



## Q4 2023 Quarterly Activity Report and Appendix 4C

31 January 2024

**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 31 December 2023 (**Q4 2023**) which is also Nightingale's financial year end.

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

### Q4 2023 Highlights

- Nightingale was contracted to supply its AI-powered Blackbird Security Drone systems to the largest Police Department in the United States under a significant three-year purchase and services contract. The Company believes this transformative partnership will greatly enhance the Company's market position and drive future growth for the Company.
- The Company delivered multiple Blackbird Drone systems under its expansion contracts with the US Air Force further validating Nightingale's "land and expand" strategy to grow its business with existing customers.
- Nightingale continued to deliver on its pipeline of attractive opportunities by finalising supply contract negotiations with global car manufacturer Volvo and mass media and entertainment conglomerate Universal Studios. Contracts are expected to be executed in Q1 2024.
- Nightingale reported positive operating cashflows during the quarter of \$0.1M.
- Technical integration of leading-edge radar technology into Nightingale's Blackbird Drones commenced during the quarter. This is an important step towards Beyond Visual Line of Sight (BVLOS) approvals for the Company's drones from the US Federal Aviation Administration which the Company expects will drive further sales growth and solidify its market leading position.
- Nightingale expects to close commercial partnership negotiations in Q1 2024 between the Company and a US security monitoring firm to combine their monitoring services with Nightingale's Blackbird Drones to provide large corporate and government customers with an attractive total security solution.

**Nightingale Intelligent Systems, Inc**

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### **New contract with the largest Police Department in the United States**

Law enforcement is a key target market for Nightingale's Blackbird Drones. During the quarter, Nightingale announced it would be installing its Blackbird Security Drones across a number of the Police Department's precincts in the city. Installation commenced during the quarter and is expected to be completed in the first half of 2024.

The Blackbird Drones will act as a force multiplier to the human police force and will substantially enhance the Police Department's ability to respond to emergencies, offering greater distance coverage, shorter response times, and augmented situational awareness of critical incidents.

In addition to the significant sales and service revenue, Nightingale will generate additional recurring revenue from each Blackbird Drone system deployed in the form of continuing maintenance, repair, and upgrade services.

The Company believes there is a significant and highly addressable market in law enforcement for Nightingale's AI-powered Blackbird Drones. Of the approximately 15,000 police departments in the USA, around 3,000 have 50 officers or more, and 700 have over 100 officers.

The contract with the largest US Police Department builds on Nightingale's successful deployment of its AI-powered Blackbird Drone systems to the San Pablo Police Department announced in September 2023. The Company considers that both partnerships will help accelerate the adoption of Nightingale's Blackbird Drone systems across multiple other US police departments and overseas law enforcement agencies, tapping into a significant addressable market for the Company.

### **Delivery into US Air Force expansion**

Military applications for Nightingale's AI-powered Blackbird Drone systems are also a key target market for the Company.

During the quarter, Nightingale continued to execute on its "land and expand" strategy under which Nightingale's drones demonstrate their value to customers as an innovative, comprehensive, and cost-effective security solution, as 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 delivered drone systems to a US Air Force base (the second such delivery to this base) and believes that there is strong potential for further expansion across many existing customers' sites and is working to develop these opportunities. The Company entered into a separate contract with a second US Air Force base for the delivery of drone systems and software development services in 2024.

### **Nightingale delivering on its pipeline opportunities**

Nightingale expects to confirm in Q1 2024 a supply contract for its Blackbird Drone system with global car manufacturer Volvo and a supply contract for theme park security with Universal Studios.

Whilst the revenue from these new contracts is relatively small, Nightingale strongly believes that it can grow sales through successfully executing on its "land and expand" strategy with these global

businesses, as it has demonstrated with other customers such as the US Air Force, Halliburton, and LyondellBasell.

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

The Company reported positive operating cashflows during the quarter of \$0.1M. The Company's net operating cash flows were positively impacted by \$0.6M of customer prepayments at the commencement of certain contracts and collection of a \$0.6M billing for drone systems delivered in the fourth quarter.

The prepayments were for Nightingale systems or services which were not delivered by 31 December 2023 and therefore no revenue has been recognized yet. Q4 2023 revenues were significantly greater than prior quarters of 2023 but still impacted by delays in the timing of customer contracts being awarded and drone systems able to be deployed. However, the Company already has approximately \$1.7M of contracts awarded that will be deployed in 2024 and revenue recognized in 2024.

In Q1 2023, Nightingale announced a distribution agreement for Australia and New Zealand with Arvensys Group (**Arvensys**) with a significant minimum annual purchase obligation. To date, Arvensys has not made the payments required under the agreement and no drone systems have been delivered. Notwithstanding negotiations to assist Arvensys around varying the delivery schedule and payments for drones, the Company has ended its contractual relationship with Arvensys and will seek new commercial partners in Australia and New Zealand.

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

Nightingale commenced the integration of Matrix Radar's MatrixSpace Radar into Nightingale's Blackbird Drone systems during the quarter. The addition of Matrix's leading-edge 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.

BVLOS approval is important because it will allow the Company's customers to expand their use of Nightingale's drones to remote sites where there are currently no human guards to operate the system.

Nightingale continues to add technical features to its AI-powered Blackbird Drone systems, such as MatrixSpace Radar and EAGL Technology, Inc.'s state-of-the-art Gunshot Detection System to solidify its market leading position.

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

During the quarter, the Company advanced negotiations with a US security monitoring firm to combine their monitoring services with Nightingale's Blackbird Drones and the Company now expects to close the commercial partnership in Q1 2024. Nightingale regards this potential partnership as a important development, as, when 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 negotiations will progress to a binding contract.

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

Nightingale's board and management continues to closely monitor the Company's cash position and cost base, whilst evaluating broader funding strategies. The Company continues to investigate debt financing options 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 continued to have outstanding short term, unsecured loans advanced by an executive, a director and a former director totaling approximately US\$0.6M, together with a financing cost of 10% of the amount loaned. The repayment date for these remaining loans was 30 November 2023 and is being extended further to at least the end of February 2024.

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.

### **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, inventory purchases and customer deployment and support resources. 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 31 December 2023 - USD (‘000)</b>
Sales and Marketing	703	443	330
Research and Development	633	398	2,447
Repayment of Bridge Financing	596	376	376



Costs of the Offer	1,380	869	897
Working capital	1,688	1,064	2,822
<b>Total</b>	<b>5,000</b>	<b>3,500</b>	<b>6,872</b>

#### **Payments to related parties of Nightingale and their associates**

The amounts included in Item 6 of the Appendix 4C relate to Executive Director salaries (for Nightingale's CEO and CTO) 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:**

##### **North America**

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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")**

31 December 2023

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$USD'000</b>	<b>Year to date (12 months) \$USD'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	1311	3072
1.2 Payments for		
(a) research and development	-420	-1615
(b) product manufacturing and operating costs	-401	-961
(c) advertising and marketing	-96	-271
(d) leased assets	0	0
(e) staff costs	0	0
(f) administration and corporate costs	-285	-1678
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	-4
1.7 Government grants and tax incentives	0	0
1.8 Other (provide details if material) (Refund of COVID program payroll taxes previously paid)	0	337
<b>1.9 Net cash from / (used in) operating activities</b>	<b>108</b>	<b>-1120</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 (12 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	0	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	-0	-30
3.7	Transaction costs related to loans and borrowings	0	-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>0</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	703	1441
4.2	Net cash from / (used in) operating activities (item 1.9 above)	108	-1120



Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (12 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)	0	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>811</b>	<b>811</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	811	703
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>811</b>	<b>703</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	94
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	550
7.4	<b>Total financing facilities</b>	700	700
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 a Director, an ex-Director and a management executive. \$550K loaned with a finance charge of 10% of loan value plus principal was due on 30 November 2023 and is currently in the process of being extended to February 28, 2024 at the earliest.		

<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)	108
8.2	Cash and cash equivalents at quarter end (item 4.6)	811
8.3	Unused finance facilities available at quarter end (item 7.5)	0
8.4	Total available funding (item 8.2 + item 8.3)	811
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 January 2024

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.