

# Appendix 4D

## Half Year Report to the Australian Securities Exchange

### Part 1 - Details of entity reporting period

|  |                     |
|--|---------------------|
| <b>Name of Entity</b>                          | Flamingo AI LIMITED |
| <b>ABN</b>                                     | 99 000 031 292      |
| <b>Half Year Ended</b>                         | 31 December 2018    |
| <b>Previous Corresponding Reporting Period</b> | 31 December 2017    |

### Part 2 – Results for Announcement to the Market

| <b>Key information</b>   | <b>31 Dec 2018<br/>\$</b> | <b>31 Dec 2017<br/>\$</b> | <b>Increase/<br/>(decrease)<br/>%</b> | <b>Amount<br/>change<br/>\$</b> |
|--|---------------------------|---------------------------|---------------------------------------|---------------------------------|
| Revenue from ordinary activities   | 351,319                   | 242,385                   | 45%                                   | 108,934                         |
| Profit/(Loss) from ordinary activities after tax attributable to members | (5,459,003)               | (3,167,296)               | 72%                                   | (2,291,707)                     |
| Net Profit/(Loss) for the period attributable to members                 | (5,459,003)               | (3,167,296)               | 72%                                   | (2,291,707)                     |
| Net tangible asset \$ per share  | 0.006                     | 0.013                     | -                                     | -                               |

| <b>Dividends (distributions)</b>  | <b>Amount per security</b> | <b>Franked amount per security</b> |
|---|----------------------------|------------------------------------|
| <b>Final Dividend</b>   | Nil                        | Nil                                |
| <b>Interim Dividend</b>   | Nil                        | Nil                                |
| <b>Record date for determining entitlements to the dividends (if any)</b> | Not Applicable             |                                    |

**Brief explanation of any of the figures reported above necessary to enable the figures to be understood:**

Refer to the Review of Activities contained in the Directors' Report which forms part of the attached Half Year Financial Report for details.

### Part 3 – Contents of ASX Appendix 4D

| <b>Section</b> | <b>Contents</b>  |
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| Part 1         | Details of entity, reporting period                            |
| Part 2         | Results for Announcement to the Market                         |
| Part 3         | Contents of ASX Appendix 4D                                    |
| Part 4         | Commentary on Results  |
| Part 5         | Details Relating to Dividends                                  |
| Part 6         | Net Tangible Assets per Security                               |
| Part 7         | Details of Entities Over Which Control has been Gained or Lost |
| Part 8         | Details of Associates and Joint Venture Entities               |
| Part 9         | Information on Audit or Review                                 |

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#### Part 4 – Commentary on Results

Refer to the Review of Activities contained in the Directors' Report which forms part of the attached Half Year Financial Report for details.

#### Part 5 – Details Relating to Dividends

|  |     |
|--|-----|
| Date the dividend is payable   | N/A |
| Record date to determine entitlement to the dividend   | N/A |
| Amount per security  | N/A |
| Total dividend   | N/A |
| Amount per security of foreign sourced dividend or distribution                                      | N/A |
| Details of any dividend reinvestment plans in operation  | N/A |
| The last date for receipt of an election notice for participation in any dividend reinvestment plans | N/A |

#### Part 6 – Net Tangible Assets per Security

|  | 2018  | 2017  |
|--|-------|-------|
| Net tangible asset (deficiency) backing per ordinary security \$ | 0.006 | 0.013 |

#### Part 7 – Details of Entities Over Which Control has been Gained or Lost

N/A

#### Part 8 – Details of Associates and Joint Venture Entities

| Name of associate and joint venture entities | Ownership Interest |           | Contribution to net profit/(loss) |                 |
|--|--------------------|-----------|-----------------------------------|-----------------|
|  | 2018<br>%          | 2017<br>% | 2018<br>\$A'000                   | 2017<br>\$A'000 |
| <b>Associates</b>                            | NA                 | NA        | -                                 | -               |
| <b>Joint Venture Entities</b>                | NA                 | NA        | -                                 | -               |

**Part 9 – Audit/Review Status**

|  |  |  |   |
|--|--|--|---|
| <b>This report is based on accounts to which one of the following applies:</b><br>(Tick one) |  |  |   |
| The accounts have been audited   |  | The accounts have been subject to review           | ✓ |
| The accounts are in the process of being audited or subject to review                        |  | The accounts have not yet been audited or reviewed |   |

|   |
|---|
| <p><b>If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:</b></p> <p>N/A</p> |
| <p><b>If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification:</b></p> <p>No</p>                              |

**Attachments Forming Part of Appendix 4D**

| Attachment # | Details                    |
|--------------|----------------------------|
| 1            | Half Year Financial Report |
|              |                            |

|  |  |
|--|--|
| <p><b>Signed By Company Secretary</b></p> <p><i>Zane Lewis</i></p> |  |
| Zane Lewis   |  |
| Date 27 February 2019  |  |



**FLAMINGO AI LIMITED**

**ABN 99 000 031 292**

**INTERIM FINANCIAL REPORT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2018**

**FLAMINGO AI LIMITED**  
**ABN 99 000 031 292**  
**INTERIM FINANCIAL REPORT 31 DECEMBER 2018**

**CORPORATE DIRECTORY**

**Registered Office**

Level 4, 11-17 York Street  
Sydney NSW 2000  
Ph: 1300 556 368

**Share Registry**

Automic Registry Services  
Level 5, 126 Phillip Street  
Sydney NSW 2000

**Securities Exchange Listing**

ASX Limited  
Level 40, Central Park  
152-158 St Georges Terrace  
Perth WA 6000

ASX Code: FGO

**Legal Advisor**

Bellanhouse Legal  
Level 19, Alluvion, 58 Mounts Bay Road  
Perth WA 6000  
AUSTRALIA

**Auditor**

William Buck (NSW) Pty Limited  
Level 29, 66 Goulburn Street  
Sydney NSW 2000

**FLAMINGO AI LIMITED**  
**ABN 99 000 031 292**  
**INTERIM FINANCIAL REPORT 31 DECEMBER 2018**

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**FLAMINGO AI LIMITED**  
**ABN 99 000 031 292**  
**INTERIM FINANCIAL REPORT 31 DECEMBER 2018**

**DIRECTORS' REPORT**

The Directors of Flamingo AI Limited ("the Company") and controlled entities ("the Group" or "the Consolidated Entity") submit the following report for the half year ended 31 December 2018 ("Financial Period").

**DIRECTORS**

The names and the particulars of the Directors of the Company during the half year and to the date of this report are:

| <b>Name</b>         | <b>Status</b>             | <b>Appointed</b>                                   |
|---------------------|---------------------------|--|
| Dr Catriona Wallace | CEO and Managing Director | Appointed 3 November 2016                          |
| Mr Bryn Hardcastle  | Non-Executive Director    | Appointed 5 November 2015, resigned 27 August 2018 |
| Mr Mark Kehoe       | Executive Director        | Appointed 10 April 2018                            |
| Mr Peter Lloyd      | Non-Executive Director    | Appointed 10 April 2018                            |
| Mr John Murray      | Non-Executive Chair       | Appointed 1 October 2018                           |

**COMPANY SECRETARY**

Mr Zane Lewis (appointed 6 February 2017)

**REVIEW AND RESULTS OF OPERATIONS**

The net loss of the Group after income tax for the half year ended 31 December 2018 amounted to \$5,459,003 (31 December 2017: \$3,167,296 net loss).

**REVIEW OF ACTIVITIES**

Overview of Half Year to 31 December 2018

During the half year ended 31 December 2018 the Group focused on commercialisation of its technology assets, primarily in the financial services sector in the USA and Australia. The key elements of its commercialisation strategy developed during FY2018 include:

- securing new sales for paid trial client contracts;
- converting existing paid trial clients into full production with contracted monthly recurring revenue ("MRR");
- enhancing technology and business capabilities in order to achieve additional Security Audit clearances; and
- further developing the unsupervised learning capability of the Machine Learning technology platform.

It proved to be a challenging half year for the Group with sales and cash receipts lower than expected, and the financial goals that the business had set at the beginning of the calendar year were not met.

During the final quarter ending 31 December 2018 the Group conducted the following important activities:

1. Strengthened the management team and Board (new part time CFO, CTO, VP of Client Engagement in the USA, and Chairman);
2. Concluded a product-market fit assessment of its existing products, shifting focus 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);
3. Obtained Service Organization Controls 2 ("SOC2") Type 2 Certification, which is a world-class security accreditation that is fundamental to the Group's identity and success in the enterprise market;
4. Continued to build a sales pipeline in the USA, Australia and Asia; and
5. Conducted a review of its operating expenditures and significantly reduced the planned expenditures for CY2019.

Commercial Activities

The Group closed the half year with qualified discussions at senior level with a number of major organisations in the USA and Australia, and submitted proposals are significantly up, by more than 100%, compared to the year ended 30 June 2018. In late Q2FY19, one new client from the banking sector signed up for a paid MAGGIE trial, and existing client Nationwide signed a Statement of Work ("SOW") for a LIBBY product. In addition, the Group 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 Group's revised commercialisation strategy.

**FLAMINGO AI LIMITED**  
**ABN 99 000 031 292**  
**INTERIM FINANCIAL REPORT 31 DECEMBER 2018**

**DIRECTORS' REPORT (CONTINUED)**

**REVIEW OF ACTIVITIES (CONTINUED)**

Current Client Implementations

The Group currently has 12 current engagements across the USA, 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 |
|                        | <b>10</b>          | <b>12</b>          |   |

Product and Intellectual Property

- Flamingo AI's Machine Learning capability has been developed using the Group's own Intellectual Property ("IP") and is based on an 'unsupervised' learning program, that is a key differentiator in the AI market. During the current half year, the Group continued to develop its proprietary IP, having lodged patent applications in 14 jurisdictions.
- During the current half year, the Group finalised development of first version of new products LIBBY and MAGGIE. Additionally, the Group launched an "Out-of-the-Box" Virtual Assistant for Auto Insurance which is a specific user case of MAGGIE.
- As of 3 January 2019, the Group has obtained SOC2 Type 2 Certification. This latest certification puts the Group in a strong position to continue serving clients in highly-regulated, privacy-conscious industries, such as Financial Services.

Outlook

Based on the work performed by the Group during the half year to 31 December 2018, the Group is now focused on implementing its revised strategies to commercialise its technology assets, and to improve its financial performance during 2019. The sales pipeline of opportunities is growing, and market interest in the Group's products remains strong with new proposals being discussed with existing and new clients in the USA, Australia and Asia.

**SUBSEQUENT EVENTS**

On 3 February 2019, 44,400,000 options have lapsed.

On 22 February 2019, Dr Catriona Wallace, Founder and CEO of the Group, has mutually agreed to transition out of the CEO role into a Chief Revenue Officer role to focus her time and efforts on revenue generation. This transition is expected to take place sometime over the next 12 months, when a suitable replacement CEO can be recruited.

On the same date, Mr Mark Kehoe has advised the Group of his resignation as Executive Director and Chief Commercial Officer, giving three months of notice expiring on 21 May 2019, in accordance with his contract. He will remain in the USA until April 2019 before returning to Sydney, and during this notice period Mr Mark Kehoe will continue in his role as Executive Director and Chief Commercial Officer.

There have been no other matters or circumstances that have arisen since 31 December 2018 that has significantly affected, or may significantly affect the operations, the results of those operations, or the state of affairs in future financial years of the Company and Group.

**FLAMINGO AI LIMITED**  
**ABN 99 000 031 292**  
**INTERIM FINANCIAL REPORT 31 DECEMBER 2018**

**DIRECTORS' REPORT (CONTINUED)**

**AUDITOR'S INDEPENDENCE DECLARATION**

The Auditor's Independence Declaration to the Directors of the Consolidated Entity on page 21 forms part of the Directors' Report for the half year ended 31 December 2018.

This report is signed in accordance with a resolution of the Board of Directors.



Dr Catriona Wallace  
Chief Executive Officer and Managing Director  
27 February 2019

**FLAMINGO AI LIMITED**  
**ABN 99 000 031 292**  
**INTERIM FINANCIAL REPORT 31 DECEMBER 2018**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**AND OTHER COMPREHENSIVE INCOME**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2018**

|   | Note | Half year ended<br>31 December 2018<br>\$ | Half year ended<br>31 December 2017<br>\$ |
|---|------|---|---|
| Revenue   |      | 351,319                                   | 242,385                                   |
| Other income  |      | 43,438                                    | 212,099                                   |
| Net gain on foreign exchange  |      | 77,563                                    | -   |
| Amortisation and depreciation   |      | (332,177)                                 | (491,759)                                 |
| Corporate expenses  |      | (269,144)                                 | (145,705)                                 |
| Employee expenses   |      | (4,222,765)                               | (2,181,903)                               |
| Interest expense  |      | -   | (4)                                       |
| Network and platform costs  |      | (286,291)                                 | (232,133)                                 |
| Office expenses   |      | (280,053)                                 | (165,791)                                 |
| Other non-operating expenses  |      | (7,601)                                   | (14,815)                                  |
| Public company expenses   |      | (211,991)                                 | (133,597)                                 |
| Sales and marketing   |      | (65,140)                                  | (44,796)                                  |
| Transaction costs   |      | -   | (1,042)                                   |
| Travel and entertainment  |      | (256,161)                                 | (207,777)                                 |
| Loss before income tax expense  |      | (5,459,003)                               | (3,164,838)                               |
| Income tax expense  |      | -   | (2,458)                                   |
| <b>Loss after tax for the period</b>                                  |      | <b>(5,459,003)</b>                        | <b>(3,167,296)</b>                        |
| <b>Other comprehensive income for the period</b>                      |      |   |   |
| <i>Items that may be reclassified subsequently to profit and loss</i> |      |   |   |
| Foreign currency translation differences                              |      | (152,207)                                 | (16,129)                                  |
| <b>Total comprehensive loss for the period net of tax</b>             |      | <b>(5,611,210)</b>                        | <b>(3,183,425)</b>                        |
| Basic and diluted loss per share (cents)                              | 8    | (0.46)                                    | (0.40)                                    |

The accompanying notes form part of these financial statements.

**FLAMINGO AI LIMITED**  
**ABN 99 000 031 292**  
**INTERIM FINANCIAL REPORT 31 DECEMBER 2018**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2018**

|                                  | Notes | 31 December 2018<br>\$ | 30 June 2018<br>\$ |
|----------------------------------|-------|------------------------|--------------------|
| <b>CURRENT ASSETS</b>            |       |                        |                    |
| Cash and cash equivalents        |       | 6,899,025              | 11,403,297         |
| Trade and other receivables      |       | 241,289                | 1,284,215          |
| Other current assets             |       | 155,162                | 167,249            |
| <b>TOTAL CURRENT ASSETS</b>      |       | <b>7,295,476</b>       | <b>12,854,761</b>  |
| <b>NON-CURRENT ASSETS</b>        |       |                        |                    |
| Plant and equipment              |       | 72,974                 | 77,548             |
| Intangible assets                |       | -                      | -                  |
| Development assets               | 3     | 455,378                | 718,053            |
| <b>TOTAL NON-CURRENT ASSETS</b>  |       | <b>528,352</b>         | <b>795,601</b>     |
| <b>TOTAL ASSETS</b>              |       | <b>7,823,828</b>       | <b>13,650,362</b>  |
| <b>CURRENT LIABILITIES</b>       |       |                        |                    |
| Trade and other payables         |       | 782,268                | 980,494            |
| Employee benefits                |       | 230,866                | 278,350            |
| Deferred income                  |       | 47,250                 | 240,811            |
| <b>TOTAL CURRENT LIABILITIES</b> |       | <b>1,060,384</b>       | <b>1,499,655</b>   |
| <b>TOTAL LIABILITIES</b>         |       | <b>1,060,384</b>       | <b>1,499,655</b>   |
| <b>NET ASSETS</b>                |       | <b>6,763,444</b>       | <b>12,150,707</b>  |
| <b>EQUITY</b>                    |       |                        |                    |
| Issued capital                   | 4     | 34,893,595             | 34,893,595         |
| Reserves                         | 5     | 1,352,487              | 1,280,747          |
| Accumulated losses               |       | (29,482,638)           | (24,023,635)       |
| <b>TOTAL EQUITY</b>              |       | <b>6,763,444</b>       | <b>12,150,707</b>  |

The accompanying notes form part of these financial statements.

**FLAMINGO AI LIMITED**  
**ABN 99 000 031 292**  
**INTERIM FINANCIAL REPORT 31 DECEMBER 2018**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2018**

|   | Share<br>Capital<br>\$ | Accumulated<br>Losses<br>\$ | Share Based<br>Payment<br>Reserve<br>\$ | Foreign<br>Currency<br>Translation<br>Reserve<br>\$ | Total<br>\$        |
|---|------------------------|-----------------------------|---|---|--------------------|
| Balance as at 1 July 2018                             | 34,893,595             | (24,023,635)                | 1,380,832                               | (100,085)   | 12,150,707         |
| Loss after tax expense for the period                 | -                      | (5,459,003)                 | -                                       | -   | (5,459,003)        |
| Foreign currency translation differences              | -                      | -                           | -                                       | (152,207)   | (152,207)          |
| <b>Total comprehensive loss for the period</b>        | <b>-</b>               | <b>(5,459,003)</b>          | <b>-</b>                                | <b>(152,207)</b>                                    | <b>(5,611,210)</b> |
| Transactions with owners in their capacity as owners: |                        |                             |   |   |                    |
| Transactions involving options and performance rights | -                      | -                           | 223,947                                 | -   | 223,947            |
| <b>Balance as at 31 December 2018</b>                 | <b>34,893,595</b>      | <b>(29,482,638)</b>         | <b>1,604,779</b>                        | <b>(252,292)</b>                                    | <b>6,763,444</b>   |

|   | Share<br>Capital<br>\$ | Accumulated<br>Losses<br>\$ | Share Based<br>Payment<br>Reserve<br>\$ | Foreign<br>Currency<br>Translation<br>Reserve<br>\$ | Total<br>\$        |
|---|------------------------|-----------------------------|---|---|--------------------|
| Balance as at 1 July 2017                             | 19,913,416             | (15,811,261)                | 180,708                                 | (4,358)   | 4,278,505          |
| Loss after tax expense for the period                 | -                      | (3,167,296)                 | -                                       | -   | (3,167,296)        |
| Foreign currency translation differences              | -                      | -                           | -                                       | (16,129)  | (16,129)           |
| <b>Total comprehensive loss for the period</b>        | <b>-</b>               | <b>(3,167,296)</b>          | <b>-</b>                                | <b>(16,129)</b>                                     | <b>(3,183,425)</b> |
| Transactions with owners in their capacity as owners: |                        |                             |   |   |                    |
| Issue of share capital net of costs                   | 14,272,250             | -                           | -                                       | -   | 14,272,250         |
| Share based payments                                  | -                      | -                           | 495,917                                 | -   | 495,917            |
| Exercise of options and performance rights            | 132,379                | -                           | (117,000)                               | -   | (15,379)           |
| <b>Balance as at 31 December 2017</b>                 | <b>34,318,045</b>      | <b>(18,978,557)</b>         | <b>559,625</b>                          | <b>(20,487)</b>                                     | <b>15,878,626</b>  |

The accompanying notes form part of these financial statements.

**FLAMINGO AI LIMITED**  
**ABN 99 000 031 292**  
**INTERIM FINANCIAL REPORT 31 DECEMBER 2018**

**CONSOLIDATED STATEMENT OF CASHFLOWS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2018**

|   | Note | Half year ended<br>31 December<br>2018<br>\$ | Half year ended<br>31 December<br>2017<br>\$ |
|---|------|--|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                             |      |  |  |
| Receipts from customers (inclusive of GST)                              |      | 268,578                                      | 367,028                                      |
| R&D tax offset received   |      | 1,113,363                                    | 98,855                                       |
| Interest received   |      | 39,885                                       | 13,240                                       |
| Payments to suppliers (inclusive of GST)                                |      | (1,001,844)                                  | (785,404)                                    |
| Payments to employees   |      | (4,784,790)                                  | (1,834,699)                                  |
| Net cash used in operating activities                                   |      | <u>(4,364,808)</u>                           | <u>(2,140,980)</u>                           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                             |      |  |  |
| Payments to acquire plant and equipment                                 |      | (25,627)                                     | (28,605)                                     |
| Payments to acquire development assets                                  | 3    | (38,442)                                     | (882,101)                                    |
| Net cash used in investing activities                                   |      | <u>(64,069)</u>                              | <u>(910,706)</u>                             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                             |      |  |  |
| Proceeds from share issue   |      | -  | 15,122,826                                   |
| Payments for share issue  |      | -  | (850,576)                                    |
| Net cash provided by financing activities                               |      | <u>-</u>                                     | <u>14,272,250</u>                            |
| <b>Net (decrease)/increase in cash and cash equivalents held</b>        |      | (4,428,877)                                  | 11,220,564                                   |
| Cash and cash equivalents at the beginning of period                    |      | 11,403,297                                   | 3,383,003                                    |
| Exchange rate changes on the balance of cash held in foreign currencies |      | (75,395)                                     | (25,451)                                     |
| <b>Cash and cash equivalents at the end of period</b>                   |      | <u>6,899,025</u>                             | <u>14,578,116</u>                            |

The accompanying notes form part of these financial statements.

**FLAMINGO AI LIMITED**  
**ABN 99 000 031 292**  
**INTERIM FINANCIAL REPORT 31 DECEMBER 2018**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2018**

**NOTE 1: REPORTING ENTITY**

The interim financial report ("the Report") of Flamingo AI Limited ("the Company") and its controlled entities ("the Group" or "the Consolidated Entity") for the half year ended 31 December 2018 was authorised for issue in accordance with a resolution of the Directors on 20 February 2019.

Flamingo AI Limited is a listed public company, trading on the Australian Securities Exchange, limited by shares, incorporated and domiciled in Australia.

The Group's registered office and principal place of business is:  
Level 4, 11-17 York Street,  
Sydney NSW 2000  
Australia

**NOTE 2: BASIS OF PREPARATION**

This Report for the half-year reporting period ended 31 December 2018 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This Report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the Company during the interim reporting period, in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The Report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The same accounting policies and methods have been consistently applied by the Consolidated Entity in these interim financial statements as compared with the most recent annual financial statements, except as follows:

*a) Adoption of new and revised accounting standards*

In the financial period, the Consolidated Entity has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2018.

**AASB 15 Revenue from Contracts with Customers ("AASB 15")**

The Consolidated Entity has adopted AASB 15 as issued in May 2014 with the date of initial application being 1 July 2018 (following mandatory adoption for financial reporting periods beginning on or after 1 January 2018). In accordance with the transitional provisions in AASB 15, the standard has been applied using the modified retrospective approach.

AASB 15 supersedes AASB 18 *Revenue*, AASB 111 *Construction Contracts* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are within the scope of another standard. The new standard establishes as a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled, in exchange for transferring goods or services to the customer.

At 1 July 2018, the Consolidated Entity assessed all customer contracts and it was determined that the adoption of AASB 15 had no material impact on financial performance and position of the Group.

**AASB 9 Financial Instruments ("AASB 9")**

The Consolidated Entity has adopted AASB 9 as issued in July 2014 with the date of initial application being 1 July 2018 (following mandatory adoption for financial reporting periods beginning on or after 1 January 2018). In accordance with the transitional provisions in AASB 9, the standard has been applied using the modified retrospective approach.

**FLAMINGO AI LIMITED**  
**ABN 99 000 031 292**  
**INTERIM FINANCIAL REPORT 31 DECEMBER 2018**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2018**

**NOTE 2: BASIS OF PREPARATION (CONTINUED)**

*a) Adoption of new and revised accounting standards (continued)*

AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement* ("AASB 139"), bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

At 1 July 2018, the Consolidated Entity considered any financial instruments that fall within the scope of the new standard and it was determined that the adoption of AASB 9 had no material impact on the financial position and performance of the Group.

*b) Revenue recognition*

Revenue from contracts with customers is measured at an amount that reflects the consideration which the Consolidated Entity expects to receive in exchange for transferring services to a customer. For each contract, the Consolidated Entity: identifies the contract with the customer; identifies the performance obligations of the contract; determines the transaction price which takes into account estimates of any variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct service to be delivered; and recognises the revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Interest revenue is recognised using the effective interest method, which for floating rate financial assets is the rate inherent in the instrument.

Revenue relating to government grants and the receipt of R&D tax credits from the Australian Government are recorded on an accrual basis. It is accrued in the period relating to which the relevant authority has a definite legal obligation to provide the grant. All grants presented have actually been received as cash as of the date of this report.

Other revenue is recognised when it is received or when the right to receive payment is established.

All revenue is stated net of the amount of goods and services tax.

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**NOTE 2: BASIS OF PREPARATION (CONTINUED)**

*c) Going concern*

For the half year ended 31 December 2018, the Consolidated Entity recorded a loss after tax expense of \$5,459,003 (half year ended 31 December 2017: loss \$3,167,296), incurred net cash outflows from operating activities of \$4,364,808 (half year ended 31 December 2017: outflows \$2,140,980), and maintained net assets of \$6,763,444 as at that date (30 June 2018: \$12,150,707).

The ability of the Consolidated Entity to continue as a going concern is dependent on securing additional funding to continue its current level of operational activities, and on increasing sales. These circumstances currently indicate a material uncertainty, and if not addressed, may cast significant doubt about the Consolidated Entity's ability to continue as a going concern, and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business over the next 12 months period.

The financial statements have been prepared on the basis that the Consolidated Entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlements of liabilities in the normal course of business over the next 12 months period for the following reasons:

- the Consolidated Entity will primarily focus on selling shorter sales cycle products, such as MAGGIE and LIBBY, rather than ROSIE, which is expected to drive an increase in sales. The Consolidated Entity has already built a strong sales pipeline based on those products and is forecast to generate a significantly higher level of sales for CY2019;
- since the half year ended 31 December 2018, the Consolidated Entity has significantly reduced its projected recurring monthly operating expenditures compared to CY2018, and may be able to make further reductions if required;
- the Consolidated Entity is intending to lodge an R&D tax incentive claim for FY2018 and has a history of successful claims; and
- Management and the Board have considered the future capital requirements of the Consolidated Entity and expect to raise additional capital within the next 12 month period. Historically, the Consolidated Entity has successfully raised additional capital when required, and if it can demonstrate further market adoption of its technology as well as improved operational performance, Management and the Board believe there are reasonable prospects of success in raising additional funding.

Should the Consolidated Entity be unsuccessful in these endeavours, it may not be able to continue as a going concern, and it could be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in these financial statements. This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Consolidated Entity not continue as a going concern.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2018**

**NOTE 3: DEVELOPMENT ASSETS**

|                                       | <b>31 December 2018</b> | <b>30 June 2018</b> |
|---------------------------------------|-------------------------|---------------------|
|                                       | <b>\$</b>               | <b>\$</b>           |
| <b>Opening balance at 1 July</b>      | 718,053                 | 1,332,131           |
| Development costs capitalised         | 38,442                  | 34,972              |
| Amortisation expense for the period   | (301,117)               | (649,050)           |
| <b>Closing balance at 31 December</b> | <b>455,378</b>          | <b>718,053</b>      |

**NOTE 4: ISSUED CAPITAL**

|  | <b>31 December 2018</b> | <b>30 June 2018</b> |
|--|-------------------------|---------------------|
|  | <b>\$</b>               | <b>\$</b>           |
| <b>(a) Share capital</b>   |                         |                     |
| 1,120,127,703 (30 June 2018: 1,120,126,765) fully paid ordinary shares | 34,893,595              | 34,893,595          |
|  | <b>No.</b>              | <b>\$</b>           |
| <b>(b) Movement in ordinary capital</b>                                |                         |                     |
| Opening balance at 1 July 2017   | 687,282,551             | 19,913,416          |
| Shares issued under placement  | 289,360,961             | 15,122,826          |
| Conversion of Class A performance shares                               | 93,292,459              | -                   |
| Conversion of Class A, B, C & D performance rights                     | 33,000,000              | 300,971             |
| Exercise of options  | 17,190,794              | 409,385             |
| Less: capital raising costs  | -                       | (853,003)           |
| Closing balance at 30 June 2018  | 1,120,126,765           | 34,893,595          |
| Opening balance at 1 July 2018   | 1,120,126,765           | 34,893,595          |
| Exercise of options  | 938                     | -                   |
| <b>Closing balance at 31 December 2018</b>                             | <b>1,120,127,703</b>    | <b>34,893,595</b>   |

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| <b>NOTE 5: RESERVES</b>   | <b>31 December 2018</b>   | <b>30 June 2018</b>     |
|---|---------------------------|-------------------------|
|   | <b>\$</b>                 | <b>\$</b>               |
| <b>(a) Reserves</b>   |                           |                         |
| Share based payment reserve 112,565,694 (30 June 2018: 107,337,138) options and rights on issue | 1,604,779                 | 1,380,832               |
| Foreign currency translation reserve  | (252,292)                 | (100,085)               |
|   | <u>1,352,487</u>          | <u>1,280,747</u>        |
|   | <b>No.</b>                | <b>\$</b>               |
| <b>(b) Movement in options and rights</b>   |                           |                         |
| Opening balance at 1 July 2017  | 165,769,206               | 180,708                 |
| Expiration of free existing options attached to private placement                               | (45,926,468)              | -                       |
| Exercise of options with exercise price of \$0.03   | (5,600,000)               | 485,634                 |
| Exercise of options with exercise price of \$0.02   | (10,937,498)              | 121,781                 |
| Issue of Class D, E and F performance rights  | 28,000,000                | -                       |
| Exercise of Class A, B, C and D performance rights  | (33,000,000)              | -                       |
| Movement of employee options under the Employee Offer with exercise price of \$0.029            | (1,154,427)               | 39,052                  |
| Movement of employee options under the Employee Offer with exercise price of \$0.040            | (1,100,000)               | 106,254                 |
| Movement of employee options under the Employee Offer with exercise price of \$0.080            | -                         | (4,126)                 |
| Movement of employee options under the Employee Offer with exercise price of \$0.070            | 7,786,325                 | 253,294                 |
| Movement of options to a consultant   | 3,500,000                 | 198,235                 |
| Closing balance at 30 June 2018   | <u>107,337,138</u>        | <u>1,380,832</u>        |
| Opening balance at 1 July 2018  | 107,337,138               | 1,380,832               |
| Movement of Class G, H and I performance rights   | 8,000,000                 | 59,924                  |
| Movement of employee options under the Employee Offer with exercise price of \$0.029            | -                         | 77,723                  |
| Movement of employee options under the Employee Offer with exercise price of \$0.040            | (1,471,444)               | 36,976                  |
| Movement of employee options under the Employee Offer with exercise price of \$0.080            | (700,000)                 | 2,137                   |
| Movement of employee options under the Employee Offer with exercise price of \$0.070            | (600,000)                 | 47,187                  |
| <b>Closing balance at 31 December 2018</b>  | <u><b>112,565,694</b></u> | <u><b>1,604,779</b></u> |

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 6: PERFORMANCE SHARES, RIGHTS AND OPTIONS**

**Performance shares**

During the half year ended 31 December 2018, there has been no movements in performance shares. The terms of the performance shares in issue during the current half year, all of which have a grant date of 3 November 2016, are summarised in the following table.

| <b>Class</b> | <b>Number of performance shares</b> | <b>Period escrowed</b>                               | <b>Performance milestones</b>  |
|--------------|-------------------------------------|--|--|
| Class B      | 93,292,407                          | None of the Performance Shares are subject to escrow | Flamingo achieves \$13,000,000 in revenue in any 12-month period within 36 months of 3 November 2016 |
| Class C      | 93,292,407                          | None of the Performance Shares are subject to escrow | Flamingo achieves \$28,000,000 in revenue in any 12-month period within 36 months of 3 November 2016 |

The Class B and C performance shares have been valued at the grant date by reference to the prevailing share price at that date. No expense has been recognised in the current period, or previous financial periods, due to the uncertainty of meeting the performance milestones which are based on future events.

**Performance rights**

On 1 October 2018, the Company issued an additional 8,000,000 performance rights to the Chair under the Company's Performance Rights Plan. The 8,000,000 performance rights issued to the Chair John Murray were approved by shareholders at the Company's AGM on 8 November 2018. These performance rights have a milestone of a VWAP for 10 consecutive trading days of shares equalling or exceeding 10 cents for 4,000,000 Performance Rights (Class H) and 6 cents for 4,000,000 performance rights (Class I). The fair value of these 8,000,000 Performance Rights with market linked vesting conditions have been determined by reference to the prevailing share price at the grant date, adjusted for managements best estimate of achieving the performance milestones over the vesting period. The fair value of the Class H and I performance rights is being recognised equally over the 36-month vesting period.

**Options**

During the half year ended 31 December 2018, the following transactions involving options occurred:

- 5,865,363 employee options were issued on 16 December 2016 of which had 4,115,363 carried forward balance, 1,182,555 have been forfeited due to the departure of employee's and not meeting the vesting conditions. This gives rise to 2,932,808 options remaining.
- 900,000 employee options were issued on 16 February 2017 of which had 500,000 carried forward balance, 500,000 have been forfeited due to the departure of employee's and not meeting the vesting conditions. This leaves nil options remaining.
- 400,000 employee options were issued on 9 June 2017 of which 200,000 have been forfeited due to the departure of employee's and not meeting the vesting conditions. This gives rise to 200,000 options remaining.
- 650,000 employee options were issued on 13 December 2017 of which 288,889 have been forfeited due to the departure of employee's and not meeting the vesting conditions. This gives rise to 361,111 options remaining.
- 7,786,325 employee options were issued on 1 January 2018 of which 600,000 have been forfeited due to the departure of employee's and not meeting the vesting conditions. This gives rise to 7,186,325 options remaining.

All the above options have been valued using the Black and Scholes option valuation methodology taking into account the terms and conditions prevalent at the grant date, upon which the options were granted.

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**NOTE 6: PERFORMANCE SHARES, RIGHTS AND OPTIONS (CONTINUED)**

**Options (continued)**

A summary of the inputs used in the valuation of the options is as follows:

| <b>Options</b>          | <b>Employee replacement options</b> | <b>Employee options</b> | <b>Consultant options</b> | <b>Consultant options</b> | <b>Employee options</b> | <b>Employee options</b> |
|-------------------------|-------------------------------------|-------------------------|---------------------------|---------------------------|-------------------------|-------------------------|
| Exercise price          | \$0.029                             | \$0.04                  | \$0.08                    | \$0.05                    | \$0.08                  | \$0.04                  |
| Grant date              | 03-Nov-16                           | 16-Dec-16               | 23-Dec-16                 | 19-Dec-17                 | 09-Jun-17               | 13-Dec-17               |
| Expected volatility (i) | 100%                                | 100%                    | 100%                      | 100%                      | 100%                    | 100%                    |
| Expiry date             | 03-Nov-21                           | 16-Dec-21               | 16-Dec-19                 | 18-Dec-19                 | 30-Jun-20               | 22-Mar-23               |
| Value per option        | \$0.0316                            | \$0.0665                | \$0.0396                  | \$0.0394                  | \$0.0158                | \$0.0579                |
| Number of options       | 4,922,948                           | 2,932,808               | 500,000                   | 5,000,000                 | 200,000                 | 361,111                 |
| Vesting date            | (ii)                                | (ii)                    | (iii)                     | (iii)                     | (iv)                    | (ii)                    |

| <b>Options</b>          | <b>Employee options</b> | <b>Investors options</b> | <b>Investors options</b> |
|-------------------------|-------------------------|--------------------------|--------------------------|
| Exercise price          | \$0.07                  | \$0.02                   | \$0.03                   |
| Grant date              | 01-Jan-18               | 4-Nov-15                 | 21-Jan-16                |
| Expected volatility (i) | 100%                    | 100%                     | 100%                     |
| Expiry date             | 30-Jun-20               | 4-Nov-19                 | 5-Feb-19                 |
| Value per option        | \$0.0489                | \$0.0139                 | \$0.0109                 |
| Number of options       | 7,186,325               | 14,062,502               | 44,400,000               |
| Vesting date            | (iv)                    | (iii)                    | (iii)                    |

(i) Volatility was determined in reference to similar companies for the same period.

(ii) All employee options vest on the following basis; 1/3 vest on one-year anniversary of the grant date of the option with 1/36 vesting each month after the initial vesting date until all options have vested.

(iii) The consultant options are fully vested.

(iv) All employee options vest on second-year anniversary of the employment date.

**NOTE 7: DIVIDENDS**

The Company did not pay or propose any dividends in the half year to 31 December 2018.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 8: LOSS PER SHARE**

The following reflects income and share data used in the calculation of basic and diluted loss per share.

|  | <b>31 December 2018</b> | <b>31 December 2017</b> |
|--|-------------------------|-------------------------|
|  | <b>\$</b>               | <b>\$</b>               |
| Loss for the period after income tax expense   | (5,459,003)             | (3,164,838)             |
|  | <b>No.</b>              | <b>No.</b>              |
| Weighted average number of ordinary shares in calculating basic and diluted loss per share | 1,194,177,981           | 795,689,993             |

As at 31 December 2018, the Group had a total of 112,565,694 performance rights and options, and 186,584,814 performance shares in issue which are considered to have a non-dilutive effect.

**NOTE 9: COMMITMENTS**

|                           | <b>31 December 2018</b> | <b>30 June 2018</b> |
|---------------------------|-------------------------|---------------------|
|                           | <b>\$</b>               | <b>\$</b>           |
| <i>Minimum payments</i>   |                         |                     |
| - Not later than one year | 71,206                  | 237,533             |
| - Greater than one year   | -                       | 25,767              |
|                           | 71,206                  | 263,300             |

Commitments are consisting of the Gartner Australasia Pty Limited Service Agreement for Flamingo Ventures Pty Limited and office lease.

**NOTE 10: SEGMENT INFORMATION**

The Consolidated Entity has identified its operating segment based on internal reports that are reviewed by the Board and management. The Consolidated Entity has one operating segment.

**NOTE 11: CONTINGENT ASSET AND LIABILITIES**

The Group has no known contingent assets or liabilities as at 31 December 2018.

**NOTE 12: SUBSEQUENT EVENTS**

On 3 February 2019, 44,400,000 options have lapsed.

On 22 February 2019, Dr Catriona Wallace, Founder and CEO of the Group, has mutually agreed to transition out of the CEO role into a Chief Revenue Officer role to focus her time and efforts on revenue generation. This transition is expected to take place sometime over the next 12 months, when a suitable replacement CEO can be recruited.

On the same date, Mr Mark Kehoe has advised the Group of his resignation as Executive Director and Chief Commercial Officer, giving three months of notice expiring on 21 May 2019, in accordance with his contract. He will remain in the USA until April 2019 before returning to Sydney, and during this notice period Mr Mark Kehoe will continue in his role as Executive Director and Chief Commercial Officer.

There have been no other matters or circumstances that have arisen since 31 December 2018 that has significantly affected, or may significantly affect the operations, the results of those operations, or the state of affairs in future financial years of the Company and Group.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 13: RELATED PARTY TRANSACTIONS**

During the half year ended 31 December 2018, the following related party transactions have occurred:

- On 1 October 2018, the Company issued 4,000,000 Class H and 4,000,000 Class I performance rights to the Chair under the Company's Performance Rights Plan. The 8,000,000 Performance Rights issued to the Chair John Murray were approved by shareholders at the Company's AGM on 8 November 2018.
- The amounts paid as director's fees for the half year ended 31 December 2018 totalled to \$109,902.
- The total legal fees paid to Bellanhouse Legal, a related party of Mr Bryn Hardcastle totalled to \$13,235.

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**DIRECTORS' DECLARATION**

The Directors of Flamingo AI Limited declare that:

1. The financial statements and notes, as set out on pages 6 to 19 are in accordance with the Corporations Act 2001 and:
  - a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
  - b) give a true and fair view of the Consolidated Entity's financial position as at 31 December 2018 and of its performance for the period ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Dr Catriona Wallace  
Chief Executive Officer and Managing Director  
27 February 2019

## Flamingo AI Limited and its controlled entities

### Auditor's independence declaration under Section 307C of the Corporations Act 2001 to the shareholders

I declare that, to the best of our knowledge and belief during the half year period ended 31 December 2018 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.



**William Buck**  
Chartered Accountants  
ABN 16 021 300 521



**R. Ahrens**  
Director

Dated this day, 27 February 2019

**CHARTERED ACCOUNTANTS  
& ADVISORS**

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Level 29, 66 Goulburn Street  
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**Parramatta Office**  
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# Flamingo AI Limited and its controlled entities

## Independent auditor's review report to shareholders

### Report on the Review of the Half-Year Financial Report

#### Conclusion

We have reviewed the accompanying half-year financial report of Flamingo AI Limited ("the Company") and the entities it controlled at the half-year's end or from time to time during the half year ("the Consolidated Entity") on pages 7 to 20, which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Consolidated Entity is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2018 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134: Interim Financial Reporting, and the Corporations Regulations 2001.

#### Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated half-year financial report, which indicates that the Consolidated Entity incurred a net loss after tax expense of \$5,459,003 (half-year ended 31 December 2017: loss \$3,167,296) and had cash outflows from operations of \$4,364,808 (half-year ended 31 December 2017: outflows \$2,140,980) during the period ended 31 December 2018 and, as of that date maintained net assets of \$6,763,444 (31 December 2017: \$12,150,707).

As stated in Note 2, these events or conditions, along with matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt about the Consolidated Entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### Responsibilities of the Directors for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the consolidated half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibilities for the Review of the Half-Year Financial Report

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including:

#### CHARTERED ACCOUNTANTS & ADVISORS

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- giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

As the auditor of the Consolidated Entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a consolidated half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'William Buck'.

**William Buck**  
Chartered Accountants  
ABN 16 021 300 521

A handwritten signature in black ink that reads 'Rainer Ahrens'.

**Rainer Ahrens**  
Director

Sydney, 27 February 2019