



# Q1 2024 Quarterly Activity Report and Appendix 4C

30 April 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 March 2024 (**Q1 2024**).

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

## Q1 2024 Highlights

- Nightingale continued to deliver on its “land and expand” strategy to grow revenues with existing customers, including adding a third site for a global petrochemical company, renewing a second year purchase order from a large industrial customer; and additional deployments to further USAF bases planned for later in the year.
- The Company also continued to grow its attractive development pipeline during the quarter, targeting the huge US correctional facilities market and the expanding private luxury gated community market, among others, for its Blackbird Security Drones.
- Initial deployment of Nightingale's AI-powered Blackbird Security Drones to the largest Police Department in the United States occurred during the quarter with the drones planned to be operational by June.
- Nightingale closed a commercial partnership between the Company and Titan Monitoring, a US based 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 reported negative operating cashflows during the quarter of \$(1.0M) but has strengthened its cash position since the end of the quarter by completing \$0.3M in new funding in April 2024.
- The board is working diligently to resolve the going concern accounting issues which led to the suspension of trading in the Company's listed securities.



### **“Land and expand” strategy continues to deliver**

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.

“Land and expand” wins during the quarter include a third site for a global petrochemical company, a renewed purchase order from a large industrial customer; and additional deployments to further USAF bases planned for later in the year.

### **Nightingale pipeline opportunities are promising**

In addition to expecting installation of Blackbird systems previously sold and largely paid for by customers in 2023 (approximately \$1.5M of won contracts are expected to be installed and recognized as revenue in 2024), the Company’s pipeline of sales opportunities continues to be robust across defense, municipal law enforcement and correctional facilities, and industrial customers.

Nightingale has identified the US correctional facilities market as a huge and highly addressable market for its leading security drones. The US has over 1,600 state and federal correctional facilities and during the quarter Nightingale progressed commercial discussions with two US state corrections departments for the deployment of multiple drone systems to two facilities and delivered corresponding sales proposals.

The provision of Nightingale’s drone-based security services to the expanding US private luxury gated community market also gained traction during the quarter. There are over 25,000 luxury gated communities in the US which also represents an exciting potential market.

### **Deployment of drones to the largest US Police Department underway**

As detailed in the last quarterly report, Nightingale secured contracts to install its Blackbird Security Drones across a number of the city precincts of the largest US Police Department. Nightingale believes this transformative partnership will greatly enhance the Company’s market position and drive future growth for the Company.

Deployment of the drone systems across the designated precincts has progressed smoothly during the quarter with the drones planned to be operational by June.

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.

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

As foreshadowed in the last quarterly report, during the quarter, the Company signed a partnership agreement with Titan Monitoring, a US security monitoring firm to combine their monitoring services with Nightingale's Blackbird Drones. Nightingale regards this partnership as an important development, as 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 arise from this partnership.

### **Negative operating cashflows during the quarter**

The Company reported negative operating cashflows during the quarter of \$(1.0M). The Company's net operating cash flows reflect the significant customer prepayments that were made in Q4 2023 that resulted in positive operating cashflow for that quarter. In Q1 2024, the Company purchased some of the inventory components, coordinated the service delivery needed to support the contracts won in 2023 that will largely be delivered in the remainder of 2024, and incurred research and development, sales and marketing, and general and administrative expenses. No deployments for Nightingale systems were completed in Q1 2024. Similar to Q1 2023, customer payments were not significant at \$237K. This compares to \$133K in the first quarter of 2023, which historically is the Company's slowest cash collections quarter.

The 2023 prepayments were largely for Nightingale systems or services which were not delivered by 31 March 2024 and therefore no material revenue has been recognized yet. However, the Company has approximately \$1.5M of contracts previously awarded that will be deployed in future periods with a significant portion of this \$1.5M being recognized in 2024.

During the quarter the Company completed a \$250k financing, comprising the issue of convertible notes to Titan Monitoring. The material terms of the convertible notes (**Convertible Notes**) include:

- a two-year term;
- unsecured;
- interest rate of 15% p.a.;
- principal and interest paid on maturity; and
- conversion at the option of the note holder into CDIs at a price equal to the higher of USD\$0.03 per CDI or 80% of the VWAP of CDIs for the 10-day trading period immediately preceding conversion.

Given the negative operating cash flows for the quarter, following the end of the quarter, the Company also completed a \$300k funding round, comprising \$50k in convertible notes from an unrelated party and USD\$250k in loans from directors, key management personnel and unrelated parties.

The \$50k in convertible notes had the same terms as the Convertible Notes and also included a term that the note holder be issued with 150,000 unlisted options over CDIs (with a 10-year term and exercise price of USD\$0.08 per option) and 15,000 fully paid CDIs (together **Bonus Securities**).

The terms of the loans from key management personnel and unrelated parties include:

- a loan amount of USD\$50k each;
- a financing fee of 10%;
- repayment of the loan amount and financing fee by the later of 30 days following the Company's forthcoming AGM or 30 June 2024;
- at the option of the lender and subject to shareholder approval, the loan and financing fee can be used to subscribe for \$50k in Convertible Notes;
- if the lender subscribes for the Convertible Notes, it will also be issued with the Bonus Securities; and
- the loans are secured by all Nightingale's assets.

The terms of the loans from Nightingale directors Alan Braverman and Tony Zhang are the same as the loans from key management personnel and unrelated parties except that the loans are not secured. Shareholder approval for each loan and financing fee to be used to subscribe for \$50k in Convertible Notes on the terms above will be sought at the Company's forthcoming AGM.

### **Funding 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.

### **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 March 2024

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$USD'000</b>	<b>Year to date (3 months) \$USD'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	237	237
1.2 Payments for		
(a) research and development	-462	-462
(b) product manufacturing and operating costs	-335	-335
(c) advertising and marketing	-38	-38
(d) leased assets	0	0
(e) staff costs	0	0
(f) administration and corporate costs	-394	-394
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
<b>1.9 Net cash from / (used in) operating activities</b>	<b>-993</b>	<b>-993</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	0
(d) investments	0	0
(e) intellectual property	0	0
(f) other non-current assets	0	0

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (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
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>0</b>	<b>0</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	3	3
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-37	-37
3.5	Proceeds from borrowings	250	250
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>216</b>	<b>216</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	811	811
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-993	-993
4.3	Net cash from / (used in) investing activities (item 2.6 above)	0	0

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (3 months) \$USD'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	216	216
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>34</b>	<b>34</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	34 *	811
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>34</b>	<b>811</b>

\* Following the end of the quarter, the Company completed a \$0.3M funding round as detailed in the quarterly report

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	170
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)	800	800
7.4	<b>Total financing facilities</b>	950	950
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\$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 due on May 31, 2025.</p> <p>USD \$250,000: Convertible Note. 2 year term. 15% interest accrues to maturity. Principal and interest convertible into NGL CDI's as provided for in the Convertible Note term sheet.</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)	-993
8.2	Cash and cash equivalents at quarter end (item 4.6)	34
8.3	Unused finance facilities available at quarter end (item 7.5)	0
8.4	Total available funding (item 8.2 + item 8.3)	34
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	< 1 quarter
	<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	<p>If item 8.5 is less than 2 quarters, please provide answers to the following questions:</p> <p>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?</p> <p>The Company expects net operating cash flows to improve as customer payments are received upon contract signings, and funds from ongoing financing efforts are received. To date in the second quarter of 2024, \$250K of funds through the issuance of Convertible Notes has been received and following the end of the quarter \$300K in funding through Convertible Notes and loans has been received.</p>	

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?

Yes, as discussed above, \$0.3M of financing has been received in April 2024 and further efforts to raise funding through debt and/or Convertible Note offerings is underway. The sales pipeline remains strong. Cash receipts from customers in the first quarter of 2024 were low as was the first quarter of 2023. In 2023, cash receipts increased substantially in the last 6 months of the year, and the Company expects the same in 2024 as the Company's defense and municipal customers' budget approval and procurement cycle is similar to the prior years.

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?

If customer payments and financing efforts are successful, the Company expects to be able to continue its operations in the normal course. If funds are delayed, or not received, the Company could need to curtail certain of its operations.

*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: 30 April 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.