

## Q3 2023 Quarterly Activity Report and Appendix 4C

31 October 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 September 2023 (**Q3 2023**).

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

### Q3 2023 Highlights

- Nightingale signed an expansion contract to supply more of its AI powered Blackbird Security Drones (**Blackbird Drones**) to the San Pablo Police Department in California as part of the Company's "Drone as First Responder" strategy.
- Nightingale is also close to announcing a new contract to supply its Blackbird Drones to the largest police department in the United States which the Company believes will drive the accelerated adoption of Nightingale's drone systems across police departments, tapping into a significant addressable market for the Company.
- Expansion contract signed with the US Air Force to supply further Blackbird Drones at an air force base. In addition, another contract was signed in October 2023 for supply of Blackbird Drones at a second USAF base.
- Technical partnership to integrate radar functionality to Nightingale's Blackbird Drone platform well advanced during the quarter.
- Partnership with a US security monitoring firm which would combine their monitoring services with Nightingale's Blackbird Drones to provide customers with an attractive total security solution also moved forward during the quarter.
- During the quarter, Nightingale continued to drive its pipeline of attractive opportunities including contract discussions with a US based mass media and entertainment conglomerate to provide facilities security and steps towards finalising a contract with a well-established global car manufacturer.
- Positive operating cashflows during the quarter of \$1.38M resulting in net cash from operating activities of \$0.46M.

**Nightingale Intelligent Systems, Inc**

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### **San Pablo Police Department contract**

Law enforcement is a key target market for Nightingale's Blackbird Drone. During the quarter, Nightingale announced that the San Pablo Police Department (**SPPD**) in California has invested in two additional Blackbird Robotic Aerial Security (**RAS**) systems, bringing their total to five systems. The systems will further improve citywide drone coverage and enhance SPPD's pioneering Drone as a First Responder (**DFR**) program. Nightingale's state-of-the-art RAS system, which seamlessly integrates with the SPPD's operational framework, will be deployed in Q4 2023 and Q1 2024.

Significantly, as part of the expansion, SPPD will start hosting other US law enforcement agencies at their facility to showcase their DFR program and the dynamic partnership with Nightingale, highlighting the Company's commitment to advancing public safety and elevating situational awareness for law enforcement officers during critical incidents.

### **New contract with the largest police department in the United States**

Nightingale also expects shortly to make a further announcement in relation to a formal contract to supply the Company's flagship Blackbird Drones together with Base Stations and Intelligent Mission Control Software to the largest police department in the United States.

Nightingale believes that the expansion with SPPD and its anticipated new contract with the US's largest police department will foster greater trust among potential law enforcement users and drive accelerated adoption of Nightingale's drone systems across the DFR landscape in the USA and overseas.

The Company believes there is a significant and highly addressable market in law enforcement for Nightingale's drone security systems. The SPPD has around 50 officers. Of the approximately 15,000 police departments in the USA, around 3,000 have 50 officers or more, and 700 have over 100 officers.

### **US Air Force expansion**

During the quarter, the Company signed a second contract with the United States Air Force to supply its Blackbird Drones at an air force base, representing a strong endorsement of the Company's flagship Blackbird Drones and services. Also, in October 2023, a contract was signed for a second base.

These expansions continue to validate Nightingale's "land and expand" strategy under which Nightingale's drones demonstrate their value to customers as an innovative, comprehensive, and cost-effective security solution, and the Company works to deepen its relationships with customers by evolving small initial hardware and software contracts to a "robot as a service" relationship.

The Company believes that there is strong potential for further expansion across many existing customers' sites and is working to develop these opportunities. The Company expects to sign follow-on contracts with other existing corporate customers in Q4 2023.



### **Radar to be added to the suite of Blackbird Drone features**

Nightingale is also working with a new technical partner to integrate radar into its Blackbird Drone technology to detect low flying aircraft during the night time and significantly improve inclement weather operations.

Currently, Nightingale's drones have optical sensors for daytime detection of low flying aircraft. The planned addition of radar is an important feature for police departments using DFR programs. In addition, radar is an important step towards Beyond Visual Line of Sight (**BVLOS**) approvals for the Company's Blackbird Drones from the US Federal Aviation Administration.

If finalised, this technical development will add to previously announced technology partnerships with EAGL Technology, Inc. (**EAGL**) to bring together Nightingale's Blackbird Drones with EAGL's state-of-the-art Gunshot Detection System and the integration of Nightingale's drone services with Amazon Web Services' AI/ML ecosystem.

### **Partnership to offer total security solutions to large corporate and government customers**

The Company is in discussions with a US security monitoring firm to combine their monitoring services with Nightingale's Blackbird Drones. Nightingale regards this potential partnership as a important development, as, if finalised, it will enable the Company to provide customers with a one-stop-shop for a complete autonomous security drone & 24/7 monitoring solution.

Nightingale will keep the market informed as and when new material contracts are entered into, however there is no guarantee that this proposed partnership will progress to a binding contract.

### **Pipeline of new opportunities remains encouraging**

During the quarter, Nightingale moved towards the finalisation of an application with a well-established global car manufacturer. The Company is also in discussions with a US based mass media and entertainment conglomerate to provide its Blackbird Drones for studio and theme park security.

Nightingale will keep the market informed as and when new material sales contracts are entered into, however there is no guarantee that these opportunities will progress to binding contracts.

### **Positive operating cashflows during the quarter**

The Company reported positive operating cashflows during the quarter of \$1.38M resulting in net cash from operating activities of \$0.46M. The Company's net operating cash flows were positively impacted by \$1.2M of customer prepayments at the commencement of certain contracts. In addition, a one-time refund of approximately \$0.3M in COVID-19 employer tax credit refunds was received from the U.S. Internal Revenue Service.

Most of the prepayments were for Nightingale systems or services which were not delivered by 30 September 2023 and therefore no revenue has been recognized yet. Q3 2023 revenues were less than expected at approximately \$0.2M as the timing of customer contracts being awarded was delayed. Substantial contracts were awarded in Q3 2023 but not in time for systems to be delivered and deployed in the quarter. Deliveries and deployments are expected to occur in Q4 2023 and Q1 2024.

### **Funding and cost reduction strategies**

Nightingale's board and management closely monitor the Company's cash position and cost base, whilst evaluating broader funding strategies. The Company continues to investigate debt financing options, including 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.

During the quarter, the Company repaid (along with a 10% financing cost), a \$30K short term, unsecured loan advanced by an executive of the Company and extended short term, unsecured loans advanced by another executive and two directors totaling approximately US\$0.6M, together with a financing cost of 10% of the amount loaned. The new repayment date for these remaining loans is November 30, 2023.

In relation to costs, the Company continues to evaluate and manage its cost structure to delay or eliminate expenditures, without impacting current or prospective customers. Following the August payroll, the Company ended its salary cost reduction plan under which market priced stock options were issued to all executives (including Nightingale's CEO) and employees in lieu of a portion of their cash salary. Under the plan, which the Company operated from March to August 2023, the Company saved approximately \$0.6M in cash and issued 2,250,753 fully vested ten-year options over US shares of common stock with exercise prices ranging from US\$0.029 to US\$0.057 per option.

### **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 (**Prospectus**).

Readers should note that the use of funds table included in the Prospectus only addressed how the company proposed to expend the IPO funds (AUD\$5M/USD\$3.5M). The Company is successfully generating revenue from its operations and continues to invest across its business, in particular in relation to research and development. This is why actual cash expenditure (column 3) is significantly above the amount of funds the Company allocated to research and development from the IPO funds.

<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 September 2023 - USD (‘000)</b>
Sales and Marketing	703	443	223
Research and Development	633	398	1,990
Repayment of Bridge Financing	596	376	351
Costs of the Offer	1,380	869	857
Working capital	1,688	1,064	2,075
<b>Total</b>	<b>5,000</b>	<b>3,500</b>	<b>5,496</b>

#### **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.

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

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#### **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 September 2023

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$USD'000</b>	<b>Year to date (9 months) \$USD'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	1379	1761
1.2 Payments for		
(a) research and development	-400	-1195
(b) product manufacturing and operating costs	-328	-560
(c) advertising and marketing	-33	-175
(d) leased assets	0	0
(e) staff costs	0	0
(f) administration and corporate costs	-493	-1393
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	-3
1.7 Government grants and tax incentives	0	0
1.8 Other (provide details if material) (Refund of COVID program payroll taxes previously paid)	337	337
<b>1.9 Net cash from / (used in) operating activities</b>	<b>461</b>	<b>-1228</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

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (9 months) \$USD'000
	(e) intellectual property	0	0
	(f) other non-current assets	0	0
2.2	Proceeds from disposal of:		
	(a) entities	0	0
	(b) businesses	0	0
	(c) property, plant and equipment	0	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
2.6	<b>Net cash from / (used in) investing activities</b>	<b>0</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	1	1
3.4	Transaction costs related to issues of equity securities or convertible debt securities	0	-63
3.5	Proceeds from borrowings	0	580
3.6	Repayment of borrowings	-30	-30
3.7	Transaction costs related to loans and borrowings	-3	-3
3.8	Dividends paid	0	0
3.9	Other (provide details if material)		
3.10	<b>Net cash from / (used in) financing activities</b>	<b>-32</b>	<b>485</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	274	1441
4.2	Net cash from / (used in) operating activities (item 1.9 above)	461	-1228



Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (9 months) \$USD'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	0	5
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-32	485
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>703</b>	<b>703</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	703	274
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>703</b>	<b>274</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	85
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.</i> <i>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)	550	580
7.4	<b>Total financing facilities</b>	700	730
7.5	<b>Unused financing facilities available at quarter end</b>		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.		
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.			
USD\$550,000: Short-term notes payable to certain Directors and management. \$550K loaned with a finance charge of 10% of loan value plus principal due on 30 November 2023. \$30K of short-term notes payable were repaid in Q3 2023.			

<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)	461
8.2	Cash and cash equivalents at quarter end (item 4.6)	703
8.3	Unused finance facilities available at quarter end (item 7.5)	0
8.4	Total available funding (item 8.2 + item 8.3)	703
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	N/A
<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?	
N/A		
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?	
N/A		

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?

N/A

*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 October 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.