

## Q2 2023 Quarterly Activity Report and Appendix 4C

31 July 2023

**ASX: NGL**

San Francisco, CA – Nightingale Intelligent Systems, Inc. (**Nightingale** or the **Company**), a leading provider of advanced security drones, is pleased to release the following update for the three-month period ending 30 June 2023 (**Q2 2023**).

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

### **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.

- **“Land and expand” gaining momentum**

An important piece of Nightingale's strategy is focusing on large corporate customers that have a tangible requirement for Robotic Aerial Security and securing small contracts with such corporates as an entry point.

As Nightingale's drones demonstrate their value to customers as an innovative, comprehensive, and cost-effective security approach, the Company works to deepen its relationships with customers by evolving small initial hardware and software contracts to a “robot as a service” relationship. This focus on “robot as a service” increases Nightingale's annual recurring revenue (ARR) which is the key to driving an improved valuation for the business over time.

Nightingale continues to expand its relationships with key large corporate customers. Notably, during the quarter the Company expanded consulting services and equipment purchases with Haliburton and Iron Mountain.

**Nightingale Intelligent Systems, Inc**

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Whilst the revenue from these expansions is relatively small, the expansions represent a validation of Nightingale's "land and expand" strategy and a vote of confidence in the Company's flagship Blackbird drones and services. The Company believes that there is strong potential for further significant expansion across each customer's numerous sites, in the US and internationally, which could generate significant future revenue streams.

- **Nightingale opening valuable new markets – the "Drone as First Responder" program**

Law enforcement is a key target market for Nightingale's Blackbird drone security systems. Equipped with high-definition cameras and advanced sensors, the Company's drones provide a real-time aerial view of an incident, enabling law enforcement personnel to assess the situation remotely and make informed decisions. Nightingale's recently announced strategic partnership with a leading provider of gunshot detection technologies to integrate their technology with Nightingale's Blackbird drones has particular application in the law enforcement sector.

During the quarter, Nightingale made significant advances towards formal contracts to supply the Company's flagship Blackbird drones together with Base Stations and Intelligent Mission Control Software to both the San Pablo Police Department and the largest police department in the United States.

When finalized, these significant collaborations will mark a major milestone in the advancement of the "Drone as a First Responder" (DFR) market, as Nightingale's cutting-edge solution gains unprecedented exposure and recognition across the law enforcement sector.

Nightingale expects that once formal contracts are entered into, likely in the next quarter, the endorsement of the two police departments, including the largest one in the United States, will serve as a powerful testament to the efficacy of Nightingale's drone security solution, fostering greater trust among potential users and driving accelerated adoption across the DFR landscape. There are around 700 Police Departments in the United States that have more than 100 officers (out of approximately 15,000 total).

- **New technology partnerships significantly improve Nightingale's product and service offering**

Just after the end of the quarter, Nightingale announced a strategic partnership with EAGL Technology, Inc. (EAGL). The partnership brings together Nightingale's AI-powered Blackbird autonomous drones with EAGL's state-of-the-art Gunshot Detection System, enabling unparalleled detect, respond, and verify capabilities in security and law enforcement operations.

The market opportunities presented by the integration are substantial, particularly in critical infrastructures such as transportation hubs, government facilities, industrial complexes, and educational institutions. These sectors require robust security measures to protect against potential threats, and the combined solution offers an innovative, comprehensive, and cost-effective approach.

During the quarter, Nightingale also completed a seamless integration of its drone services with Amazon Web Services' (AWS) AI/ML ecosystem, solidifying its position as a leading provider in the market. The Company announced its technology integration partnership with AWS in Q1 2023.



By leveraging AWS' cutting-edge artificial intelligence and machine learning capabilities, Nightingale's drones are now equipped with enhanced real-time analytics, predictive threat detection, and intelligent decision-making capabilities. This synergy has not only bolstered the effectiveness and efficiency of Nightingale's solution but has also rendered it an attractive offering to large potential customers.

As a result of the AWS integration, Nightingale has gained access to major opportunities with AWS government Department of Defence (DoD) customers. The strategic collaboration has empowered Nightingale Security to address the most demanding security challenges faced by government agencies and military organizations, contributing significantly to the advancement of drone-based security and emergency response solutions.

- **Pipeline of new opportunities remains encouraging**

During the quarter, Nightingale continued discussions with counterparties on significant new opportunities, including an application with a well-established global car manufacturer and a new US national security application.

Nightingale will keep the market informed as and when new contracts are entered into, however there is no guarantee that these opportunities, and the opportunities with the two police departments referred to above, will progress to binding contracts.

## **Financial results**

Q2 2023 revenues were nominal (approximately \$0.3M) and consistent with Q1 2023 but less than expected. Notwithstanding this, the Company is encouraged by the number and type of contracts to be deployed in the last half of 2023. The Company expects substantial customer payments in Q3 2023 which will have a positive effect on its cash position.

In Q1 2023, Nightingale announced a distribution agreement for Australia and New Zealand with Arvensys Group (**Arvensys**). The agreement included a minimum annual purchase obligation on Arvensys with a yearly aggregate value of AUD\$1.10M million for each year of the agreement and an upfront payment for the first year. To date, Arvensys has not made the payments required under the agreement and the Company is in continuing discussions with Arvensys around varying the delivery schedule and payments for drones.

During the quarter, the Company executed loan agreements with two of its directors (a total of \$0.4M) and two executives (a total of \$0.2M) to provide short-term liquidity to the Company. Each agreement provides for a repayment date of 31 August 2023 with a financing cost of 10% of the amount loaned. Other than these loans, the Company has no material debt.

In July 2023, the Company received a refund from the U.S. Internal Revenue Service for certain COVID-related programs which provided \$0.3M of cash.

### **Cost reduction strategies**

In light of the Nightingale's current financial position, all costs continue to be closely managed by the Company.

Nightingale's plan under which market priced stock options are issued to all executives (including Nightingale's CEO) and employees in lieu of a portion of their cash salary, which commenced in March, continued during the quarter and into the July payroll.

Under the plan, 5,500 unlisted options over shares of common stock will be issued to executives and employees 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.

To date, the plan has saved the Company approximately \$0.4M in cash. The Company will evaluate the continuation of the plan in August based on its working capital needs.

### **Funding strategy**

Nightingale's board and management continue to closely monitor the Company's cash position, whilst evaluating broader funding strategies.

The Company continues to investigate debt 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 continues to evaluate equity capital raising options to fund future operations, strengthen its balance sheet and fund further growth initiatives.

The amount and timing of any financing strategies will depend on the timing of customer payments, results of operations, and the market conditions for any such financing.

### **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 defence, 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.

Nightingale expects that 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.

<b>Allocation of funds</b>	<b>Estimated amounts - AUD (‘000) as per Prospectus</b>	<b>Estimated amounts - USD (‘000) as per Prospectus</b>	<b>Actual cash outflows incurred from 16 November 2022 to 30 June 2023 - USD (‘000)</b>
Sales and Marketing	703	443	190
Research and Development	633	398	1,581
Repayment of Bridge Financing	596	376	351
Costs of the Offer	1,380	869	807
Working capital	1,688	1,064	1,144
<b>Total</b>	<b>5,000</b>	<b>3,500</b>	<b>4,089</b>

The funds table above estimated the planned expenditure and use of Nightingale IPO proceeds across business areas. As a technology focused growth company, Nightingale continues to direct a significant proportion of its earnings into research and development.

### 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.

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")**

30 June 2023

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$USD'000</b>	<b>Year to date (6 months) \$USD'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	249	382
1.2 Payments for		
(a) research and development	-301	-795
(b) product manufacturing and operating costs	-40	-232
(c) advertising and marketing	-28	-142
(d) leased assets	0	0
(e) staff costs	0	0
(f) administration and corporate costs	-377	-900
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	-2
1.7 Government grants and tax incentives	0	0
1.8 Other (provide details if material)	0	0
<b>1.9 Net cash from / (used in) operating activities</b>	<b>-498</b>	<b>-1,689</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	0	0
(b) businesses	0	0
(c) property, plant and equipment	0	-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 (6 months) \$USD'000
2.2	Proceeds from disposal of:		
	(a) entities	0	0
	(b) businesses	0	0
	(c) property, plant and equipment	15	15
	(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
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>15</b>	<b>5</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
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	-25	-63
3.5	Proceeds from borrowings	580	580
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)		
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>555</b>	<b>517</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	202	1,441
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-498	-1,689
4.3	Net cash from / (used in) investing activities (item 2.6 above)	15	5



Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (6 months) \$USD'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	555	517
4.5	Effect of movement in exchange rates on cash held	0	0
4.6	<b>Cash and cash equivalents at end of period</b>	<b>274</b>	<b>274</b>

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	274	202
5.2	Call deposits	0	0
5.3	Bank overdrafts	0	0
5.4	Other (provide details)	0	0
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>274</b>	<b>202</b>

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	48
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>		

<b>7.</b>	<b>Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	<b>Total facility amount at quarter end \$USD'000</b>	<b>Amount drawn at quarter end \$USD'000</b>
7.1	Loan facilities	150	150
7.2	Credit standby arrangements	0	0
7.3	Other (detailed below)	580	580
7.4	<b>Total financing facilities</b>	730	730
7.5	<b>Unused financing facilities available at quarter end</b>		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>USD\$150,000: 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> <p>USD\$580,000: Short-term notes payable to certain Directors and management. \$580K loaned with a finance charge of 10% of loan value plus principal due on 31 August 2023.</p>		

<b>8.</b>	<b>Estimated cash available for future operating activities</b>	<b>\$USD'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	-498
8.2	Cash and cash equivalents at quarter end (item 4.6)	274
8.3	Unused finance facilities available at quarter end (item 7.5)	0
8.4	Total available funding (item 8.2 + item 8.3)	274
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	0.55
	<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. The Company expects that the level of net operating cash flows will improve relative to the current quarter.

In relation to revenue/cash receipts from customers, the Company expects to see increased revenue and collections from sales and leases of its drone units and related services based on contracts signed, expected to be signed and the pipeline of new opportunities with new customers and the continuing expansion with existing customers as outlined in the Quarterly Activity Report.

In July 2023, Nightingale received approximately \$0.3M in COVID-19 employer tax credit refunds from the U.S. Internal Revenue Service for payroll tax returns filed in previous years.

In relation to costs, in addition to continually evaluating and managing its cost structure to delay or eliminate expenditures 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 was implemented in March 2023 and continues in place through the July 2023 payroll.

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 cash received in July, and the further 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: 31 July 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.