

Buddy Technologies Limited
Level 3, 12 Pirie Street
Adelaide, SA 5000, AUS
+61 1800 831 317

Buddy Platform, Inc.
1201 3rd Ave, Suite 2200
Seattle, WA 98101, USA
+1 206 899 2525



21 June 2021

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- ASX Aware Query

Dear Ms. Gomme,

Buddy Technologies Limited ("BUD" or the "Company") refers to the letter from ASX dated 29 April 2021 ("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: Does BUD consider the Retraction to be information that a reasonable person would expect to have a material effect on the price or value of its securities?

1. Yes.

Question 2: If the answer to question 1 is "no", please advise the basis for that view.

2. Not applicable.

Question 3.1: When did BUD first become aware of the Supply Delay?

3. On or around 5pm (AEST) on 20 April 2021.

Question 3.2: When did BUD first become aware of the Critical Component Shortage?

4. On or around 2:30pm (AEST) on 22 April 2021.

Question 3.3: When did BUD first become aware of the Reporting Error?

5. On or around 5pm (AEST) on 20 April 2021.

Question 4: If BUD first became aware of the Supply Delay, the Critical Component Shortage or the Reporting Error before 27 April 2021, did BUD make any announcement prior to the relevant date which disclosed any of that information?

Buddy.com

6. No.

Question 4.1: If so, please provide details.

7. Not applicable.

Question 4.2: If not, please explain why the information regarding the Supply Delay, the Critical Component Shortage, or the Reporting Error (as applicable) was not released to the market at an earlier time, commenting specifically on when you believe BUD was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps BUD took to ensure that the information was released promptly and without delay. In your answer, please address the question with respect to each of the Supply Delay, the Critical Component Shortage and the Reporting Error separately.

Supply Delay

8. The Company only became aware of the Supply Delay upon the identification of the Reporting Error. The Reporting Error had masked a mismatch of inbound supply of inventory from manufacturers and stock-keeping units ("SKUs") such that it appeared that inventory was arriving, and sales were recorded, at a greater level than what was occurring.
9. The Company did not consider the Supply Delay to be information that a reasonable person would expect to have a material effect on the price or value of BUD's securities because, whilst a mismatch of supplied inventory to customer purchase orders would have an impact on immediate sales, the Company considers that the Supply Delay would have an immaterial impact over the course of the HY 2021 Guidance period.

Reporting Error and Critical Component Shortage

10. In respect to the Reporting Error and the Critical Component Shortage, the Company did not release either the Reporting Error or the Critical Component Shortage at an earlier time on the following basis:
 - a) as soon as reasonably practicable, following the Company becoming aware of the Reporting Error, the Company convened a Board meeting to consider the Reporting Error and, given the uncertainty of the impact created by the Reporting Error at that time, the Board resolved at 7.30am (AEST) on 21 April 2021 that the Company should enter into a trading halt pending the release of an announcement in respect to the Reporting Error (once there was greater certainty / clarity in respect to the cause, and impact, of the Reporting Error);
 - b) subsequent to the Board meeting on 21 April 2021, the Company commenced a review and investigation in respect to the impact of the Reporting Error to determine, amongst other matters, the impact on the HY 2021 Guidance model (if any);
 - c) whilst the above was continuing, the Company became aware of the Critical Component Shortage and considered, having regard to the HY 2021 Guidance model, that both matters should be considered and reviewed in conjunction in order to assess their impact on the HY 2021 Guidance and to ensure shareholders were provided with a definitive and fully informed announcement;
 - d) on 22 April 2021, the Company commenced an investigation in respect to the Critical Component Shortage to determine, amongst other matters, what contingency arrangements were available to the Company and the impact on the Company's business and, by extension, the HY 2021 Guidance model;

- e) the Company completed the above investigations at approximately 11am (AEST) on 26 April 2021 and shortly thereafter convened a Board meeting to consider the outcome of the investigations and approve the release of the Retraction.

11. BUD considers that it had complied with its obligations under Listing Rules 3.1 and 3.1A by:

- a) entering into a trading halt on 21 April 2021 (pre-market open), following the identification of the Reporting Error, and subsequently requesting periods of voluntary suspension; and
- b) releasing the Retraction on 27 April 2021, following the completion of the above review and investigations and the Board having had a reasonable opportunity to consider the outcome of the investigations and approve the Retraction.

Question 5: The March Quarterly Reports indicate that the Company was aware of the Supply Delay in mid-March. As such, please clarify why the Company proceeded to release the March Announcement, including the statement that restocking is proceeding "according to schedule".

12. The Company was not aware of the Supply Delay in mid-March 2021. At the time that the March Announcement was released, internal data (later found to be erroneous due to the Reporting Error) indicated that sales and shipping data reconciled with the statement that restocking is proceeding "according to schedule", noting that, at that time, North American retail restocking had "completed its first phase" which was affirmed by the presence of the Company's products on retailer shelves and the availability of products online at locations such as Amazon.com and BestBuy.com.

Question 6: In the context of your answers above, please clarify why the Retraction was not released to the market at an earlier time, commenting specifically on when you believe BUD was obliged to release the Retraction under Listing Rules 3.1 and 3.1A and what steps BUD took to ensure that the information was released promptly and without delay.

13. Following identification of the Reporting Error and notification of the Critical Component Shortage, the Company immediately took steps to identify the impact of the Reporting Error and the Critical Component Shortage (refer to paragraphs 10 and 11 above) and the Retraction was released to the market as soon as reasonably practicable. Refer to the Company's response to question 4.2 for further details.

Question 7: In the March Quarterly Reports, BUD stated that in order to raise further cash to fund its operations, it is able to "draw on a pre-existing share-based arrangement". Please provide further details regarding the share based arrangement, including:

- 7.1 the material terms of the arrangement and the parties involved (including detailed of any relationship between such parties and BUD and/or its directors);**
- 7.2 the amount BUD anticipates raising pursuant to the arrangement; and**
- 7.3 when BUD anticipates receiving funds pursuant to the arrangement.**

14. The Company does not have a "pre-existing share-based arrangement" and the reference to a "pre-existing share-based arrangement" in the March Quarterly Reports was an error. For clarity, the reference to a "pre-existing share-based arrangement" in the March Quarterly Reports should have been to a loan facility with an unrelated and unsecured lender ("Loan Facility") for an amount of up to A\$1.5 million. The Loan Facility was on market standard terms and the Company could draw down on an amount of up to A\$1.5 million for up to 12 months at an interest rate of 10% with such funds to be utilised for general corporate expenses and working capital purposes. As at the date of the March Quarterly Reports, the Company

had not drawn down on the Loan Facility (noting that the Loan Facility was only entered into as a "back-up" facility).

Question 7.1: the material terms of the arrangement and parties involved (including details of any relationship between such parties and BUD and/ or its directors)?

15. Not applicable.

Question 7.2: the amount BUD anticipates raising pursuant to the arrangement?

16. Not applicable.

Question 7.3: when BUD anticipates receiving funds pursuant to the arrangement?

17. Not Applicable.

Question 8: Given the Critical Component Shortage and BUD's statement in the April Announcement that 'management may need to make material adjustments to the Company's sales plans to enable existing inventories to last through any gap in supply due to this shortage', in conjunction with disclosure in BUD's most recent Appendix 4C for the period ended 31 March 2021, which indicates that:

8.1: BUD has no unused financing facilities available at quarter end;

8.2: net cash used by BUD in operating activities for the quarter was \$15,545,000 (\$22,240,000 year to date (9 months)); and

8.3: BUD's cash and cash equivalents as at 31 March 2021 was \$1,563,000,

please outline how BUD intends to generate cash sufficient to continue to operate as a going concern.

18. Net cash utilised by BUD in operating activities for the March 2021 quarter included substantial one-time payments, comprising:

- a) A\$4.7 million for accrued interest as part of the early January debt refinancing with Partners for Growth ("PFG");
- b) A\$4.4 million was invested by the Company in increasing inventory work in progress levels from the end of the previous quarter;
- c) A\$4.2 million payment to the Company's primary manufacturer to satisfy obligations under the debt and payables refinancing; and
- d) A\$627,000 for legal and restructuring costs associated with the early January debt refinancing with PFG.

19. The above payments, in aggregate of A\$13.93 million, were included in the A\$15.55 million net cash utilised by BUD for the March 2021 quarter.

20. Further, cash collections in the March 2021 quarter were A\$875,000 lower than expected due to payments sent by a customer to a closed bank account. These amounts were successfully collected in April 2021.

21. The Company has taken the following steps to further improve its cash position and ensure that it has sufficient cash to continue to operate as a going concern:

- a) the Company has established new payment terms with its largest customer (Amazon) such that Amazon customer purchase orders are now payable one day after approval by Amazon. This will have the effect of allowing Amazon customer purchase orders which are typically paid 45 to 60 days after invoice approval by Amazon to now be paid one day after approval (such approvals typically taking up to 7 days after the date of issue of an invoice). These new payment terms apply to existing and future Amazon receivables;
- b) the Company has offered other retail partners discounts to purchase product on short-window payment terms, which, if accepted by those retail partners, will shorten the payment cycle;
- c) the Company has moved additional inventory from B2B sales (ie. selling to retail customers) to B2C sales (ie. selling direct to consumers on websites such as lifx.com). This will potentially have the effect of increasing revenue, increasing margins and converts inventory to cash faster than via B2B customers (noting that subject to any unknown future shortages, key B2B customer orders are being filled in parallel);
- d) the Company is in advanced negotiations with its primary manufacturer, Eastfield Lighting (Hong Kong) Co. Limited ("Eastfield"), in respect to deferred payment arrangements regarding certain amounts payable to Eastfield;
- e) the Company is proposing to undertake an equity capital raising to raise a minimum of approximately A\$6.5 million ("Capital Raising"); and
- f) the Company is further reducing cash-based expenses where appropriate.

Question 9: Does BUD consider that its financial condition is sufficient to warrant continued quotation of its securities and its continued listing on the Official List of ASX? Please explain the basis for your conclusion.

22. Yes, based on:

- a) the Company's existing trade receivables of A\$6.8 million (noting the Company's reputable customers, collection history and low risk of defaults);
- b) the Company's ability to convert the A\$10.4 million in inventories to cash by way of expected sales;
- c) the steps taken in paragraph 21 above and subject to the completion of the Capital Raising and the execution of formal documents with Eastfield in respect to the deferred payment arrangements (referred to above); and
- d) the Company's cash at bank of approximately A\$1,400,000 (as at the date of this letter) and approximately A\$7.5 million (following completion of the Capital Raising referred to above),

the Company 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 10: If the answer to question 9 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 12.2.

23. Not applicable.

Question 11.1: In relation to the Reporting Error, please provide details regarding the frequency at which BUD prepares management accounts and the frequency at which BUD's board reviews management accounts?

24. The Company prepares management accounts on a monthly basis which are typically tabled and reviewed at regular Board meetings. Board meetings are typically held monthly.

Question 11.2: In relation to the Reporting Error, please provide details regarding why the March 2021 management accounts were, seemingly, the only ones affected by the Reporting Error?

25. The Reporting Error only affected the March 2021 management accounts as this was a one-off human reporting error.

Question 11.3: In relation to the Reporting Error, please provide details regarding whether BUD has implemented the "checks and balances" it references in the April Announcement and if not, when it is expected they will be implemented?

26. All additional checks and balances detailed in the April Announcement (which includes internal auditing of transactions) are in the process of being implemented and the Company is targeting having them fully implemented by 30 June 2021.

Question 12: Does BUD consider the HY 2021 Guidance (set out in the February Announcement), or any part thereof, to be information that a reasonable person would expect to have a material effect on the price or value of its securities? If not, please explain the basis for that view.

27. Yes.

Question 13: Does BUD consider the March Guidance (set out in the March Announcement), or any part thereof, to be information that a reasonable person would expect to have a material effect on the price or value of its securities? If not, please explain the basis for that view.

28. Yes.

Question 14.1: Please explain the factors which BUD believes gave it a reasonable basis for publishing the HY 2021 Guidance

29. BUD considers that it had a reasonable basis to publish the HY 2021 Guidance based on the following factors:

- a) the Company had achieved at least two consecutive years of customer purchase orders in excess of manufactured supply, three consecutive years of customer purchase orders whose growth was consistent with publicly available market research data, and achieved customer purchase orders in the prior half year well in excess of the customer purchase order projections utilised in the HY 2021 Guidance model (with some of these customer purchase orders were not filled and being expected to be filled during 2H FY2021, and thus were also included in the HY 2021 Guidance model);
- b) following the Company's capital raising in November 2020 (refer to the ASX announcement dated 11 November 2020) and the PFG refinancing in January 2021 (refer to the ASX announcement dated 5 January 2021), the Company had sufficient working capital to purchase, and did purchase, a very substantial quantity of inventory from its manufacturers (noting that the Company had entered into a new manufacturing agreement with its primary manufacturer which removed the previous exclusivity restrictions and reinstated commercially standard and competitive purchasing terms). This inventory was purchased on manufacturing orders that were firm, often fully or partially paid-upfront, and had committed delivery dates (subject to component availability and shipping delays – which were accounted for at greater than historical levels in the HY 2021 Guidance model, refer to paragraph 33 for further details). The Company was therefore able to assess the Company's ability to meet projected customer purchase orders (based on its historical precedent and data) against existing and purchased inventory;

- c) the Company had entered into agreements with new retail partners (including Target and Costco, refer to the ASX announcements dated 30 September 2020 and 18 November 2020) who were stocking the Company's products for the first time. As part of those agreements, the SKUs and volumes required by the new retailer were negotiated, and, on this basis, the Company considered that initial orders with those partners were predictable to a significant extent;
- d) at the time the Company published the HY 2021 Guidance, the Company was emerging from a very low stock position with most of its primary retail customers. This meant that existing customers needed to order minimum quantities of product that were predictable based on shelf space, number of retail locations and number of SKUs carried (all three of which are highly predictable data points); and
- e) data from retail customers, publicly available data from market analysts and the Company's own data indicated that the market for the Company's products was growing, and, having regard to this data, the Company considered that it was unlikely that there would be less demand for the Company's products, or that it would be expected that customer purchase orders would be less than historical demand, in the short term.

Question 14.2: Please explain the factors which BUD believes gave it a reasonable basis for publishing the March Guidance?

- 30. The statements in the March Guidance in respect of revenue, positive EBITDA and record monthly revenue in March 2021 were based upon the Company's month to date March 2021 management accounts at that time (which included the Reporting Error).
- 31. BUD considers that it had a reasonable basis to affirm the HY 2021 Guidance in the March Guidance based on the following factors:
 - a) customer purchase orders received by the Company were consistent with the projected HY 2021 Guidance model;
 - b) the management accounts that were presented to the Board indicated that revenues in January 2021 and February 2021 did align with the HY 2021 Guidance model and although month to date revenues in March 2021 (based on the month to date March 2021 management accounts, which contained the Reporting Error) were below what had been anticipated in the HY 2021 Guidance model by approximately 11% (being a variance of approximately 4.6% from the range provided in the HY 2021 Guidance model), the Company considered at that time (whilst being unaware of the Reporting Error) that, overall, this variance was considered to be within the Company's materiality threshold in respect to the HY 2021 Guidance model; and
 - c) none of the material assumptions detailed in paragraph 33 below had changed.

Question 15.1: To BUD's knowledge, what material assumptions were made in relation to the HY 2021 Guidance?

- 32. The following material assumptions were made in relation to the HY 2021 Guidance:
 - a) customer purchase orders would be consistent with the Company's historical precedent and data, guidance provided by the Company's retailers, and align with new retailer stocking orders;
 - b) cash-based operating expenses (selling, R&D and administrative costs) similar to H1 FY2021;
 - c) supply of inventory from manufacturers to the Company's warehouses would meet or exceed customer purchase orders;
 - d) sale of new products (such as LIFX Clean, LIFX Switch etc) were excluded from HY 2021 Guidance model as the Company did not consider that it had a reasonable basis to form a view on the future revenue of new products without any sales or order history/data;

- e) any uplift in sales due to major promotional events (such as Amazon Prime Day) were excluded as the Company did not consider it had a reasonable basis to form a view on potential sales figures during such events (as they are typically highly dependent on external factors);
- f) any inventory contracted to arrive at the Company's warehouses after mid-June 2021 would be excluded due to the risk of slippage (by reason of parts shortages or shipping delays) and orders due to arrive in the first half of June 2021 would be discounted by half to further account for potential parts shortages or shipping delays;
- g) manufacturing capacity at the Company's manufacturers would be consistent with historical capacity;
- h) no orders placed by the Company with these manufacturers would comprise a material portion of their total capacity, whether separately or in aggregate;
- i) no more than 30% to 40% of the Company's manufacturing orders would be subject to component or raw material shortages/delays (historically approximately 10% of the Company's manufacturing orders were subject to component or raw material shortages/delays). Noting that the Company had applied a 30% to 40% threshold (in the HY 2021 Guidance model) due to supply/component delays by reason of the COVID-19 pandemic;
- j) only placed and accepted manufacturing purchase orders and expected delivery dates have been included in HY 2021 Guidance (ie. does not forecast future manufacturing orders yet to be placed);
- k) product sales margins would approximate those achieved in 1H FY2021; and
- l) an AUD-USD exchange rate of 0.75.

Question 15.2: To BUD's knowledge, what material assumptions were made in relation to the March Guidance?

- 33. In relation to statements in the March Guidance in respect of revenue, positive EBITDA and record monthly revenue in March 2021, the assumption was that the month to date March 2021 management accounts were true and accurate.
- 34. In respect to the HY 2021 Guidance affirmed in the March Guidance, other than the material assumptions detailed in paragraph 33 above, no other material assumptions were made. Refer to the Company's response to question 14.2.

Question 16: Please confirm that BUD is complying with the Listing Rules and, in particular, Listing Rule 3.1.

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

Question 17: Please confirm that BUD's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an office of BUD with delegated authority from the board to respond to ASX on disclosure matters.

- 36. Yes, confirmed.

For and on behalf of Buddy Technologies Limited,

Ms. Vicky Allison

Company Secretary
Buddy Technologies Limited.



29 April 2021

Reference: ODIN33903

Ms Vicky Allinson
Buddy Technologies Ltd
Level 3, 12 Pirie Street
Adelaide, South Australia 5000

By email: vicky@allinson.com.au

Dear Ms Allinson

Buddy Technologies Ltd ('BUD' or the 'Company'): General – Query Letter

ASX refers to the following:

A. BUD's announcement titled "Buddy Announces H2 FY2021 Revenue + Earnings Guidance" released on the ASX Market Announcements Platform ('MAP') on 9 February 2021 (the 'February Announcement'), which included the following disclosure:

- (i) On page 1: *"The Company expects H2 FY2021 revenue to be in the range A\$24 million to A\$28million and expects positive H2 FY021 adjusted EBITDA";*
- (ii) On page 2: *"A range has been provided in respect to the revenue guidance on account of a proportion of orders for inventory being due for delivery to the Company in proximity to the end of the financial year and may – within the ordinary course of business – become accounts receivable in late FY2021 or early FY2022"; and*
- (iii) *Further on page 2: "The Company is not yet in a position to provide specific EBITDA guidance at this point, given the transitional nature of this half-year in respect to transitioning from a single manufacturer supplying the Company's global product needs, to a least two (and likely more) manufacturer, and the anticipated significant impact that additional manufacturers have on improving margins across the business [...]"*

(the 'HY 2021 Guidance').

B. BUD's announcement titled "LIFX Replenishes Amazon, Best Buy; Fuels Record Breaking March" released on MAP on 26 March 2021 (the 'March Announcement'), which included the following disclosure (emphasis added):

- (i) On page 1: ***"With restocking proceeding according to schedule, March is on track to be the Company's highest revenue month ever, revenue expected to be more than double 2020's best month and expected to be substantially EBITDA positive";***
- (ii) On pages 3 and 4 *"[...] with North American retail restocking having completed its first phase, and as a consequence of a record volume of inventory inbound from the factory to the Company's U.S. warehouses, March 2021 is expected to be the highest revenue month ever for LIFX. March revenues are expected to exceed the combined holiday revenue of November and December 2020. [...] March is also expected to deliver the highest monthly (positive) EBITDA in the Company's history"; and*
- (iii) *Further on page 3: "The Company's guidance of revenue (A\$24M-A\$28M) and positive EBITDA for 2HFY21 remains in place [...]"*

(together, the 'March Guidance').

C. BUD's quarterly activity and cash flow reports for the period ended 31 March 2021 released on MAP on 27 April 2021 (the 'March Quarterly Reports'), which included the following disclosure:

- (i) On page 3: *"The Company has identified that March revenues were lower than management forecasts due to mismatch of delivery timings (largely due to various component delays on some LIFX SKUs), however inbound customer orders from retailers slightly beat management forecasts for the month. [...]"*;
- (ii) Further on page 3 (emphasis added): *"While over 92% of the product ordered with manufacturers and expected in March was delivered to LIFX warehouses in that month, unfortunately much of it came too late in the month to achieve sales against the orders placed. **Nearly 43% of the entire quarter's supply arrived in warehouses between 19 March and 26 March** - which while pleasing to finally have meaningful quantities of inventory back in stock, just arrived too late to meet the customer orders that had been placed earlier in the quarter/month" (the 'Supply Delay');*
- (iii) On page 5: *"[...] the Company is currently experiencing a critical component shortage which has paused manufacturing across the product range (refer to the ASX announcement dated 27 April 2021 for details [...]" (the 'Critical Component Shortage');*
- (iv) On page 6 of the Appendix 4C, in response question 2 regarding steps taken or proposed by the entity to raise further cash to fund its operations: *"In addition to the fact that much of our upcoming Costs of Goods Sold has been prepaid (and thus minimizing future cash outflows), the Company will or may: [...] 4.) Draw on a pre-existing share-based arrangement"*;
- (v) On page 6 of the Appendix 4C, in response to question 3 regarding whether the entity expects to be able to continue its operations and meet its business objectives: *"Yes, on the basis that the Company will be able to generate cash sufficient to operate as a going concern",*
(together, the 'March Quarterly Reports Information').

D. BUD's announcement titled "Update on Financial Guidance and March 2021 Results" released on MAP on 27 April 2021 (the 'April Announcement'), which included the following disclosure:

- (i) On page 1 and 2 in relation to the March Guidance: *"The Company refers to the ASX announcement dated 26 March 2021 ...and wishes to advise that as Buddy's financial team was closing the books on the Q3FY21 financials (January – March 2021), a reporting error in respect to the Company's internal management reports and accounts for the Company's March sales was identified. This error meant that the Company's management accounts for March had incorrectly included intercompany accounts (internal transfers between subsidiaries) and, as a result, the revenue figures for the month of March that were reported to both the Audit Risk Committee and the Board of Directors were inflated."* (the 'Reporting Error').

"Accordingly, the Company formally retracts the following statements in the March Announcement, which were made on the basis of the incorrect management accounts:

- (1) *"March is on track to be the Company's highest revenue month ever, revenue expected to be more than double 2020's best month and expected to be substantially EBITDA positive";*
- (2) *"March 2021 is expected to be the highest revenue month ever for LIFX";*
- (3) *"March revenues are expected to exceed the combined holiday revenue for November and December 2020"; and*
- (4) *"Accordingly, March is also expected to deliver the highest monthly (positive) EBITDA in the Company's history",*

as these statements were based on the erroneous information detailed above and these milestones were ultimately not achieved. The Company advises that customer revenue for the March 2021 quarter was A\$5.0 million.

The Board of the Company has investigated how this error has occurred and considers this to be an isolated incident, noting that the intercompany accounts are regularly taken into account in the preparation of the Company's period filings (including the Appendix 4C). Notwithstanding this, to mitigate the risk of such an error occurring in the future, the Company intends to establish various measures (ie. checks and balances)..."

(ii) On page 2 with respect to the Critical Component Shortage: "[...] whilst the Company was in trading halt last week, the Company's supply and operations team was notified by the Company's manufacturers in China that an entire production run's allocation of a critical semiconductor component for the Company's smart lights (which was being held on behalf of Buddy by the supplier), had been sold to a third party without the Company's knowledge - this component, a LED driver chip, is found in every one of the LIFX products and is currently in significantly high demand across the manufacturing landscape ranging from consumer electronics to automotive; and the Company understands that the present situation is unprecedented, and as a result, without that required LED driver chip component, the Company's manufacturing activities have ceased until further notice."

(iii) Further on page 2: "The Board considers that the occurrence of the above matters introduces a material uncertainty as to the Company's ability to manufacture the products needed to meet the Company's revenue and earnings guidance for H2 FY2021 (detailed in the February Announcement). Further, depending on when the component (or a replacement component, as outlined below) becomes available, management may need to make material adjustments to the Company's sales plans to enable existing inventories to last through any gap in supply due to this shortage."

On page 3: "On this basis, the Board has determined to withdraw all previous guidance in respect to the Company's H2 FY2021 revenue and earnings guidance and does not consider it appropriate, at this time, to provide an updated revenue and earnings guidance."

(together, the 'Retraction').

E. Listing Rule 3.1, which requires a listed entity to immediately give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

F. The definition of "aware" in Chapter 19 of the Listing Rules, which states that:

"an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity" and section 4.4 in Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B "When does an entity become aware of information."

G. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.

"3.1A Listing rule 3.1 does not apply to particular information while each of the following is satisfied in relation to the information:

3.1A.1 One or more of the following applies:

- *It would be a breach of a law to disclose the information;*
- *The information concerns an incomplete proposal or negotiation;*

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- *The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
 - *The information is generated for the internal management purposes of the entity; or*
 - *The information is a trade secret; and*
- 3.1A.2 *The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and*
- 3.1A.3 *A reasonable person would not expect the information to be disclosed.”*
- H. ASX’s policy position on the concept of “confidentiality”, which is detailed in section 5.8 of Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. In particular, the Guidance Note states that:
- “Whether information has the quality of being confidential is a question of fact, not one of the intention or desire of the listed entity. Accordingly, even though an entity may consider information to be confidential and its disclosure to be a breach of confidence, if it is in fact disclosed by those who know it, then it ceases to be confidential information for the purposes of this rule.”*
- I. ASX’s policy on the provision of “earnings guidance”, detailed in section 7 of Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. In particular, section 7.1 of the Guidance Note states:
- “As a forward-looking statement, earnings guidance must be based on reasonable grounds or else it will be deemed to be misleading with all the significant legal consequences that entails. For this reason, appropriate due diligence needs to be applied to the preparation of earnings guidance. The underlying figures and assumptions should be carefully vetted and signed off at a suitably senior level before the guidance is released.”*
- J. ASX’S policy on ‘market sensitive earnings surprises’ detailed in section 7.3 of Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. In particular, the Guidance Note states:
- “If an entity becomes aware that its earnings for the current reporting period will differ materially (downwards or upwards) from market expectations, it needs to consider carefully whether it has a legal obligation to notify the market of that fact. This obligation may arise under Listing Rule 3.1 and section 674, if the difference is of such magnitude that a reasonable person would expect it to have a material effect on the price of value of the entity’s securities – referred to in this Guidance Note as a “market sensitive earnings surprise”. Alternatively, in the case of an entity which becomes aware that its earnings for a reporting period will differ materially from earnings guidance it has published to the market, it may arise under section 1041H, because it is failing to inform the market that its published guidance is no longer accurate could constitute misleading conduct on its part”.*
- K. ASIC *Regulatory Guide 170: Prospective financial information*, which includes the following guidance on prospective financial information:
- a. *RG 170.11 - We believe the general test of whether prospective financial information must be disclosed is whether it is:*
- (a) relevant to its audience; and*
- (b) reliable (i.e. there must be a reasonable basis for it: see GIO Australia Holdings Ltd v. AMP Insurance Investment Holdings Pty Ltd (1998) 29 ACSR 584).*
- b. *RG 170.17 - The making of a statement that contains prospective financial information (i.e. a forward looking statement) must have reasonable grounds or it will be taken to be misleading under s728(2) or 769C of the Corporations Act. What are ‘reasonable grounds’ should be determined objectively in light*

of all of the circumstances at the time of the statement, so that a reasonable person would view as reasonable the grounds for the statement.

- c. *RG 170.18 - We consider that prospective financial information based on hypothetical assumptions (rather than reasonable grounds) is likely to be misleading and provide little information value to investors. In our view, prospective financial information without reasonable grounds is not material to investors, nor would an investor reasonably require it or reasonably expect to find it in a disclosure document or PDS.*
RG 170.41 - We generally consider that prospective financial information for a period of more than two years may require independent or objectively verifiable sources of information to establish that there are reasonable grounds to provide it. However, for an existing business preparing a statement on estimates for up to two years, we will generally not regard as necessary independent verification if there otherwise appear to be reasonable grounds to make the statement. Directors should state why they believe the information is objectively reasonable. We may still take action on a statement on estimates for up to two years if we believe there are no reasonable grounds to provide it.
- d. *RG 170.42- The reasonable grounds requirement means that there should be a relevant factual foundation for the prospective financial information and that the information is not contrived: see George v. Rockett (1990) 170 CLR 104 and Re Aldred & Dept of the Treasury (1994) 35 ALD 685.*
- e. *RG 170.50 - The general principles in this regulatory guide also apply to advertising because of the interaction of s769C and 1041H. ... [emphasis added]*

Section 769C states:

For the purposes of this Chapter, or of a proceeding under this Chapter, if:

a person makes a representation with respect to any future matter (including the doing of, or refusing to do, any act); and (b) the person does not have reasonable grounds for making the representation; the representation is taken to be misleading.

Section 1041H states:

A person must not, in this jurisdiction, engage in conduct, in relation to a financial product or a financial service that is misleading or deceptive or is likely to mislead or deceive.

- f. *RG 170.59 - Investors should be given enough information to enable them to:(a) assess whether the prospective financial information is relevant and reliable (i.e. to form their own view about how reasonable the grounds are for making the statement); and (b) identify with certainty the facts and circumstances that support prospective financial information, as well as being able to demonstrate that the information is reasonable.*
- g. *RG 170.61 - A disclosure document or PDS must specifically disclose any assumptions used in compiling prospective financial information that materially affect the forecast outcome. The assumptions should be detailed and specific enough to enable the investor to work through all of the prospective financial information. This may require details about how returns are calculated during each year that the information covers. Among other things, assumptions about expenditures, revenues, inflation rates and other such variables should be clearly disclosed and highlighted if different assumptions have been used for different parts of the term that the prospective financial information covers.*
- h. *RG 170.62 Investors must be able to assess:(a) the validity of the assumptions on which the prospective financial information is based;(b) the likelihood of the assumptions actually occurring; and(c) the effect on the prospective financial information if the assumptions vary.*
- i. *RG 170.63 - We expect a disclosure document or PDS to disclose material assumptions about: (a) specific future economic conditions; and (b) particular circumstances affecting a company or financial product and the industries relevant to that company or financial product.*

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- j. *RG 170.64 - Disclosure of the material assumptions allows an investor or adviser to make an informed assessment of an issuer's prospects, or a person as a retail client to make an informed decision whether to acquire the product.*
- k. *RG 170.65 - An assessment of the impact of these assumptions on prospective financial information should also be included. However, a disclosure document or PDS does not have to: (a) state general assumptions, such as the absence of war or natural disasters, unless the forecast takes these events into account; or (b) disclose assumptions that would not materially affect the prospective financial information.*
- l. *RG 170.66 - It is not sufficient to state the general nature of an assumption. Specific quantities or amounts should be set out. For example, it may not be sufficient to state that prospective financial information is based on an anticipated recovery in equity markets, without setting out the amount of the required recovery: see GIO Australia Holdings Ltd v. AMP Insurance Investment Holdings Pty Ltd(1998) 29 ACSR 584.*
- m. *RG 170.67 - We consider that because the presence or absence of reasonable assumptions is a factor in any determination of whether an issuer has satisfied the relevant disclosure obligation, the basis for the assumptions underlying the prospective financial information should be stated in the disclosure document or PDS in order that an investor has some means of assessing that information: see Miba Pty Ltd v. Nescor Industries (1996) 141 ALR 525 and Wesfi Ltd v. Blend Investments Pty Ltd (1999) 31 ACSR69. RG 170.68 - Disclosure of the basis for prospective financial information may reduce the capacity of the information to mislead because such disclosure assists the assessment/decision of an investor or retail client.*
- n. *RG 170.78 - Investors must be able to assess the reliability of prospective financial information. To do this, they should be able to assess whether the key assumptions are likely to occur. Therefore, a disclosure document or PDS must disclose material details about the enquiries and research undertaken and the process followed in preparing the information. A complete copy of the Regulatory Guide is available at: <http://download.asic.gov.au/media/1240943/rq170-010411.pdf>*
- L. ASX Listing Rule 12.2 which provides that 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.

Request for information

Having regard to the above, ASX asks BUD to respond separately to each of the following questions and requests for information:

April Announcement Queries

1. Does BUD consider the Retraction to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
2. If the answer to question 1 is "no", please advise the basis for that view.
3. When did BUD first become aware of:
 - 3.1 the Supply Delay;
 - 3.2 the Critical Component Shortage; and
 - 3.3 the Reporting Error.

Please respond to each item separately.

4. If BUD first became aware of the Supply Delay, the Critical Component Shortage or the Reporting Error before 27 April 2021, did BUD make any announcement prior to the relevant date which disclosed any of that information?

4.1 If so, please provide details.

4.2 If not, please explain why the information regarding the Supply Delay, the Critical Component Shortage, or the Reporting Error (as applicable) was not released to the market at an earlier time, commenting specifically on when you believe BUD was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps BUD took to ensure that the information was released promptly and without delay.

In your answer, please address the question with respect to each of the Supply Delay, the Critical Component Shortage and the Reporting Error separately.

5. The March Quarterly Reports indicate that the Company was aware of the Supply Delay in mid-March. As such, please clarify why the Company proceeded to release the March Announcement, including the statement that restocking is proceeding “*according to schedule*”.

6. In the context of your answers above, please clarify why the Retraction was not released to the market at an earlier time, commenting specifically on when you believe BUD was obliged to release the Retraction under Listing Rules 3.1 and 3.1A and what steps BUD took to ensure that the information was released promptly and without delay.

Financial queries

7. In the March Quarterly Reports, BUD stated that in order to raise further cash to fund its operations, it is able to “*draw on a pre-existing share-based arrangement*”.

Please provide further details regarding the share based arrangement, including:

7.1 the material terms of the arrangement and parties involved (including details of any relationship between such parties and BUD and/ or its directors);

7.2 the amount BUD anticipates raising pursuant to the arrangement; and

7.3 when BUD anticipates receiving funds pursuant to the arrangement.

8. Given the Critical Component Shortage and BUD’s statement in the April Announcement that ‘*management may need to make material adjustments to the Company’s sales plans to enable existing inventories to last through any gap in supply due to this shortage*’, in conjunction with disclosure in BUD’s most recent Appendix 4C for the period ended 31 March 2021, which indicates that:

8.1 BUD has no unused financing facilities available at quarter end;

8.2 net cash used by BUD in operating activities for the quarter was \$15,545,000 (\$22,240,000 year to date (9 months¹)); and

8.3 BUD’s cash and cash equivalents as at 31 March 2021 was \$1,563,000,

please outline how BUD intends to generate cash sufficient to continue to operate as a going concern.

9. Does BUD consider that its financial condition is sufficient to warrant continued quotation of its securities and its continued listing on the Official List of ASX? Please explain the basis for your conclusion.

10. If the answer to question 9 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 12.2.

¹ This Appendix 4C states that year to date figures are for a 6 months period, but we understand this to be an error and it should state year to date figures are for a 9 month period.

Reporting Error

11. In relation to the Reporting Error, please provide details regarding:
 - 11.1 the frequency at which BUD prepares management accounts and the frequency at which BUD's board reviews management accounts;
 - 11.2 why the March 2021 management accounts were, seemingly, the only ones affected by the Reporting Error;
 - 11.3 whether BUD has implemented the "checks and balances" it references in the April Announcement and if not, when it is expected they will be implemented.

Revenue and EBITDA forecasts

12. Does BUD consider the HY 2021 Guidance (set out in the February Announcement), or any part thereof, to be information that a reasonable person would expect to have a material effect on the price or value of its securities? If not, please explain the basis for that view.
13. Does BUD consider the March Guidance (set out in the March Announcement), or any part thereof, to be information that a reasonable person would expect to have a material effect on the price or value of its securities? If not, please explain the basis for that view.
14. Please explain the factors which BUD believes gave it a reasonable basis for publishing the:
 - 14.1 HY 2021 Guidance; and
 - 14.2 the March Guidance?
15. To BUD's knowledge, what material assumptions were made in relation to the:
 - 15.1 HY 2021 Guidance; and
 - 15.2 the March Guidance?

Listing Rule queries

16. Please confirm that BUD is complying with the Listing Rules and, in particular, Listing Rule 3.1.
17. Please confirm that BUD's responses to the questions above have been authorised and approved in accordance with 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.

Once ASX has received and analysed the information above, it is likely to make further enquiries of BUD.

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 **9.00 AM AWST Tuesday, 4 May 2021**. 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.

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)