

ASX RELEASE

Quarterly Update

- Flamingo Ai continues to shift focus to newer products LIBBY & MAGGIE
- CUA Health signed contract extension including Monthly Subscription fee
- Nationwide signed contract for Machine Learning analytics application LIBBY
- Stronger sales pipeline in the US and Australia with contracts in advanced discussion
- Cash outflows significantly reduced from the September quarter
- Further reduction in cash outflows planned for the March quarter and beyond
- Achievement of global standard SOC2 Type 2 certification
- Management team and board strengthened

SYDNEY, 30 January 2019, Flamingo Ai Limited (“Flamingo” or “the Company”) (ASX: FGO), the Artificial Intelligence and Machine Learning company, provider of Machine Learning based Analytics, Knowledge Retrieval and Cognitive Virtual Assistant technologies, is pleased to provide the following Quarterly update.

Commercial Update

Q2FY19 was a challenging quarter for Flamingo Ai. Sales and cash receipts were lower than expected, and the financial goals the business set at the beginning of the calendar year were not met.

The Company concluded a product-market fit assessment of its existing products, and as a result the focus of initial engagements with enterprise clients shifted from ROSIE, the Virtual Sales Assistant, to newer Machine Learning based products LIBBY, the Business Analytics or Self-Organising Library product, and MAGGIE, the Virtual Knowledge Assistant.

ROSIE continues to be an important part of the product suite, but requires longer sales cycle, relatively complex integration, and a longer ROI timeframe for the client to assess commercial value. LIBBY and MAGGIE on the other hand, are quick to stand-up (MAGGIE can be deployed in a matter of days) and are both attracting strong market interest. These are often a logical first step with clients, with additional LIBBY, MAGGIE and ROSIE deployments likely as stage 2 implementations.

MAGGIE, like ROSIE, operates under a traditional Software as a Service (SaaS) model, with a monthly subscription, and potential additional usage, revenue share or cost efficiency share variables. LIBBY can also operate under the SaaS model, or could be a single or series of distinct & sophisticated business intelligence projects that guide client strategy on future MAGGIE or ROSIE deployments.

The product-market fit assessment has been a costly yet necessary & highly valuable process for the business to go through. Encouragingly the decision to shift product focus has been validated by the development of a stronger pipeline of potential LIBBY and MAGGIE deployments. The Company closed the quarter with qualified discussions at senior level with multiple major organisations in the US and Australia, and submitted proposals are significantly up (by 100%) compared to the end of Q1FY19. Some are with existing customers however the majority are new customer opportunities. The Company has also now expanded its market focus from insurance into other financial sectors such as banking, investment and superannuation.

During Q2FY19 one new client from the banking sector signed up for a paid MAGGIE trial, and existing client Nationwide signed a Statement of Work for a LIBBY product. In addition, the Company signed an extension of contract with CUA that includes a Monthly Subscription fee for the Virtual Sales Assistant for CUA’s Health Insurance business that they call ‘Sam’. While none of these new sales were material they support the Company’s revised commercialisation strategy.

The strategic partnership with EXL Service Holdings, Inc. (NASDAQ: EXLS) has made limited progress during the quarter, and has yet to result in a customer engagement, although there have been promotional activities with existing and prospective clients of EXL. We will be reviewing how we can make this partnership more effective during Q3 FY19. The Clarion Group partnership in the US market remains strong and Clarion is actively introducing the Company into prospective clients with joint proposals having been made. The Company is also progressing various discussions with other global technology partners who could provide a channel to market for the Company's technology.

Current Client Implementations

The Company has 12 current engagements across the US, Australia and Asia where products are at various stages of implementation. Table 1 summarises the current status.

Table 1: FGO Client Status

STAGE	Q1FY19 Engagements	Q2FY19 Engagements	Progress on prior quarter
MRR	1	2	Nationwide existing MRR; CUA progressed from paid trial to MRR
Paid trial	5	3	Two new clients in paid trials, including Nationwide LIBBY and one new client: one client remains in trial
Paid review	2	2	Two clients continue assessing Use Cases
Concluded trial/review	2	5	Three clients concluded trials and are reviewing new Use Case proposals, including Liberty Mutual; two clients concluded and reviewing next steps.
	10	12	

Table 2: - Cash receipts and revenue

STAGE	Q1FY19 Cash receipts \$A'000	Q2FY19 Cash receipts \$A'000	Q1FY19 Revenue \$A'000	Q2FY19 Revenue \$A'000
MRR	137	25	81	89
Paid trial	34	96	60	40
Paid review	-	-	-	-
Concluded trial/review	-	-	20	10
Other	8	9	8	8
	179	130	169	147

- **Notes:**
- Cash receipts includes GST / Revenue excludes GST
- Nationwide MRR receipted in Q1 / revenue recognised across Q1 and Q2
- Other Engagements receipted predominately Q2 / revenue recognised across Q1 and Q2

Where:

- MRR refers to: Monthly Recurring Revenue. Product is live, and client is paying monthly license fee.
- Paid trial refers to: Client has paid for a Proof of Concept, Flamingo Ai has built and delivered product, and product is in trial phase.
- Paid review refers to: Client has paid and is assessing best use case. Trial is yet to commence.
- Concluded trial refers to: Client has concluded paid trial, is still under a current engagement, and is assessing next use case(s).

Marketing

Marketing efforts continue to support the sales pipeline.

In October, Dr Catriona Wallace presented at the Insuretech Connect conference in Las Vegas, USA, the largest conference of its type in the world. The speakers included a range of C-suite executives from major financial services organisations. Dr Wallace was the only speaker focusing on Conversational AI, and the Company received very positive industry feedback and interest.

Product Development

During the quarter the Company finalised development of first versions of new products LIBBY and MAGGIE.

Additionally, in December the Company launched an Out-of-the-Box Virtual Inquiry Assistant for Auto Insurance which is a specific use case of MAGGIE. Pre-seeded with auto insurance knowledge and natural language text-based conversations and over 1200 auto insurance Frequently Asked Questions (FAQs) and paraphrases, MAGGIE for Auto Insurance can be deployed within hours to days and easily configured to an organisation's specific product and processes, without the need for technologists.

SOC2 Type 2 Certification

As of 3 January 2019, Flamingo AI is pleased to announce that it has obtained SOC2 (Service Organization Controls 2) Type 2 Certification. This is a world-class security accreditation and speaks to the Culture of Security that is fundamental to the Company's identity.

This accreditation follows from the Company's SOC2 Type 1 Certification, that was announced to the ASX in April 2018. As detailed in the ASX Release, the Type 1 accreditation involved a third-party determination that, as of the date of the Report, the Company had developed and maintained comprehensive policies and procedures, as well as sophisticated and secure technology, to support the following SOC2 "Trust Service Principles": Security, Availability, Processing Integrity, and Confidentiality.

This latest certification puts Flamingo in a strong position to continue serving clients in highly-regulated, privacy-conscious industries such as Financial Services.

Management Team and Board

During the quarter the Company further built out the management team with the appointment of Bob Hilborn as VP of Client Engagements in the United States; Tony Coorey as Chief Technology Officer, and Geoff Nesbitt as part time CFO.

Bob Hilborn is a highly experienced senior level executive with over 30 years in the IT, Financial services and Insurance sectors. He brings deep industry expertise across Analytics, Customer Service, Transformation & Process Improvement functions from a variety of financial services organizations including Emblem Health, The Hartford, and Travelers Insurance.

Tony Coorey brings significant experience in commercialising and scaling technology platforms, having previously worked as CTO at Elsevier Science Publishing and as CTO for GraysOnline.

Geoff Nesbitt is a highly experienced CFO having previously worked as CFO and Executive Director for Pureprofile Ltd (ASX:PPL) and CFO for Enero Group Ltd (ASX:EGG).

In addition, the Board was strengthened with the appointment of John Murray as Chairman. John has a long experience of working with emerging global technology companies both as an investor and active board member.

Financial Update

For the December quarter, the Company received AU\$130,000 of cash receipts from clients in a various state of paid trials and monthly subscription fees. The Company also issued invoices of approximately AU\$195,000 that are expected to be received in early 2019.

As reported in the December 2018 quarter 4C, the actual cash outflows (before cash receipts and R&D claims) were A\$2.4 million which is lower than the estimate of A\$2.8 million disclosed in the September quarter 4C.

The Company's cash balance as at 31 December 2018 was A\$6.925 million.

The Company has reviewed its operational cost base and made a number of reductions in staff numbers and other expenditures. Headcount has been reduced from 43 at the end of Q1 FY19 to 26 on 31st January 2019. After redundancy and other one off costs, the average monthly gross burn (before customer receipts and R&D tax credit) has been reduced from approximately \$1.15m per month in Q1FY19 to approximately \$0.65m per month from Q3FY19..

Outlook

The sales pipeline of opportunities is stronger than ever and market interest in the Company's products remains very positive with new proposals being discussed with the existing and new clients in US, Australia and Asia. The Company looks forward to updating the market on further progress.

[ENDS]

For further information, investor or media enquiries, please contact:

Email: investor@flamingo.io

ABOUT Flamingo AI

Flamingo AI (ASX: FGO) is an Australian listed company based in Sydney and New York. In the Machine Learning sector, Flamingo is a SaaS company, providing Cognitive Virtual Assistant (AI) platforms designed for enterprises selling and servicing complex products online. Flamingo is one of IT Analyst Gartner's 'Cool Vendors' and clients include large financial services firms. www.flamingo.ai

Flamingo AI - Social Media Policy

Flamingo AI is committed to communicating with the investment community through all available channels. Whilst ASX remains the prime channel for all material announcements and news, investors and other interested parties are encouraged to follow Flamingo on Twitter - [@FlamingoAI](https://twitter.com/FlamingoAI)

Company Investor Newsletter

The Company encourages investors to subscribe to the Flamingo investor community newsletter at <https://flamingo.ai/investor-portal/>

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Flamingo AI Limited

ABN

99 000 031 292

Quarter ended ("current quarter")

31 December 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	130	309
1.2 Payments for		
(a) research and development	(850)	(1,750)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(92)	(288)
(d) leased assets	-	-
(e) staff costs	(899)	(2,197)
(f) administration and corporate costs	(622)	(1,695)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	18	53
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives - <i>R&D rebate received¹</i>	-	1,113
1.8 Other (provide details if material)	53	18
1.9 Net cash from / (used in) operating activities	(2,262)	(4,437)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(6)	(23)
(b) businesses (see item 10)	-	-
(c) investments	-	-

¹ Proceeds received from R&D rebate.

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other – cash on reverse takeover acquisition	-	-
2.6 Net cash from / (used in) investing activities	(6)	(23)

3. Cash flows from financing activities		
3.1 Proceeds from issue of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-	-

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	9,191	11,403
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,262)	(4,437)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(6)	(23)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	2	(18)
4.6	Cash and cash equivalents at end of quarter	6,925	6,925

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 \$A'000	Previous quarter \$A'000
5.1	Bank balances	6,925	9,191
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	6,925	9,191

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

(128)

-

The aggregate amount of payments to directors and their associates during the quarter ended 31 December 2018 totalled to \$127,936. These payments relate to director fees and salary.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

-

-

8. Financing facilities available

Add notes as necessary for an understanding of the position

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
-	-
-	-
-	-

8.1 Loan facilities

8.2 Credit standby arrangements

8.3 Other (please specify)

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

None

9. Estimated cash outflows for next quarter

\$A'000

9.1	Research and development	(638)
9.2	Product manufacturing and operating costs	-
9.3	Advertising and marketing, net of grants	(93)
9.4	Leased assets	-
9.5	Staff costs	(676)
9.6	Administration and corporate costs	(483)
9.7	Other (provide details if material) ²	(60)
9.8	Total estimated cash outflows	(1,950)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

² Mainly related to legal fee for IP.

