performance obligation and revenue is recognized when each performance obligation under the terms of a contract is satisfied. For contracts with multiple performance obligations, the

Company allocates the contract's transaction price to each performance obligation using observable standalone selling prices for similar products and services.

The substantial majority of the Company's revenue is generated pursuant to written contractual arrangements for drone systems. The contracts include the drone and base equipment, deployment of the drone system, and subscriptions for access to the Company's Mission Manager, The contracts typically have 12-month terms that automatically renew upon payment for an additional 12-month term thereafter.

The Company's performance obligations are satisfied over time or at a point in time. Revenue for maintenance, repair, and upgrades ("MRU"), as well as lease subscription revenues, are recognized over the term of the contract which as stated above is generally 12 months, unless different terms are stated in the contract. For MRU, progress is measured via a time-based output method, which is based on days elapsed since the Company was first standing ready to perform. The Company elected the right to invoice practical expedient under which, if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date, such as time elapsed for maintenance, repair, and upgrade services, the entity may recognize revenue in the amount to which the entity has a right to invoice. Revenue from training and other time and material-based services is recognized over time using an output method based on days of training/services completed, unless the training or other services require less than one month, in which case revenue is recognized once the training is completed.

For performance obligations that are not satisfied over time per the criteria above, revenue is recognized at the point in time at which each performance obligation is fully satisfied. In the case of the Company's drone and base product, which has embedded software called C4AI, revenue is recognized on contracts for the delivery of the drone, base, and spare parts. Revenue is recognized at the point in time when control transfers to the customer, which generally occurs when title and risk of loss have passed to the customer.

Application of the various US GAAP principles related to the measurement and recognition of revenue requires us to make judgments and estimates including ones relating to ASC Topic 606 - *Revenue from Contracts with Customers* and ASC Topic 842 - *Leases*. Complex arrangements with nonstandard terms and conditions may require significant contract interpretation to determine the appropriate accounting. Specifically, revenue in the following areas involves significant judgments and estimates:

Lease Subscription Arrangements The Company also leases its equipment direct to end customers under bundled lease subscription arrangements, which typically include the equipment, software, maintenance services, and training for which the customer pays a single negotiated fixed minimum monthly payment for all elements over the contractual lease term. Lease deliverables include the drone and base equipment and software as well as the deployment fee associated with the drone system, while the non-lease deliverables generally consist of the services, which include maintenance, repair, upgrades, and training. Sales made under bundled lease subscription arrangements comprise 12% or $132,000 and 15% or $83,000 of total sales revenue for the six months ended June 30, 2022 and 2021, respectively. Revenues under these bundled lease subscription arrangements are allocated considering the relative standalone selling prices of the lease and non-lease deliverables included in the bundled arrangement. The allocation of revenue among the elements – drone and base equipment, software, and deployment vs. post-sale (maintenance, repair and upgrade services, and training) – has remained fairly consistent at approximately 80% and 20%, respectively, over the six months ended June 30, 2022 and 2021.

Sales to Distributors and Resellers The Company utilizes distributors and resellers to sell many of its products, supplies and parts to end-user customers. Sales to distributors and resellers are generally recognized as revenue when products are shipped to such distributors and resellers. Distributors and resellers may participate in various discount, rebate, price-support, cooperative marketing and other programs, and the Company records provisions and allowances for these programs as a reduction to revenue when the sales occur. The Company did not record estimates for sales returns and other discounts and allowances when the sales occurred for the six months ended June 30, 2022 and 2021 as none was deemed needed as a result of the measurement of constraint of revenues. Total sales to distributors and resellers were $254,000 and $20,000 for the six months ended June 30, 2022 and 2021, respectively.

Service Arrangements Revenues associated with service arrangements – maintenance, repairs, and upgrades (or "MRU"), and software-as-a-service pertaining to Nightingale Security Mission Manager – are generally recognized over the term of the service period which is generally 12 months as the customer is typically invoiced for that usage at the beginning of the 12-month period.

Significant management judgments and estimates must be made and used in connection with the recognition of revenue in any accounting period. Material differences in the amount of revenue in any given period may result if these judgments or estimates prove to be incorrect or if management's estimates change on the basis of development of the business or market conditions. Management judgments and estimates have been applied consistently and have been reliable historically. The Company believes that there are two key factors which impact the reliability of management's estimates. The first of those key factors is that the terms of its contracts are typically for one year. The short-term nature of such contracts reduces the risk that material changes in accounting estimates will occur on the basis of market conditions or other factors. The second key factor is that it has numerous contracts in any given accounting period, which reduces the risk that any one change in an accounting estimate on one or several contracts would have a material impact on the Company's interim condensed consolidated financial statements.

Based on the nature of the contracts and consistent with prior practice, the Company recognizes revenue upon invoicing the customer for the large majority of its revenue. Additionally, the unit of accounting, that is, the identification of performance obligations, is consistent with prior revenue recognition practice. A significant portion of drone and base sales are either recorded as sales-type leases or through direct sales to customers or to distributors and resellers and these revenue streams are not impacted by the adoption of ASC Topic 606. The only change of significance identified in adoption involves a change in the classification of certain revenues that were previously reported in services revenues. These revenues relate to certain analyst services performed in connection with the deployment of drone systems that are being considered part of the drone and base sale performance obligation. Accordingly, these revenues are reported as part of sales.

Deferred contract costs, which include incremental costs of obtaining a contract and costs to fulfill a contract and sales commissions on reseller arrangements, had been minimal under prior Company practices as most costs to obtain a contract and fulfill a contract were expensed as incurred. As a result of the contract cost guidance included in ASC Topic 606 and ASC Topic 340-40, *Contracts with Customers*, the Company determined that any transition asset would be immaterial related to the incremental cost to obtain contracts as the adjustment would relate to the deferral of sales commissions paid to resellers in connection with the deployment of drone systems with post sale service arrangements.

Revenue-based Taxes

Revenue-based taxes assessed by governmental authorities that are both imposed on and concurrent with specific revenue-producing transactions, and that are collected by the Company from a customer, are excluded from revenue. The primary revenue-based taxes are U.S. sales taxes.

Shipping and Handling

Shipping and handling costs are accounted for as a fulfillment cost and are included in cost of revenue in the interim condensed consolidated statements of operations.

Refer to Note 3 - *Revenue Recognition* for additional information regarding revenue recognition policies with respect to contract assets and liabilities as well as contract costs.

Warrants Issued in Connection with Financings

The Company generally accounts for warrants issued in connection with financings as a component of equity, unless there is a deemed possibility that it may have to settle the warrants in cash. For warrants issued with a deemed possibility of cash settlement, the Company records the fair value of the issued warrants as a liability at each reporting period and records changes in the estimated fair value as a non-cash gain or loss in the interim condensed consolidated statements of operations.

Derivative Liabilities

The Company evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. The Company accounts for certain redemption features that are associated with convertible notes as liabilities at fair value and adjusts the instruments to their fair value at the end of each reporting period. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in other income (expense), net in the interim condensed consolidated statements of operations. Derivative instrument liabilities are classified in the interim condensed consolidated balance sheets as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Leases

The Company adopted ASU 2016-02, *Leases (Topic 842)*, as of January 1, 2022, using the full retrospective method. The Company had two leases as the lessee related to a building and vehicle lease. The lease terms for both leases expired prior to adoption of this new lease standard. Separately, the Company had one lease as the lessor.

The Company has elected the package of practical expedients, which allows the Company to retain the classification of existing leases. Therefore, there was minimal impact in the Company's consolidated statement of operations, and no cumulative adjustment to retained earnings was recognized upon adoption. As the Company enters into new or modified leases, these may be reclassified from operating classification to financing classification, which will change the timing and classification of a portion of lease expense between rent expense and interest expense. It is not possible to quantify the impact at this time, due to the unknown timing of new leases and lease modifications. However, the Company does not expect the impact to be material at any given year. The Company does not currently engage in any finance leases. The Company has also made an accounting policy election to keep leases with an initial term of 12 months or less off the balance sheet. These leases primarily related to short term office spaces, prior to the Company entering into a long-term office lease and are not significant in comparison to the Company's overall lease portfolio.

The lease liability reflects the present value of the Company's estimated future minimum lease payments over the lease term, which includes options that are reasonably assured of being exercised, discounted using a collateralized incremental borrowing rate. The impact of the new lease guidance is non-cash in nature, therefore, it does not affect the Company's cash flows.

Separately, the Company is also the lessor for one contract of its drone and base sales that are recorded as revenue under ASC 842, *Leases*. The accounting for lessors does not fundamentally change with this ASC update except for changes to conform and align guidance to the lessee guidance, as well as to the revenue recognition guidance in ASU 2014-19. Some of these conforming changes, such as those related to the definition of lease term and minimum lease payments, resulted in certain lease arrangements, that would have been previously accounted for as operating leases, to be classified and accounted for as sales-type leases with a corresponding up-front recognition of equipment sales revenue.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, *Compensation - Stock Compensation,* which requires that the estimated fair value on the date of grant be determined using the Black-Scholes option pricing model with the fair value recognized over the requisite service period of the awards, which is generally the option vesting period. Stock-based awards made to nonemployees are measured and recognized based on the estimated fair value on the vesting date and are re-measured at each reporting period. The Company's determination of the fair value of the stock-based awards on the date of grant, using the Black-Scholes option pricing model, is affected by the Company's value of its common stock as well as other assumptions regarding a number of highly complex and subjective variables. These variables include but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee option exercise behaviors. Because there is insufficient historical information available to estimate the expected term of the stock-based awards, the Company adopted the simplified method of estimating the expected term of options granted by taking the average of the vesting term and the contractual term of the option.

For awards with graded vesting, the Company recognizes stock-based compensation expense over the service period using the straight-line method, based on shares ultimately expected to vest. The Company also elected to recognize forfeitures as they occur when calculating the stock-based compensation for equity awards.

Research & Development Costs

Research and development costs primarily consist of employee-related expenses, including salaries and benefits, share-based compensation expense, facilities costs, depreciation and other allocated expenses. Research and development costs are expensed as incurred.

Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740, *Income Taxes*. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is unlikely that the deferred tax assets will not be realized. The Company assesses its income tax positions and record tax benefits for all years subject to examination based upon the Company's evaluation of the facts, circumstances and information available at the reporting date. In accordance with ASC 740-10, for those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, the Company's policy will be to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the interim condensed consolidated financial statements.

Comprehensive Loss

Net loss was equal to comprehensive loss for the six months ended June 30, 2022 and 2021.

Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding for the period, without consideration for potentially dilutive securities. Diluted net loss per share is computed by dividing the net loss by the weighted average number of common shares and dilutive common stock equivalents outstanding for the period determined using the treasury-stock and if-converted methods. Dilutive common stock equivalents are comprised of convertible preferred stock, options outstanding under the Company's stock option plan and outstanding common stock warrants. For all periods presented, there is no difference in the number of shares used to calculate basic and diluted shares outstanding as inclusion of the potentially dilutive securities would be anti-dilutive.

Potentially dilutive securities not included in the calculation of diluted net loss per share, because to do so would be anti-dilutive, are as follows (in common stock equivalent shares):

	June 30, 2022	June 30, 2021
Convertible preferred stock	27,039,077	27,039,077
Common stock options	364,872	425,000
Common stock warrant – SVB	20,464	20,464
Common stock warrant – Series C	6,563,982	12,190,248
	33,988,395	39,674,789

The table above omits the potentially dilutive shares into which the 2020, 2021 and 2022 Convertible Notes would convert.

Recent Accounting Pronouncements

The Company has reviewed all newly-issued accounting pronouncements that are not yet effective and concluded that they are either not applicable to its operations or their adoption will not have a material impact on its financial position or results of operations.

NOTE 3: REVENUE RECOGNITION

Revenues are disaggregated by major product lines and sales channels are as follows:

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Major product and services lines:		
Drone and Base Equipment	$ 486,057	$ 195,858
Maintenance Agreements (1)	74,355	20,666
Deployment (2)	87,895	15,000
Other (3)	361,465	221,100
Lessor arrangements (4)	131,832	83,000
Total Revenues	$ 1,141,604	$ 535,624
Sales channels:		
Customer direct sales	$ 756,057	$ 432,874
Direct equipment lease (4)	131,832	83,000
Distributors & resellers (5)	253,715	19,750
Total Revenues	$ 1,141,604	$ 535,624

(1) Includes revenues from MRU agreements on sold equipment as well as revenues associated with maintenance service agreements sold through our resellers.
(2) Primarily includes revenues from deployment of drone systems.
(3) Primarily includes revenues from training and consulting services.
(4) Primarily reflects sales through bundled lease arrangements.
(5) Primarily reflects sales through two-tier distribution channels.

Revenues disaggregated by point-in-time and over-time are as follows:

	Six Months Ended June 30, 2022		Six Months Ended June 30, 2021	
Recognition:				
Point-in-time	$	935,417	$	431,958
Over time		206,187		103,666
Total Revenues	$	1,141,604	$	535,624

Contract assets and liabilities: Company contract assets are generally not material, and are primarily related to costs of deployment to install drone and base systems. Company contract liabilities, which represent billings in excess of revenue recognized, are primarily related to advanced billings and were $649,638 and $893,074 as of June 30, 2022 and December 31, 2021, respectively. The majority of these balances will be amortized to revenue over approximately the next 12 months. See below for the rollforward of contract liabilities.

Beginning of the period – December 31, 2021	$	893,074
Payments in advance		412,653
Revenue recognized on contract		(656,089)
End of the period – June 30, 2022	$	649,638

Backlog: Backlog is defined as remaining unsatisfied performance obligations under firm orders for which work has not been performed. Generally, 90-100% of backlog will be recognized as revenue during the following fiscal year.

Because of possible future changes in delivery schedules and/or cancellations of orders, backlog at any particular date is not necessarily representative of actual sales to be expected for any succeeding period, and actual sales for the period may not meet or exceed the backlog represented. Backlog is typically due to maintenance, repairs, and upgrades. As revenues are recognized over time, the backlog and related contract liability decrease.

NOTE 4: INVENTORY & EQUIPMENT ON OPERATING LEASES

Inventory, net, consisted of the following at June 30, 2022 and December 31, 2021:

	June 30, 2022		December 31, 2021	
Finished base stations	$	95,714	$	-
Finished drones		124,708		20,800
Inventory components		151,646		83,719
Drones and base stations, net	$	372,068	$	104,519

Equipment on Operating Lease

Equipment on operating leases and similar arrangements consists of Company equipment rented to customers and depreciated to estimated salvage value at the end of the lease term.

Equipment on operating leases and the related accumulated depreciation at June 30, 2022 and December 31, 2021 were as follows:

		June 30, 2022		December 31, 2021
Equipment on lease	$	695,537	$	695,538
Accumulated depreciation		528,379		470,152
Drones and base stations, net	$	167,158	$	225,386

Depreciable lives generally vary from two to five years consistent with the planned and historical usage of the equipment subject to operating leases.

NOTE 5: ACCRUED EXPENSES

A summary of the components of accrued expenses is as follows:

		June 30, 2022		December 31, 2021
Accrued payroll	$	38,081	$	35,901
Accrued rent		11,044		11,044
Other accrued liabilities		28,717		28,717
	$	77,842	$	75,662

NOTE 6: FAIR VALUE MEASUREMENTS

The following tables set forth by level, within the fair value hierarchy, the financial assets and liabilities that are measured at fair value on a recurring basis at June 30, 2022 and December 31, 2021:

	Fair Value Measurements at June 30, 2022 using:							
Assets:		Level 1		Level 2		Level 3		Total
Money market funds	$	8,896	$	-	$	-	$	8,896
	$	8,896	$	-	$		$	8,896
Liabilities:								
2020 Convertible Notes	$	-	$	-	$	1,125,726	$	1,125,726
2021 Convertible Notes		-		-		853,896		853,896
2022 Convertible Notes		-		-		50,128		50,128
	$	-	$	-	$	2,029,750	$	2,029,750

	Fair Value Measurements at December 31, 2021 using:							
Assets:		Level 1		Level 2		Level 3		Total
Money market funds	$	1,158,879	$	-	$	-	$	1,158,879
	$	1,158,879	$	-	$	-	$	1,158,879
Liabilities:								
2020 Convertible Notes	$	-	$	-	$	1,084,982	$	1,084,982
2021 Convertible Notes		-		-		821,447		821,447
	$	-	$	-	$	1,906,429	$	1,906,429

The change in the fair value of the derivative liabilities for the six months ended June 30, 2022 and 2021 are summarized below:

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Fair value as of beginning of period – December 31	$ 1,906,429	$ 757,023
Change in far value on 2020 Convertible Notes	40,745	286,844
Change in fair value on 2021 Convertible Notes	32,448	-
Derivative liability upon issuance of 2022 Convertible Notes	50,128	-
Change in fair value on 2022 Convertible Notes	-	-
Fair value as of end of period – June 30	$ 2,029,750	$ 1,043,867

The derivative liabilities in the table above relate to the 2020, 2021 and 2022 Convertible Notes and represent the fair value of the redemption-like contingent conversion feature. The Company calculated the fair value of the derivative liabilities using a probability weighted discounted cash flow analysis. The inputs used to determine the estimated fair value of the derivative were based primarily on the probability of an underlying event occurring that would trigger the embedded derivative and the timing of such event. The Company's derivative liabilities are measured at fair value on a recurring basis and are classified as a Level 3 liability. The Company records subsequent adjustments to reflect the increase or decrease in estimated fair value at each reporting date in other income (expense), net in the interim condensed consolidated statements of operations (see Note 9 – *Debt Obligations*). The change in the fair value of the 2022 Convertible Notes was de minimis.

NOTE 7: PROPERTY AND EQUIPMENT

Property and equipment, net as of June 30, 2022 and December 31, 2021 is as follows:

	June 30, 2022	December 31, 2021
Computer equipment	$ 20,338	$ 20,337
Machinery and equipment	6,493	6,493
Automobiles	49,722	49,722
Leasehold improvements	69,432	69,432
	145,985	145,984
Less - Accumulated depreciation	(88,484)	(80,443)
Property and equipment, net	$ 57,501	$ 65,551

Depreciation and amortization expense on property and equipment, included in general and administrative expenses, amounted to approximately $5,000 and $12,700 in the six months ended June 30, 2022 and 2021, respectively. Depreciation and amortization expense of property and equipment relating to cost of services, research and development and sales and marketing was insignificant for all periods presented.

NOTE 8: PPP LOANS

On April 15, 2020, the Company entered into a promissory note agreement with Silicon Valley Bank that provided for the receipt by the Company of loan proceeds of $395,320 (the "April 2020 PPP Loan") pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). Under certain conditions, the April 2020 PPP Loan and accrued interest are forgivable, if the loan proceeds are used for eligible purposes, including payroll, benefits, rent and utilities, and maintaining payroll levels. In October 2020, the Paycheck Protection Program Flexibility Act of 2020 extended the deferral period for borrower payments of principal, interest, and fees on all PPP loans from 6 months to 10 months. As of December 31, 2020, payments were deferred for 10 months. The April 2020 PPP Loan was scheduled to mature on April 15, 2022 and bore interest at a rate of 1.0% per annum. The April 2020 PPP Loan contained events of default and other provisions customary for a loan of this type.

On February 13, 2021, the Company entered into a separate new promissory note agreement with Silicon Valley Bank that provided for the receipt by the Company of loan proceeds of $278,272 (the "February 2021 PPP Loan") pursuant to the CARES Act. Under certain conditions, the loans and accrued interest are forgivable, if the loan proceeds are used for eligible purposes, including payroll, benefits, rent and utilities, and maintaining payroll levels.

In September 2021, the Company received notification and confirmation from the U.S. Small Business Administration (the "SBA") that its April 2020 and February 2021 PPP Loans and related accrued interest had been forgiven in their entirety by the SBA and automatically cancelled. The Company recorded a gain on forgiveness of the PPP Loans of $673,592 in other income in its consolidated statement of operations for the year ended December 31, 2021, the period in which the loan was forgiven.

NOTE 9: DEBT OBLIGATIONS

Loan and Security Agreement

In April 2018, the Company entered into a Loan and Security Agreement (the "Loan Agreement") with Silicon Valley Bank ("SVB") for a committed growth capital line of $1.5 million, available to be used for general working capital purposes. $750,000 of the capital line is available to be drawn from the effective date of April 2018 through the capital availability end date of September 30, 2018. The remaining $750,000 of the capital line was available through September 30, 2018 provided the Company had achieved the second tranche milestone, which was defined in the Loan Agreement as support satisfactory to SVB that the Company had 30 units deployed across 15 unique verticals, as defined in the Loan Agreement. As security, the Loan was collateralized by all assets of the Company. The Company granted SVB a continuing security interest in all of the Company's interest in the collateral, which included all goods, equipment, inventory, contract rights or rights to payment of money, leases, and license agreements among others, but which excluded intellectual property. This Loan Agreement continued in effect until the maturity date of April 1, 2021. Monthly payments of interest only were due in advance for the first month, then principal and interest payments were due monthly for thirty months until maturity. Once repaid, the principal amount of the advance could not be re-borrowed. The Company had the option to prepay the loan in full. Outstanding borrowings under the Loan Agreement bore interest at the greater of (i) 2% above the prime rate (prime rate was 4.38% and 3.25% at June 30, 2022 and December 31, 2021, respectively) or (ii) 6.25%. Interest expense on the Loan Agreement during the six months ended June 30, 2022 and 2021 was $0 and $2,569, respectively. The Company repaid $150,000 during the year ended December 31, 2021 and, as of the end of December 31, 2021, the loan was repaid in full.

Small Business Administration Loan

In November 2021, the Company entered into a Loan Authorization Agreement with the U.S. Small Business Administration in which the Company received a loan for gross proceeds of $150,000, or $149,900, net. The proceeds from the loan were received in March 2022 and bear interest at 3.5% per annum. Installment payments, including principal and interest, of $731 per month are to begin twelve months from the date of the Loan Authorization Agreement, or December 2022. The principal and interest will be payable thirty years from the date of the Loan Authorization Agreement and have been recorded on the interim condensed consolidated financial statements as a loan payable.

Convertible Notes

2020 Convertible Notes

In July 2020, the Company entered into a series of convertible note subscription agreements (the "2020 Convertible Notes") with various investors for aggregate gross borrowings of approximately AUD $1.8 million or USD $1.2 million; net proceeds received in USD were approximately $1.0 million. The proceeds from the 2020 Convertible Notes are to be used for approved purposes only. Outstanding borrowings under the 2020 Convertible Notes and unpaid accrued interest are due and repayable in full on August 1, 2022 (maturity date), if not previously converted. The 2020 Convertible Notes bear interest at the rate of 8% per annum with interest payable beginning on July 31, 2020. The 2020 Convertible Notes will automatically convert into fully paid ordinary shares of the Company upon the completion of a Proposed Transaction which is defined as a listing on the Australian Stock Exchange ("ASX") if not repaid earlier at 50% of the IPO price. Conversion of unpaid accrued interest into additional fully paid ordinary shares is at the option of the Company.

The Company determined that the 2020 Convertible Notes contained rights and obligations for conversion contingent upon a listing on the ASX. Thus, the embedded redemption feature was bifurcated from the face value of the note and accounted for as a derivative liability to be remeasured at the end of each reporting period. The debt discount and debt issuance costs are being amortized to interest expense using the effective interest method over the expected term of the 2020 Convertible Notes. The Company recognized approximately $175,000 of amortization of debt discount and approximately $20,000 of amortization of debt issuance costs as interest expense in the interim condensed consolidated statement of operations for each of the six months ended June 30, 2022 and 2021. The effective interest rate of the 2020 Convertible Notes was 40.4% at June 30, 2022 and December 31, 2021 compared to the stated rate of 8%. During each of the six months ended June 30, 2022 and 2021, the Company recognized interest expense in the interim condensed consolidated statements of operations of approximately $48,000 related to the 2020 Convertible Notes.

2021 Convertible Notes

In August 2021, the Company entered into a series of convertible note subscription agreements (the "2021 Convertible Notes") with investors for aggregate gross borrowings of approximately AUD $3.0 million or USD $2.2 million; net proceeds received in USD totaled approximately $2.0 million. Outstanding borrowings under the 2021 Convertible Notes and unpaid accrued interest are due and repayable in full within 24 months from the date the Company signs the notes (maturity date), if not previously converted. The 2021 Convertible Notes bear interest at the rate of 8% per annum. The 2021 Convertible Notes and any accrued interest will automatically convert into shares of common stock of the Company or CHESS Depository Interests (CDI) over shares in respect of an ASX listing at 70% of the IPO offer price or the Trade Sales price, as applicable. In the event the Company completes an alternative capital raise (other than pursuant to an IPO or the issue of Notes under the 2021 Convertible Notes), the noteholders may voluntarily elect to convert some or all of their 2021 Convertible Notes into shares at the alternative capital raising price (as defined).

The Company determined that the 2021 Convertible Notes contained rights and obligations for conversion contingent upon 1) the Company's receipt of a listing approval to be admitted to an Approved Stock Exchange or 2) a potential future alternative capital raise. Thus, the embedded redemption feature was bifurcated from the face value of the 2021 Convertible Notes and accounted for as a derivative liability to be remeasured at the end of each reporting period. The fair value of the derivative liability at the inception of the 2021 Convertible Notes was $1.1 million, with the offsetting amount being recorded as a debt discount. Debt issuance costs were $131,000. The debt discount and debt issuance costs are being amortized to interest expense using the effective interest method over the expected term of the 2021 Convertible Notes. The Company recognized approximately $297,000 and $0 in interest expense relating to amortization of the debt discount and debt issuance costs for the six months ended June 30, 2022 and 2021, respectively. The Company also recognized the stated interest expense of approximately $85,000 and $0 for the six months ended June 30, 2022 and 2021, respectively. The effective interest rate of the 2021 Convertible Notes was 35.8% at June 30, 2022 and December 31, 2021 compared to the stated rate of 8%.

2022 Convertible Notes

In June 2022, the Company entered into a convertible loan agreements (the "2022 Convertible Notes") with investors for aggregate gross borrowings of approximately AUD $0.8 million or USD $0.7 million; net proceeds received in USD totaled approximately $0.6 million. Outstanding borrowings under the 2022 Convertible Notes are due and repayable in full within three months from the date the Company signed the notes (maturity date), if not previously converted and are interest-free. The noteholders may voluntarily convert the 2022 Convertible Notes at any time after completion of an IPO into shares of common stock of the Company or CHESS Depository Interests (CDI) over shares in respect of an ASX listing at 90% of the IPO offer price. The convertible loans can also be redeemed at the option of the noteholders 1) prior to the maturity date upon mutual agreement between the noteholder and the Company, 2) prior to maturity but after the occurrence of an IPO in which the noteholders would also receive 10% interest, or 3) upon the occurrence of an event of default.

The Company determined that the 2022 Convertible Notes contained rights and obligations for conversion contingent upon the occurrence of an IPO with a listing on the Australian Stock Exchange. Thus, the embedded redemption feature was bifurcated from the face value of the 2022 Convertible Notes and accounted for as a derivative liability to be remeasured at the end of each reporting period. The fair value of the derivative liability at the inception of the 2022 Convertible Notes was approximately $50,000, with the offsetting amount being recorded as a debt discount. Debt issuance costs were approximately $60,000 at June 30, 2022. The debt discount and debt issuance costs are being amortized to interest expense using the effective interest method over the expected term of the 2022 Convertible Notes. Interest expense relating to amortization of the debt discount and debt issuance costs were insignificant for the six months ended June 30, 2022. The effective interest rate of the 2022 Convertible Notes was 68.1% at June 30, 2022.

NOTE 10: STOCKHOLDERS' DEFICIT

The Company has reserved 25,000,000 and 7,285,626 shares of its common stock pursuant to the 2014 Stock Plan ("2014 Plan") as of June 30, 2022 and December 31, 2021, respectively. At June 30, 2022, there have been no changes to the conversion rights, voting rights, dividends, or liquidation rights of all classes of the Company's preferred stock since December 31, 2021. Similarly, there have been no changes to the liquidation rights of the Company's common stock since December 31, 2021.

Common Stock Reserved for Future Issuance

Shares of common stock reserved for future issuance relate to outstanding preferred stock, stock options and common stock warrants as follows:

	June 30, 2022
Series A Preferred Stock	1,081,263
Series B Preferred Stock	1,464,181
Series B-1 Preferred Stock	2,381,315
Series C Preferred Stock	19,766,598
Series Seed Preferred Stock	2,234,147
Common stock warrants – Series C	6,563,982
Common stock warrants – SVB	20,464
Stock options to purchase common stock	364,872
Stock options available for future issuance	17,948,618
Total shares of common stock reserved	51,825,440

During the six-months ended June 30, 2022, the Company received approximately $56,000 in net cash proceeds from the exercise of outstanding Series C preferred stock warrants to purchase 5,626,266 shares of the Company's common stock.

NOTE 11: STOCK-BASED COMPENSATION

Stock Options

A summary of the option activity under the 2014 Plan as of June 30, 2022 and changes during the six months then ended is as follows:

	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at December 31, 2021	238,244	314,872	$0.47	7.21
Authorized	17,714,374	-		
Granted	(350,000)	350,000		
Exercised	-	-		
Cancelled	300,000	(300,000)		
Outstanding at June 30, 2022	17,902,618	364,872	$0.47	7.09
Vested and exercisable at June 30, 2022		335,960		
Vested and expected to vest at June 30, 2022		364,872		

The weighted average grant date fair value of options granted during the six-month period ended June 30, 2022 was $0.47 per share. The fair value of the shares subject to stock options that were vested at June 30, 2022 and December 31, 2021 was $79,287 and $72,895, respectively.

Total unrecognized compensation cost related to non-vested stock option awards amounted to $10,400 for the six months ended June 30, 2022, which will be recognized over a weighted average period of 2.49 years as of June 30, 2022.

Stock-based compensation expense recorded to operations for stock options was as follows:

	Six Months Ended June 30,	
	2022	2021
Cost of revenue	$ -	$ -
General and administrative	-	-
Research and development	5,145	21,164
Sales and marketing	(223)	17,514
Total	$ 4,922	$ 38,678

NOTE 12: INCOME TAXES

The Company recorded zero provision for income taxes during the six months ended June 30, 2022 and 2021. The effective tax rate for the six months ended June 30, 2022 and 2021 was zero as the Company has incurred continuous operating losses.

Deferred tax assets and deferred tax liabilities are recognized based on temporary differences between the financial reporting and tax basis of assets and liabilities using statutory rates. A valuation allowance is recorded against deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized. Due to the uncertainty surrounding the realization of the favorable tax attributes in future tax returns, we have recorded a full valuation allowance against our otherwise recognizable net deferred tax assets.

NOTE 13: LEASE OBLIGATIONS

Leases as Lessee

The Company had two leases related to a building and vehicle lease. At contract inception the Company determines whether the contract is, or contains, a lease and whether the lease should be classified as an operating or a financing lease. Operating leases are recorded in operating lease right-of-use assets, current operating lease liabilities and non-current operating lease liabilities. The Company recognizes operating lease right-of-use assets and operating lease liabilities based on the present value of the future minimum lease payments over the lease term at commencement date. The Company uses its incremental borrowing rate based on the information available at commencement date to determine the present value of future payments and the appropriate lease classification.

In determining the inputs to the incremental borrowing rate, the Company makes judgments about the value of the leased asset, its credit rating and the lease term including the probability of exercising options to extend or terminate the underlying lease. The discount rate implicit within the Company's leases are generally not determinable and therefore the Company determines the discount rate based on its incremental borrowing rate. The incremental borrowing rate for each lease is determined based on its term in which lease payments are made, adjusted for the impacts of collateral. Additionally, the Company makes judgments around contractual asset substitution rights in determining whether a contract contains a lease.

Lease expense for these leases is recognized within the condensed consolidated statements of operations on a straight-line basis over the lease term, with variable lease payments recognized in the period those payments are incurred.

Leases as a Lessor

Bundled Lease Arrangements: A portion of the Company's direct sales of drone systems to end customers are made through bundled lease arrangements which typically include drones and services (deployment and training services), where the customer pays a single negotiated fixed minimum yearly payment for all elements over the contractual lease term. Revenues under these bundled lease arrangements are allocated considering the relative standalone selling prices of the lease and non-lease deliverables included in the bundled arrangement. Consistent with the guidance in ASC 842 and ASC 606, regarding the allocation of fixed and variable consideration, we only consider the fixed payments for purposes of allocation to the lease elements of the contract. The fixed minimum yearly or monthly payments are multiplied by the number of years or months in the contract term to arrive at the total fixed lease payments that the customer is obligated to make over the lease term. The customers do not have an option to purchase the leased assets, nor options to extend/terminate the lease.

The primary accounting provisions the Company used to classify its only lessor lease transaction as operating were: (i) a review of the lease term to determine if it is for the major part of the economic life of the underlying equipment (defined as greater than 75%); and (ii) a review of the present value of the lease payments to determine if they are equal to or greater than substantially all of the fair market value of the equipment at the inception of the lease (defined as greater than 90%). Drones and base placements included in arrangements that do not meet these conditions are accounted for as operating leases with revenue being recognized over the term of the lease. All of the Company's historical revenues from leases have been classified as operating leases.

The Company considers the economic life of most of its products to be five years. There is no significant after-market for our used equipment. The Company believes that five years is representative of the period during which the drone and base is expected to be economically usable, with normal service, for the purpose for which it is intended.

The Company has elected to account for sales tax and other similar taxes collected from a lessee as lessee costs and therefore excludes these costs from contract consideration and variable consideration and present revenue net of these costs.

Effective December 2017, the Company obtained a right of use of manufacturing space located in Newark, California. The lease term commenced May 1, 2018 and expired on June 30, 2021, at which time the lease was amended with a new expiration date of February 14, 2022. The lease was further amended such that the expiration date of the new lease is now February 14, 2026. Monthly lease obligations under the agreement, as amended, include base rent starting at $14,280 per month plus 26.2% of common area operating costs, subject to actual expenses. The base rent escalates contractually over the term of the lease to $14,708 per month beginning August 2023, to $15,150 per month beginning August 2024 and to $15,605 per month beginning August 2025. In addition to the base rent, the Company has agreed to pay additional monthly rent to the "Lawn Area" and "Enclosure" in the amount of $1,700 per month beginning February 2022, $1,751 per month beginning August 2023, $1,804 per month beginning August 2024 and $1,858 per month beginning August 2025. The Company presently has no finance leases and no future obligations under operating leases with initial terms of one year or less.

In October 2017, the Company entered into an agreement to lease a vehicle. The vehicle lease had a term of 48 months, with monthly lease payments, including tax, of $561 per month. The Company accounted for this lease as an operating lease. The Company purchased the vehicle at the end of the lease in October 2021.

Rent expense totaled $108,000 and $83,000 for the six months ended June 30, 2022 and 2021, respectively, and is included in the Company's interim condensed consolidated statements of operations.

The following are the future minimum lease obligations on the Company's facility lease agreement as of June 30, 2022:

Year Ending December 31,	**Lease Obligations**
2022 (remaining six months)	$ 167,790
2023	193,915
2024	199,735
2025	205,739
2026	26,195
Thereafter	-
	$ 799,374

NOTE 14: COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company enters into contracts that contain various representations and warranties and provide for general indemnifications. The Company's exposure under these agreements is unknown because any claims that may be made against the Company in the future have not yet been made. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations and, accordingly, the Company believes that the fair value of these indemnification obligations is minimal and has not accrued any amounts for these obligations.

From time to time, the Company is subject to claims and assessments in the ordinary course of business. The Company is not currently a party to any litigation matters that, individually or in the aggregate, are expected to have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows.

NOTE 15: SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 19, 2022, the date the interim condensed consolidated financial statements were issued. Based on this evaluation, no additional material events were identified which require adjustment or disclosure in these interim condensed consolidated financial statements.

APPENDIX 2

INVESTIGATING ACCOUNTANTS REPORT

Grant Thornton

The Board of Directors
Nightingale Intelligent Security Inc.
8450 Central Ave, Suite 1A
NEWARK CA 94560

Grant Thornton Corporate Finance Pty Ltd
Level 17
383 Kent Street
Sydney NSW 2000
Locked Bag Q800
Queen Victoria Building NSW 1230

T +61 2 8297 2400

26 October 2022

Dear Directors

INDEPENDENT LIMITED ASSURANCE REPORT AND FINANCIAL SERVICES GUIDE

Introduction

This report has been prepared at the request of the directors of Nightingale Intelligent Systems Inc. ("Nightingale" or the "the Company") for inclusion in the Second Supplementary Prospectus dated 26 October 2022 (the "Prospectus") in respect of the initial public offering of fully paid CHESS Depositary Interests in the Company ("the Offer") and admission to the Australian Securities Exchange.

Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance") holds an appropriate Australian Financial Services Licence (AFS Licence Number 247140) under the Corporations Act 2001 for the issue of this report. This report is both an Independent Limited Assurance Report, the scope of which is set out below, and a Financial Services Guide, as attached at **Appendix A**.

Expressions defined in the Prospectus have the same meaning in this report, unless otherwise specified.

Scope

Grant Thornton Corporate Finance has been engaged by the Directors of the Company to perform a limited assurance engagement in relation to the following historical financial information included in Section 1 of the Prospectus:

Statutory Consolidated Historical Financial Information

- The reviewed historical consolidated Statement of Operations and reviewed historical consolidated statement of Cash Flows for the 6 month period ended 30 June 2022 (including the 6 months to 30 June 2021 comparative) which are included in Section 1.1 and Section 1.2 of the Prospectus respectively;
- The reviewed historical consolidated Balance Sheet as at 30 June 2022 which is included in Section 1.3 of the Prospectus;

(together the "Statutory Consolidated Historical Financial Information").

Pro Forma Consolidated Historical Financial Information

- The pro forma historical consolidated Balance Sheet as at 30 June 2022 and the pro forma adjustments applied as at that date which is included in Section 1.4 of the Prospectus.

(the "Pro Forma Consolidated Historical Financial Information")

(together the **Historical Financial Information**)

The Historical Financial Information is presented in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001 (Cth).

The Historical Financial Information have been prepared for inclusion in the Prospectus and has been derived from the audited and reviewed consolidated financial statements of Nightingale Intelligent Systems Inc. and its controlled entities. The consolidated financial statements of Nightingale Intelligent Systems Inc. for the 6 month period to 30 June 2022 were prepared for the purpose of the Prospectus and were reviewed by Grant Thornton Audit Pty Ltd in accordance with Australian Auditing Standards. The review opinion issued to the Directors in relation to reviewed consolidated financial statements included an emphasis of matter in relation to material uncertainty of the Company to continue as a going concern.

The stated basis of preparation is the recognition and measurement principles contained in Generally Accepted Accounting Principles in the United States of America (USGAAP) and the Group's adopted accounting policies.

The Pro Forma Consolidated Historical Financial Information has been derived from the Statutory Consolidated Historical Financial Information after adjusting for the effects of the pro forma adjustments described in Section 1.4 of the Prospectus (the "Pro Forma Adjustments").The stated basis of preparation is the recognition and measurement principles contained in Generally Accepted Accounting Standards in the United States of America and the Company's adopted accounting policies applied to the Pro Forma Adjustments as if those events or transactions had occurred as at the date of the Statutory Consolidated Historical Financial Information. Due to its nature, the Pro Forma Consolidated Historical Financial Information does not represent the Company's actual or prospective financial position, financial performance or cash flows.

Directors' Responsibility

The Directors are responsible for:

- the preparation and presentation of the Statutory Consolidated Historical Financial Information and Pro Forma Consolidated Historical Financial Information including the selection and determination of the pro forma adjustments made to the Statutory Consolidated Historical Financial Information and included in the Pro Forma Consolidated Historical Financial Information; and
- the information contained within the Prospectus.

This responsibility includes for the operation of such internal controls as the Directors determine are necessary to enable the preparation of the Statutory Consolidated Historical Financial Information and the Pro Forma Consolidated Historical Financial Information that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express limited assurance conclusions on the Statutory Consolidated Historical Financial Information and the Pro Forma Consolidated Historical Financial Information based on the procedures performed and evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450: "*Assurance Engagements involving Corporate Fundraisings and/ or Prospective Financial Information".*

A limited assurance engagement consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly we will not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report of the Group used as a source of the financial information.

We have performed the following procedures which we, in our professional judgement, considered reasonable in the circumstances.

Statutory Consolidated Historical Financial Information and Pro Forma Consolidated Historical Financial Information

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of the Statutory Consolidated Historical Financial Information from the audited financial statements of the Group covering FY19, FY20 and FY21 as well as the reviewed financial statements of the Group covering the 6 month period to 30 June 2022.
- consideration of the appropriateness of the pro forma adjustments described in Section 1.2 of the Prospectus;
- enquiry of the Directors, management and others in relation to the Statutory Consolidated Historical Financial Information and Pro Forma Consolidated Historical Financial Information;
- analytical procedures applied to the Statutory Consolidated Historical Financial Information and Pro Forma Consolidated Historical Financial Information;
- a review of the work papers, accounting records and other documents of the Group and its auditors; and
- a review of the consistency of the application of the stated basis of preparation and adopted accounting policies as described in the Prospectus used in the preparation of the Statutory Consolidated Historical Financial Information and Pro Forma Consolidated Historical Financial Information.

Conclusion

Statutory Consolidated Historical Financial Information and Pro Forma Consolidated Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Statutory Consolidated Historical Financial Information and Pro forma Consolidated Historical Financial Information is not presented fairly, in all material respects, in accordance with the stated basis of preparation and (in respect of the Pro Forma Consolidated Historical Financial Information) the event(s) or transaction(s) to which the Pro Forma Adjustments relate, as described in Section 1.4 of the Prospectus, as if those event(s) or transaction(s) had occurred as at the date of the Pro forma Consolidated Historical Financial Information.

Restriction on Use

Without modifying our conclusion, we draw your attention to Section 1 of the Prospectus which describes the purpose of the Financial Information, being for inclusion in the Prospectus. As a result, this Independent Limited Assurance Report may not be suitable for another purpose.

Consent

Grant Thornton Corporate Finance consents to the inclusion of this Independent Limited Assurance Report in the Prospectus in the form and context in which it is included and to being named in the Prospectus as the Investigating Accountant.

Liability

The liability of Grant Thornton Corporate Finance is limited to the inclusion of this report in the Prospectus. Grant Thornton Corporate Finance makes no representation regarding, and has no liability, for any other statements or other material in, or omissions from the Prospectus.

Independence or Disclosure of Interest

Grant Thornton Corporate Finance does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion in this matter. Grant Thornton Corporate Finance will receive a professional fee for the preparation of this Independent Limited Assurance Report.

Yours faithfully,

GRANT THORNTON CORPORATE FINANCE PTY LTD

JONATHAN MATHER

Partner

Grant Thornton Corporate Finance Pty Ltd
Level 17
383 Kent Street
Sydney NSW 2000
Locked Bag Q800
Queen Victoria Building NSW 1230

T +61 2 8297 2400

Appendix A (Financial Services Guide)

This Financial Services Guide is dated 26 October 2022.

1 About us

Grant Thornton Corporate Finance Pty Ltd (ABN 59 003 265 987, Australian Financial Services Licence no 247140) (Grant Thornton Corporate Finance) has been engaged by Nightingale Intelligent Systems Inc. (“Nightingale” or “the Company”) to provide a report in the form of an Independent Limited Assurance Report (the “Report”) for inclusion in a Second Supplementary Prospectus dated 26 October 2022 (the “Prospectus”) relating to the offer of fully paid CDI’s in the Company (the “Offer”). You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2 This Financial Services Guide

This Financial Services Guide (FSG) is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about Grant Thornton Corporate Finance generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3 Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities and superannuation products and deal in a financial product by applying for, acquiring, varying or disposing of a financial product on behalf of another person in respect of securities and superannuation products.

4 General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

5 Fees, commissions and other benefits we may receive

Grant Thornton Corporate Finance charges fees to produce reports, including the Report. These fees are negotiated and agreed with the entity which engages Grant Thornton Corporate Finance to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report, Grant Thornton Corporate Finance will receive from the Company a fee of $165,000 (excluding GST), which is based on commercial rates plus reimbursement of out-of-pocket expenses.

Partners, Directors, employees or associates of Grant Thornton Corporate Finance, or its related bodies corporate, may receive dividends, salary or wages from Grant Thornton Australia Ltd.

None of those persons or entities receive non-monetary benefits in respect of, or that is attributable to, the provision of the services described in this FSG.

6 Referrals

Grant Thornton Corporate Finance - including its Partners, Directors, employees, associates and related bodies corporate - does not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

7 Associations with issuers of financial products

Grant Thornton Corporate Finance and its Partners, Directors, employees or associates and related bodies corporate may from time to time have associations or relationships with the issuers of financial products. For example, Grant Thornton Australia Ltd may be the auditor of, or provide financial services to the issuer of a financial product and Grant Thornton Corporate Finance may provide financial services to the issuer of a financial product in the ordinary course of its business.

In the context of the Report, Grant Thornton Corporate Finance considers that there are no such associations or relationships which influence in any way the services described in this FSG.

8 Independence

Grant Thornton Corporate Finance is required to be independent of Nightingale in order to provide this Report. The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this Report, and have not had within the previous two years, any shareholding in or other relationship with Nightingale Intelligent Systems Inc that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Offer.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Offer, other than the preparation of this Report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this Report. This fee is not contingent on the outcome of the Offer. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the Report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this Report.

9 Complaints

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Australian Financial Complaints Authority (AFCA) (membership no. 11800). All complaints must be in writing and addressed to the Head of Corporate Finance at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to AFCA who can be contacted at:

Australian Financial Complaints Authority

GPO Box 3
Melbourne, VIC 3001
Telephone: 1800 931 678 (free call)

Email: info@afca.org.au

Grant Thornton Corporate Finance is only responsible for the Report and FSG. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

10 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

11 Contact Details

Grant Thornton Corporate Finance can be contacted by sending a letter to the following address:

Head of Corporate Finance

Grant Thornton Corporate Finance Pty Ltd

Level 17, 383 Kent Street

Sydney, NSW, 2000