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4 April 2022

Ms. Laura Gomme
Adviser, ASX Listings Compliance
ASX Compliance Pty. Ltd.
Level 40, Central Park
152-158 St. Georges Terrace
Perth, WA 6000

Buddy Technologies Limited – Aware Query Letter

Dear Ms. Gomme,

Buddy Technologies Limited ("BUD" or the "Company") refers to the letter from ASX dated 15 March 2022 ("Query Letter").

Detailed below are the Company's responses to the questions in the Query Letter. Unless otherwise defined, capitalised terms in this letter have the same meaning given to those terms in the Query Letter.

Question 1: Is BUD able to confirm that in the Directors' Opinion the Half Year Report: (a) complies with the relevant Accounting Standards; and (b) gives a true and fair view of BUD's financial performance and position?

1. Yes.

Question 2: Does BUD consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question, please explain the basis for this conclusion. In answering this question, please comment on the nature of BUD's current business activities.

2. Yes, based on:

a) BUD's current operational and trading activities, including:

- (i) the ongoing sale of its products and services via some of the world's leading retailers, such as Amazon, Best Buy, Apple, JB Hi-Fi, Bunnings and Curry's PC World (by way of example, BUD recently announced a new vendor program agreement with major U.S. consumer electronics retailer, Best Buy, to better address the changing retail environment in 2022 and grow sales across the US - refer to the ASX announcement dated 11 March 2022); and
- (ii) BUD continuing to manufacture its existing range of LIFX products, with new inventory presently in transit to the Company's warehouses, while efforts to sell down existing inventory on hand continue at pace; and

b) BUD's product development activities, including its ongoing engagement with major global technology partners such as Apple, Amazon, Google and Samsung on new technology initiatives to improve smart home device integration, and launch of new products (by way of example, BUD recently launched the new LIFX Downlight in the U.S. and anticipates that this product will extend BUD's reach to new customers outside of the typical consumer electronics retail channels, such as DIY/home improvement stores US - refer to the ASX announcement dated 11 March 2022).

3. Further, BUD also considers that it has sufficient financial capabilities to continue financing the activities detailed above (refer below for further details).

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Question 3: Does BUD consider that the financial condition of BUD is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion, taking into consideration BUD's negative working capital of \$7,074,435 and net liability position of \$6,397,024.

4. Yes, based on:

- a) BUD's accounts receivable of approximately A\$4.1 million as at 31 December 2021 (which increased to A\$5.0 million as at 31 January 2022), noting BUD's reputable customers, collection history and low risk of defaults;
- b) BUD's inventories and prepayments of A\$12.0 million as at 31 December 2021, noting that approximately 90% of this inventory was onsite at BUD's warehouses, fully paid for and ready to ship/sell;
- c) BUD being EBITDA positive for the Q2 FY22 period and cash flow positive in January 2022 and having cash at bank of approximately A\$1.3 million as at 31 January 2022; and
- d) BUD's continued implementation of the restructuring plan, including the various measures to continue to reduce expenses whilst seeking to grow revenues (refer to the ASX announcements dated 16 July 2021 and 20 July 2021 and BUD's response to ASX's queries on 10 November 2021 for further details) - BUD has reduced its operating expenses by more than 30% since 30 June 2021 and gross margins are substantially higher (approximately 43% versus circa 30%) since 30 June 2021.

5. In respect to BUD's negative working capital of A\$7,074,435 and net liability position of A\$6,397,024 detailed in the Half Year Report, BUD notes that:

- a) whilst revenues had decreased for the period ending 31 December 2021, gross profit, gross margins, net cash outflows, cash on hand and EBITDA improved over the prior corresponding period ending 31 December 2020 - noting this was achieved notwithstanding BUD receiving over A\$2 million less in government grants, subsidies and rebates (over the prior corresponding period ending 31 December 2020);
- b) BUD's net liability position is primarily due to the non-cash impairment recorded in the Half Year Report, which impairment exercise had regard to (amongst other matters) the ongoing trading difficulties encountered by BUD in 2021 (attributable to, amongst other matters, market and sector wide events that were previously disclosed to shareholders, including critical component shortages, manufacturing delays and the COVID-19 pandemic) and the restructuring plan that the Company had put in place, which enabled the Company to achieve greater gross margins (resulting in an increase in total gross profit compared to the prior period, notwithstanding the decrease in revenues);
- c) BUD's net current liabilities / negative working capital position is primarily due to BUD's borrowings, in particular the PFG Revolver and PFG Term Loans (which comprise \$16,098,518 of the total borrowings of \$16,511,969), which, whilst classified as current liabilities in the Half Year Report, maintain their original maturity dates of December 2023 and May 2024 (respectively).

Since March 2021, BUD has not satisfied certain monthly financial testing covenants under its financing arrangements with Partners for Growth VI, L.P. (**PFG**) (being certain monthly revenue, EBITDA and financial ratio thresholds) (and has been aware of the same).

BUD does not consider its failure to satisfy these financial covenants to be information that a reasonable person would expect to have a material effect on the price or value of its securities on the basis that PFG has:

- i. consistently formally waived BUD's failures to meet these financial covenants (refer to BUD's Annual Report and Half Year Report);
- ii. not exercised any of its rights under the financing arrangements arising from BUD's failure to meet these financial covenants (nor indicated its intention to do so), save for recently applying the default interest provisions under the financing arrangements (which BUD has satisfied); and

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- iii. continually engaged with, and continues to engage with, BUD (on a regular basis) in relation to BUD's financial and operational performance and remains supportive of BUD; and
 - d) BUD improved its cash flow and inventory position in the 6 month period ending 31 December 2021 – during this period, BUD achieved total gross profits of approximately A\$6.0 million, decreased total trade and other payables by A\$704,000, decreased total borrowings by A\$8.1 million and maintained a higher inventory balance of A\$11.6 million which BUD considers enabled BUD to better manage its liability position and payment obligations.
6. Having regard to the above, BUD believes that its financial condition is sufficient to warrant continued quotation of its securities and its continued listing on the Official List of ASX

Question 4: If the answer to questions 2 or 3 is "No", please explain what steps BUD has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.

7. Not applicable.

Question 5: In relation to the Half Year Report, did the Board receive the CFO and CEO declaration, as described in section 4.2 of BUD's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of BUD have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of BUD and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?

8. The Board received the CEO declaration prior to approving the Half-Year Report. No CFO declaration was received (refer to the response below in paragraph 9).

Question 6: If the answer to Question 5 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of BUD's Corporate Governance Disclosure?

9. A CFO declaration was not received by the Board as the Company had not appointed a CFO prior to the approval and release of the Half Year Report.

Question 7: What enquiries did the Board make of management to satisfy itself that the financial records of BUD have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of BUD?

10. During the period between April 2021 and February 2022, there was an elevated level of engagement between the Board and management, whereby the Board convened a meeting every two to three weeks to ensure it was kept apprised of the Company's operational and financial position. At each meeting, the Board was presented with the most recent financial and trading information of the Company by management (including, if available, the most recent balance sheet and profit and loss statements prepared by the finance team) and had an opportunity to review, query and test the veracity of the information.
11. Further, the Board and management also engaged with the Company's auditors in respect to (amongst other matters) the preparation of its financial accounts and relevant financial reporting disclosures, adherence to accounting policy, fair value assessments, material assumptions to the financial statements and any recommendations to further improve the Company's internal accounting processes.
12. Having regard to the above, in particular the heightened level of engagement with management and the review of the Company's financial statements undertaken by Company's auditors, the Board is of the view that the Company's financial records have been properly maintained and the financial statements have been prepared in accordance with the appropriate accounting standards and give a true and fair view of the financial position and performance of BUD.

Question 8: Commenting specifically on the material concern, does the Board consider that BUD has a sound system of risk management and internal control which is operating effectively?

13. Yes. The material concern detailed in the Half Year Report is primarily a result of the Company's non-cash impairment (refer to the ASX announcement dated 28 February 2022 for further details) and the Board considers that the Company's risk management and internal controls are operating effectively.

Question 9: Given the Auditor has raised a material uncertainty as to whether BUD can continue as a going concern and BUD has cash and cash equivalents of \$1,334,183 and total current liabilities of \$24,786,724, on what basis do the Directors consider that BUD is a going concern?

14. The Directors consider that BUD is a going concern, based on:

- a) BUD's improved financial position (compared to the prior period ending 31 December 2020) – noting that A\$16,098,518 of BUD's borrowings, whilst classified as current liabilities in the Half Year Report, remain due and payable in December 2023 and May 2024;
- b) the Company's improved trading and financial position in recent months (refer to paragraph 4(c) for further details);
- c) the continued implementation of the Company's restructuring plan (refer to the ASX announcements on 16 July 2021 and 20 July 2021 and BUD's response to ASX's queries on 10 November 2021 for further details), which is delivering margins ahead of budget, significantly improving EBITDA, whilst maintaining a substantially reduced cost structure (noting that the restructure plan also includes the introduction of new products, new services and new customer channels, which are scheduled for H2 FY22); and
- d) the Company's historic track record of being able to raise funds to support its business plan as and when required.

Question 10: Please confirm that BUD is complying with the Listing Rules and, in particular, Listing Rule 3.1.

15. The Company confirms that it is complying with the Listing Rules and, in particular, Listing Rule 3.1.

Question 11: Please confirm that BUD's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its Board or an officer of BUD with delegated authority from the Board to respond to ASX on disclosure matters.

16. Yes, confirmed.

For and on behalf of Buddy Technologies Limited,

Ms. Vicky Allison
Company Secretary
Buddy Technologies Limited



15 March 2022

Reference: ODIN48148

Ms Vicky Allinson
Buddy Technologies Ltd
Level 2, 12 Pirie Street
Adelaide, SA 5000

By email: vicky@allinson.com.au

Dear Ms Allinson

Buddy Technologies Ltd ('BUD'): Half Year Report - Query

ASX refers to the following:

- A. BUD's half year report for the period ended 31 December 2021 lodged with ASX Market Announcements Platform ('MAP') and released on 1 March 2022 ('Half Year Report').
- B. ASX notes that the Independent Auditor's Report attached to the Half Year Report ('Auditor's Report') contains a material uncertainty related to going concern:

"We draw attention to Note 1 in the half-year financial report, which indicates the Group incurred a net loss after tax of \$48,725,070 and had net cash outflows from operating activities of \$1,098,632 for the half-year ended 31 December 2021. As at that date the Group had net current liabilities of \$7,047,435 and a net liability position of \$6,397,025. As stated in Note 1, these conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter."

- C. BUD's total equity disclosed in the Half Year Report as being \$(6,397,025).
- D. BUD's announcement titled 'Non Cash Impairment' released on MAP on 1 March 2022 (the 'Announcement') which disclosed the following information:

'in relation to the LIFX cash generating unit (CGU), given the Company's market capitalisation as at 31 December 2021, the Company performed an analysis to see if an impairment change was warranted. As a result of the value-in-use calculation using discounted cash flow model, the Company recorded an impairment charge of \$44,791,669 in the consolidated statement of profit or loss and other comprehensive income.

The CGU's goodwill and intangible assets have been reduced to \$nil and the deferred tax liability relating to the intangible assets has been written back to \$nil.

The impairment is non-cash and has resulted in a negative total equity position for the Company.'

- E. BUD's Corporate Governance Statement for 30 June 2021 lodged on the ASX Market Announcements Platform on 1 October 2021 which provides confirmation that BUD complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations which states:

"The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity"

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and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.”

F. Listing Rule 12.1 which states:

12.1 The level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued +quotation of the entity's +securities and its continued listing.

G. Listing Rule 12.2 which states:

12.2 An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued +quotation of its +securities and its continued listing.

H. Listing Rule 19.11A which states:

19.11A If a listing rule requires an entity to give ASX +accounts, the following rules apply.

(a) If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the +accounts must be consolidated +accounts.

(b) The +accounts must be prepared to Australian accounting standards. If the entity is a +foreign entity the +accounts may be prepared to other standards agreed by ASX.

(c) If the listing rule requires audited +accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the entity is a +foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.

(d) If the listing rule requires +accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a +foreign entity, the review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a +foreign entity, an overseas equivalent of a registered company auditor).

(e) If there is a +directors' declaration that relates to the +accounts, the +directors' declaration must be given to ASX with the +accounts.

(f) If there is a +directors' report that relates to the period covered by the +accounts, the +directors' report must be given to ASX with the +accounts.

Request for information

In light of the information contained in the Half Year Report and the Auditor's Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

1. Is BUD able to confirm that in the Directors' Opinion the Half Year Report:

(a) complies with the relevant Accounting Standards; and

(b) gives a true and fair view of BUD's financial performance and position?

2. Does BUD consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question, please explain the basis for this conclusion. In answering this question, please comment on the nature of BUD's current business activities.

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3. Does BUD consider that the financial condition of BUD is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion, taking into consideration BUD's negative working capital of \$7,074,435 and net liability position of \$6,397,024.
 4. If the answer to questions 2 or 3 is "No", please explain what steps BUD has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.
 5. In relation to the Half Year Report, did the Board receive the CFO and CEO declaration, as described in section 4.2 of BUD's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of BUD have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of BUD and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?
 6. If the answer to Question 5 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of BUD's Corporate Governance Disclosure?
 7. What enquiries did the Board make of management to satisfy itself that the financial records of BUD have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of BUD?
 8. Commenting specifically on the material concern, does the Board consider that BUD has a sound system of risk management and internal control which is operating effectively?
 9. Given the Auditor has raised a material uncertainty as to whether BUD can continue as a going concern and BUD has cash and cash equivalents of \$1,334,183 and total current liabilities of \$24,786,724, on what basis do the Directors consider that BUD is a going concern?
 10. Please confirm that BUD is complying with the Listing Rules and, in particular, Listing Rule 3.1.
 11. Please confirm that BUD's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its Board or an officer of BUD with delegated authority from the Board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **12 PM AWST Tuesday, 22 March 2022**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, BUD's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require BUD to request a trading halt immediately.

Your response should be sent to me by e-mail at ListingsCompliancePerth@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in BUD's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;

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- how long you want the trading halt to last;
 - the event you expect to happen that will end the trading halt;
 - that you are not aware of any reason why the trading halt should not be granted; and
 - any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in BUD's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to BUD's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that BUD's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

Questions

If you have any questions in relation to the above, please do not hesitate to contact me.

Yours sincerely

Laura Gomme
Adviser, Listings Compliance (Perth)