

ASX Announcement

31 January 2023

Q4 2022 Quarterly Activity Report and Appendix 4C

Autonomous drone security company Nightingale Intelligent Systems, Inc. (**ASX: NGL**) (“**Nightingale**” or the “**Company**”) is pleased to release the following update for the three-month period ending 31 December 2022. The Appendix 4C is prepared in US Dollars and is unaudited.

Q4 2022 Highlights

- Nightingale completed its IPO raising approximately AUD\$5 million (before costs) at AUD \$0.22 per share and listed on the ASX on 18 November 2022.
- Nightingale signed new revenue generating accounts with international companies Haliburton and Iron Mountain, consistent with its “land and expand” sales strategy.
- Various customer subscription lease agreements and maintenance/repair and upgrade contracts were renewed.
- The pipeline for the sale or lease of its Blackbird drone technology remains strong.
- Software engineering talent was hired to help the continuous upgrading of the Blackbird, and develop new features and functionality.
- Revenue was as expected considering the distraction to NGL senior executives to finalize the IPO process

Successful IPO

Despite difficult market conditions towards the end of 2022, Nightingale successfully completed its IPO and listed on the ASX during the quarter.

Nightingale provides unmanned aerial vehicles (UAVs) for commercial applications. The Company is focusing on customers with businesses in the Enterprise, Defence and Emergency Response sectors linked to critical infrastructure locations such as defence sites, data centres and pharmaceutical laboratories.

Nightingale Intelligent Systems, Inc

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Nightingale's flagship product is its "Blackbird UAV", together with the Base Station and Intelligent Mission Control Software.

The Blackbird UAV has been designed to meet security, surveillance and inspection needs of critical infrastructure asset owners and managers. The Blackbird UAV is a fully autonomous quadcopter style aerial vehicle that can fly patrols day and night, in varying weather conditions such as rain and snow, responds to alarms, transmits live video, lands, recharges, communicates, coordinates, and reports maintenance needs.

The Nightingale base station houses, charges, and provides command and control for the Blackbird UAV allowing it to be mission-ready 24/7. When the Blackbird UAV lands on the base station after a mission, it immediately begins charging through contact points in its legs and the gold-plated nickel charging plates on the base station. It takes approximately 45 minutes to recharge the Blackbird UAV to 100%. This contact charging solution has been proven reliable in all sorts of challenging weather environments.

Nightingale RAS is managed by the Company's Intelligent Mission Control Software called Mission Manager, which provides live command and control, actionable intelligence for surveillance, and fleet coordination from anywhere in the world.

In 2021/2022 Nightingale executed a number of technology integrations and partnerships, leveraging these to bolster its proprietary Autonomous Drones to provide an even more complete solution to customers. For example, Nightingale has partnered with advanced radar technology provider, Magos Systems, to enable dispatch of a drone to a triggered event detected from a Magos ground radar unit.

Along a similar vein, Nightingale is helping to advance precision policing solutions through its partnership with gunshot detection system ShotSpotter, enabling dispatch of a drone to a gunshot event for faster response than a patrol car. With a number of significant clients in the Defence industry, Nightingale can now send C2, video, and telemetry data through Harris radio units, innovating a historic method of connectivity used by the armed forces.

Having deployed other bespoke integrations with the likes of ProWatch, Exacqvision, ATAK and Genetec, during 2022 Nightingale plans to continue innovating its solutions with other technological advancements planned for 2023.

New accounts

As announced on 20 December 2022, Nightingale has signed new revenue generating accounts with Haliburton, one the world's largest providers of products and services for the ever-evolving needs of the energy industry; and Iron Mountain, a NYSE-listed enterprise information management services company with a global footprint.



Nightingale has a two-step sales strategy:

1. Focus on large corporate customers which have a tangible requirement for Robotic Aerial Services.
2. “Land and expand” by securing small contracts as an entry point with large customers and increasing both the number of systems deployed and location with each customer.

In addition to generating revenue for Nightingale, the Company believes the new accounts with these two major companies are consistent with Nightingale’s “land and expand” strategy which may give rise to further commercial opportunities with those companies.

Personnel

Two software engineers were added during the quarter, in line with Company’s plans for targeted headcount additions.

Product development

Nightingale’s product development strategy involves customer input and long term tech R&D that focuses on scalability to accommodate customer needs and increasing demand. Areas of R&D focus on beyond visual line of site operations in all weather conditions, enhancing user experience, integration with sensor technology (radar, kinetic sensors, optical sensors at the perimeter) to scale with a variety of customer locations and to increase the value of the existing security technology stack at customer locations via force augmentation (multi-drone operations) and improved situational awareness.

Current notable technologies under development includes onboard sensors to allow mesh networking and R2D2D (relay to drone to drone) for swarm operations and additional AI/ML stack for target detection and identification in inclement weather and nighttime conditions.

Overall, Nightingale’s technology efforts will continue to be consistent with it’s security focus and mission to protect critical infrastructures so we can develop the deepest security related tech stack for drone applications and continue to further differentiate ourselves in the marketplace through our focus.

Industry outlook

The physical security industry regarding defense, emergency response and commercial critical infrastructure is being driven by geo-political tension, increasing crime and progress in AI technology. The culmination of these drivers creates future demand that will require automated solutions to scale with the increased threats.

Industry regulation is an area that has been defined by increase in beyond visual line of sight operations, network connectivity and common operational interface for better interoperability. The regulations are maturing at a faster rate, although there are still barriers to adoption due to the regulation/waiver approval time frame and associated technology development cycle. The overall regulatory environment in the next few quarters will continue the favorable trend of maturing regulations that will reduce adoption friction and increase operational envelope for customers.

The Company believes that the future outlook for the security drone market continues to improve due to market familiarity with the technology through customer education, improving regulatory environment and technology maturity. Increasing customer demand in the robotic aerial security solution driven by increased crime and threat level at critical infrastructures will be an enduring trend for years to come. Nightingale's past experience and current R&D efforts will position the Company to grow both in customer base and revenue.

Use of funds

In accordance with ASX Listing Rule 4.7C2, Nightingale provides the following update on its use of funds against amounts set out in its Second Supplementary Prospectus dated 16 November 2022.

Allocation of funds	Estimated amounts (AUD)(‘000) as per Prospectus	Estimated amounts (USD)(‘000) as per Prospectus	Actual cash outflows incurred from 18 November 2022 to 31 December 2022 (USD)(‘000)
Sales and Marketing	703	443	47
Research and Development	633	398	294
Repayment of Bridge Financing	596	376	351
Costs of the Offer	1,380	869	600
Working capital	1,688	1,064	228
Total	5,000	3,500	1,520

Payments to related parties of Nightingale and their associates

The amounts included in Item 6 of the Appendix 4C relate to CEO salary and non-executive directors' fees for the quarter.



Approved for release by the Board of Directors of Nightingale Intelligent Systems, Inc.

For further information, please contact:

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About Nightingale

Nightingale 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 rapidly airborne to meet the threat. The system is driven by Nightingale's command and control software, which equips security teams with a real-time decision support system to help keep their facilities safe while reducing labor costs.

Forward looking statements

This announcement contains forward-looking statements, which address a variety of subjects including, for example product development, marketing position and technical advances. Statements that are not historical facts, including statements about our beliefs, plans and expectations, are forward-looking statements. Such statements are based on our current expectations and information currently available to management and are subject to a number of factors and uncertainties, which could cause actual results to differ materially from those described in the forward-looking statements. The Company's management believes that these forward-looking statements are reasonable as and when made. However, you should not place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. We do not undertake any obligation to publicly update or revise any forward- looking statements, whether as a result of new information, future events or otherwise, except as required by law or the ASX Listing Rules. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results, events, and developments to differ materially from our historical experience and our present expectations.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Nightingale Intelligent Systems, Inc.

ABN

659 369 221

Quarter ended ("current quarter")

31 December 2022

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (12 months) \$USD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	575	2486
1.2 Payments for		
(a) research and development	537	2100
(b) product manufacturing and operating costs	549	1652
(c) advertising and marketing	67	230
(d) leased assets	0	0
(e) staff costs	0	0
(f) administration and corporate costs	606	1595
1.3 Dividends received (see note 3)	0	0
1.4 Interest received	0	0
1.5 Interest and other costs of finance paid	37	37
1.6 Income taxes paid	10	20
1.7 Government grants and tax incentives	0	0
1.8 Other (provide details if material)	0	0
1.9 Net cash from / (used in) operating activities	-1231	-3148
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	0	0
(b) businesses	0	0
(c) property, plant and equipment	0	0
(d) investments	0	0
(e) intellectual property	0	0
(f) other non-current assets	0	0

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (12 months) \$USD'000
2.2	Proceeds from disposal of:		
	(a) entities	0	0
	(b) businesses	0	0
	(c) property, plant and equipment	0	0
	(d) investments	0	0
	(e) intellectual property	0	0
	(f) other non-current assets	0	0
2.3	Cash flows from loans to other entities	0	0
2.4	Dividends received (see note 3)	0	0
2.5	Other (provide details if material)	0	0
2.6	Net cash from / (used in) investing activities	0	0

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	3779	3779
3.2	Proceeds from issue of convertible debt securities	0	745
3.3	Proceeds from exercise of options	0	0
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-891	-941
3.5	Proceeds from borrowings	0	150
3.6	Repayment of borrowings	-351	-351
3.7	Transaction costs related to loans and borrowings	0	0
3.8	Dividends paid	0	0
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	2537	3382

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	181	1253
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-1231	-3148
4.3	Net cash from / (used in) investing activities (item 2.6 above)	0	0

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (12 months) \$USD'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2537	3382
4.5	Effect of movement in exchange rates on cash held	0	0
4.6	Cash and cash equivalents at end of period	1487	1487

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$USD'000	Previous quarter \$USD'000
5.1	Bank balances	1487	1487
5.2	Call deposits	0	0
5.3	Bank overdrafts	0	0
5.4	Other (provide details)	0	0
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1487	1487

6.	Payments to related parties of the entity and their associates	Current quarter \$USD'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	83
6.2	Aggregate amount of payments to related parties and their associates included in item 2	0
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$USD'000	Amount drawn at quarter end \$USD'000
7.1 Loan facilities	150	150
7.2 Credit standby arrangements	0	0
7.3 Other (please specify)	0	0
7.4 Total financing facilities	150	150
7.5 Unused financing facilities available at quarter end		0
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
United States Small Business Administration EIDL Loan (for COVID-19 relief) received in March 2022. \$150K principal. Payments due monthly over 30 years including interest at a rate of 3.75% per annum Repayment period has not commenced yet.		

8. Estimated cash available for future operating activities	\$USD'000
8.1 Net cash from / (used in) operating activities (item 1.9)	-1231
8.2 Cash and cash equivalents at quarter end (item 4.6)	1487
8.3 Unused finance facilities available at quarter end (item 7.5)	0
8.4 Total available funding (item 8.2 + item 8.3)	1487
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.21
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: No. NGL expects that net cash used in operating activities will improve relative to the current quarter. The current quarter included costs for corporate, legal, accounting, and other advisors that were not directly related to the IPO. Most of these costs will not be recurring in future quarters. NGL expects that the cash from revenues will improve based on current sales proposal activity and interest the Company has seen from potential customers in NGL's sales pipeline. In addition, the IPO process required significant time spent by NGL's senior executives which diverted from sales efforts in the quarter.	

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: In addition to seeing the expected improvements in cashflow described in 8.6.1, NGL is reviewing various options available to raise further cash to fund its operations. NGL believes steps to raise further cash will be successful.

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes. NGL expects to complete its steps necessary to continue its operations and raise further cash as may be required to fund its focus on its target Enterprise, Defence and Emergency Response business linked to critical infrastructure and invest in further research and development enhancements of its Robotic Aerial Security System.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date:

31.01.2023

Authorised by:

The board of directors of Nightingale Intelligent Systems, Inc. Notes

Michael J. Tschidener
Chief Financial Officer

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 107: *Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.