

ASX Announcement

28 April 2023

Q1 2023 Quarterly Activity Report and Appendix 4C

San Francisco, CA – Nightingale Intelligent Systems, Inc. (**ASX: NGL**) (**Nightingale** or the **Company**), a leading provider of advanced security drones, is pleased to release the following update for the three-month period ending 31 March 2023.

All figures in this report and the accompanying Appendix 4C are prepared in US Dollars. The Appendix 4C is unaudited.

Q1 2023 Overview

- Significant new revenue generating distribution and supply contracts, and a technology partnership announced during the quarter with Arvensys Group, CSL Seqirus and Amazon Web Services.
- During the quarter, Nightingale generated a pipeline of new customer opportunities for the sale or lease of Nightingale's AI powered Blackbird Security Drone technology across multiple market sectors.
- Customer contracts for multi-year lease subscriptions signed in the last 12 months together with other customers renewing maintenance, repair and upgrade (MRU) service contracts will generate recurring revenue for Nightingale which will be realised in subsequent quarters.
- The Company reports \$0.2M of revenue in Q1 2023 which is in line with Q1 2022 revenue and reflects the fact that the first quarter of the calendar year is historically Nightingale's slowest quarter for recognized revenue. Full year 2022 revenue was \$2.1M.
- Given Nightingale's cash position of \$0.2M at the end of Q1 2023, the Company has advanced asset-based financing options and activated cost reduction strategies to fund current operations in the short term. The Company is considering equity capital raising options to fund future operations, strengthen its balance sheet and fund further growth initiatives.

Nightingale Intelligent Systems, Inc

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Review of operations

Nightingale provides AI powered RAS (Robotic Aerial Security) drones 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's flagship product is its AI powered Blackbird Security Drone, together with the Base Station and Intelligent Mission Control Software. The Blackbird Security Drone has been designed to meet security, surveillance and inspection needs of critical infrastructure asset owners and managers. The Blackbird Security Drone 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.

During the quarter, Nightingale continued to deliver on its two-step sales strategy:

1. Focus on large corporate customers which have a tangible requirement for Robotic Aerial Security.
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.

Important contracts announced during the quarter included:

Arvensys Group: Nightingale entered an exclusive 5-year distribution agreement for Australia and New Zealand with Arvensys Group (**Arvensys**), a leading distributor of public safety technology in Australia and New Zealand.

The agreement includes a minimum annual purchase obligation on Arvensys for seven complete Blackbird Security Drone systems (hardware, back-ups, maintenance and deployment services) with a yearly aggregate value of AUD\$1.10 million for each year of the agreement. Importantly, Nightingale will generate additional recurring revenue from each system deployed at customer locations in the form of continuing maintenance, repair, and upgrade (MRU) services.

Amazon Web Services: Nightingale entered a partnership with Amazon Web Services (**AWS**) to integrate the sensor data from its Blackbird Security Drone with AWS systems to provide Enterprise and Public Sector clients with a highly advanced data analytics platform for intrusion detection, navigation, and life-safety use-cases.

The Blackbird Security Drone is the first drone to use Amazon's cloud-based AI services to deliver real-time analytics and insights combined with optional payload sensors, including thermal imaging, lidar, and high-definition cameras, for advanced Blackbird detection and advanced navigation for life-safety capabilities.

The Company expects that through this partnership, Nightingale will gain a competitive edge by tapping into AWS's customer base and leveraging AWS's AI/ML capabilities, translating into increased customer engagement, stronger sales pipelines, and new revenue streams for both Nightingale and AWS.



CSL Seqirus: Nightingale has signed an agreement with CSL Seqirus, a subsidiary of CSL, the Australian global biotechnology company. Under the agreement, Nightingale will deploy its flagship Blackbird Security Drone, together with the Base Station and Intelligent Mission Control Software to meet the security, surveillance and inspection needs of one of CSL Seqirus' key pharmaceutical laboratories in the USA. The Robot-as-a-Service deal is an annual subscription for an initial location in the USA, with additional locations to be discussed once the system is operational.

The CSL Seqirus agreement continues to build on Nightingale's blue-chip client base, including Haliburton, LyondellBasell, Iron Mountain and the continuing expansion of the US Air Force account.

Pipeline of new opportunities

In addition to these important contract wins, Nightingale continues to develop a pipeline of significant new opportunities via continuing expansion with existing customers and with new blue-chip and other companies which are currently the subject of ongoing negotiations.

These include:

- an application with a well-established global car manufacturer;
- a significant new US national security application;
- the supply of aerial security for a new critical infrastructure project; and
- a technology partnership which will further enhance and differentiate the Blackbird Security Drone product offering and enable the partners to leverage each other's sales channel to gain broader market access.

Nightingale anticipates further announcements on these contracting developments in the next quarter. However, there is no guarantee that these opportunities will progress to binding contracts.

Financial results

As anticipated, and as experienced in 2022 but further exacerbated by management's required focus on its Q4 2022 IPO, Nightingale's revenues for the first quarter were nominal, but not representative of what the Company expects for full year 2023 based on customer contracts that have been signed, are expected to be signed during the year, and the level of customer interest shown in the Nightingale's sales pipeline activity. In the quarter, \$1.2M of net cash was used for operations – with only very small amounts being used for investing and financing activities.

Cost reduction strategies

In addition to rigorously monitoring all costs, to conserve cash and further align executives and employees with the business, Nightingale's CEO, CTO and CFO as well as all other employees have agreed to a plan to receive stock options in lieu of a portion of their salary cash compensation.

Under the plan, 5,500 options over shares of common stock will be issued for each \$1,000 of salary cash compensation not taken. The exercise price of the options will be the closing price of Nightingale's CDIs on the date of the monthly payroll. The stock options are fully vested on the date of issue and have a term of 10 years after the date of issue. At this stage, Nightingale expects the plan to continue for three months.

Options proposed to be issued to Jack Wu, Nightingale's executive director and CEO in lieu of salary under the plan are subject to shareholder approval under ASX Listing Rule 10.14, which approval the Company will seek at its forthcoming AGM.

Funding strategy

Nightingale's board and management are acutely aware that cash on hand at the end of the quarter is very low.

As a result, and given the Company has no material debt, the Company has developed financing options including factoring of its accounts receivable to accelerate cash receipts, and other asset-based lending arrangements to assist the Company to fund its operating commitments.

In addition, the Company is considering equity capital raising options to fund future operations, strengthen its balance sheet and fund further growth initiatives.

Bridge Financing Facility closed out

In Q4 2022, Nightingale completed its initial public offering on the ASX and in connection with that event, closed out its Bridge Financing Facility with all Bridge Loan Notes being redeemed or converted in accordance with their terms.

Investors who redeemed their Bridge Loan Notes were paid an aggregate amount of \$561,000 in Q4 2022. Investors that elected to convert their Bridge Loan Notes into CDIs converted at a conversion price of A\$0.126 per CDI. A total of 4,222,219 new CDIs were issued to converting investors in Q1 2023. Under ASX Listing Rules, a total of 1,804,036 of those CDIs are escrowed until 5 July 2023.

As a result, Nightingale's only debt as at March 31, 2023, is a \$150,000 term loan with the United States Small Business Administration that was designed as a COVID-19 relief program. The term loan is payable, with interest at 3.75% over 30 years. Repayment has not yet commenced.

Industry outlook

Nightingale believes that the 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.

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 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 16 November 2022 to 31 March 2023 (USD)('000)
Sales and Marketing	703	443	161
Research and Development	633	398	821
Repayment of Bridge Financing	596	376	351
Costs of the Offer	1,380	869	638
Working capital	1,688	1,064	1,048
Total	5,000	3,500	2,703

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:

Jack Wu

CEO

jack@nightingalesecurity.com

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.

Go to: <https://www.nightingalesecurity.com/>

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.

ARBN

659 369 221

Quarter ended ("current quarter")

31 March 2023

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (3 months) \$USD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	133	133
1.2 Payments for		
(a) research and development	-494	-494
(b) product manufacturing and operating costs	-192	-192
(c) advertising and marketing	-114	-114
(d) leased assets	0	0
(e) staff costs	0	0
(f) administration and corporate costs	-523	-523
1.3 Dividends received (see note 3)	0	0
1.4 Interest received	0	0
1.5 Interest and other costs of finance paid	0	0
1.6 Income taxes paid	-1	-1
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	-1191	-1191
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	-10	-10
(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 (3 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	-10	-10

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	0	0
3.2	Proceeds from issue of convertible debt securities	0	0
3.3	Proceeds from exercise of options	0	0
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-38	-38
3.5	Proceeds from borrowings	0	0
3.6	Repayment of borrowings	0	0
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	-38	-38

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1441	1441
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-1191	-1191
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-10	-10

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (3 months) \$USD'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-38	-38
4.5	Effect of movement in exchange rates on cash held	0	0
4.6	Cash and cash equivalents at end of period	202	202

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	202	202
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)	202	202

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	80
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	<p>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.</p> <p>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.</p>		

8.	Estimated cash available for future operating activities	\$USD'000
8.1	Net cash from / (used in) operating activities (item 1.9)	-1191
8.2	Cash and cash equivalents at quarter end (item 4.6)	202
8.3	Unused finance facilities available at quarter end (item 7.5)	0
8.4	Total available funding (item 8.2 + item 8.3)	202
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	0.17
	<p><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></p>	

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. The Company expects that the level of net operating cash flows will improve relative to the current quarter.

In relation to revenue, the Company expects to see increased revenue from sales and leases of its drone units and related services executed in the current quarter and expects to execute on its pipeline of new opportunities with new customers and the continuing expansion with existing customers as outlined in the Quarterly Activity Report.

In relation to costs, in addition to continually evaluating its cost structure to determine if certain costs can be delayed or eliminated without impacting current or prospective customers, the Company has implemented a plan under which all executives and employees have agreed to receive stock options in lieu of a portion of their salary cash compensation. This plan is expected to continue for the second quarter of 2023.

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, the Company has developed financing options including factoring of its accounts receivable to accelerate cash receipts, and other asset-based lending arrangements to assist the Company to fund its operating commitments. In addition, the Company is considering equity capital raising options to fund future operations, strengthen its balance sheet and fund further growth initiatives.

The Company believes these steps to raise further funds 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. Based on the expected improvement in the Company's net operating cashflow, together with the execution of its developed financing options outlined above, the Company expects to be able to continue its operations and to meet its business objectives.

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: 28 April 2023

Authorised by:



Jack Wu
Executive Director and Chief Executive Officer

Notes

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.