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16 July 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 – Further Query Letter

Dear Ms. Gomme,

Buddy Technologies Limited ("BUD" or the "Company") refers to the letter from ASX dated 30 June 2021 ("Further Query Letter").

Detailed below are the Company's responses to the questions in the Further Query Letter. Unless otherwise defined, capitalised terms in this letter have the same meaning given to those terms in the Further Query Letter and our letter to ASX dated 21 June 2021.

The Loan Facility

Question 1: Does BUD consider the Loan Facility to be information that a reasonable person would expect to have a material effect on the price or value of its securities?

1. No.

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

2. On the basis that:

- a) BUD considered the Loan Facility amount of A\$1.5 million ("Max Loan Amount") to be immaterial, even if fully drawn down, having regard to BUD's financial position (at that time), noting:
 - i. BUD's total assets of A\$79,204,933 as at 30 June 2020 (with the Max Loan Amount being, equivalent to 1.89% of total assets) and A\$83,183,810 as at 31 December 2020 (with the Max Loan Amount being, equivalent to 1.80% of total assets); and
 - ii. BUD's total liabilities of A\$47,148,533 as at 30 June 2020 (with the Max Loan Amount being, equivalent to 3.18% of total liabilities) and A\$43,945,542 as at 31 December 2020 (with the Max Loan Amount being, equivalent to 3.41% of total liabilities); and
- b) BUD considered the Loan Facility to be immaterial when it had other secured loan facilities (at that time) of up to US\$26 million (that will rank in priority to the Loan Facility) and the Loan Facility was not secured.

Question 3: Has BUD previously announced details of the Loan Facility to the market, and if so, please provide details of such.

3. No.

Question 4: Please provide the material terms of the Loan Facility, including:

- a) The parties to the Loan Facility,**
 - b) The Commencement date of the Loan Facility,**
 - c) Any other material terms**
4. The Loan Facility was entered into on 28 September 2020 with DM Capital Management Pty Ltd, a non-related party shareholder of BUD ("Lender"), on the following terms:
- a) BUD could draw down on the Loan Facility at any time by giving the Lender written notice;
 - b) the Loan Facility would mature 12 months from the date of the Loan Facility (being, 28 September 2021) and all amounts drawn down (and any accrued interest) must be paid in full on the maturity date;
 - c) interest on amounts drawn down would be calculated at 10% per annum; and
 - d) the Loan Facility also contained customary representations and warranties for an agreement of this nature.

Question 5: Please confirm whether BUD has drawn down on the Loan Facility, and if so, the amount of the draw down.

5. BUD had drawn down A\$500,000 under the Loan Facility which was repaid in November 2020. Further, BUD has recently entered into replacement loan facilities with two non-related party shareholders of BUD, one of which is the Lender, ("Replacement Lenders") for an aggregate amount of A\$3 million, one of which effectively replaced the Loan Facility ("Replacement Loan Facilities"). The Replacement Loan Facilities have the same terms as the Loan Facility, save that the Replacement Loan Facilities will mature 18 months from the date of the Replacement Loan Facility (as opposed to 12 months). The Company has recently drawn down an amount of A\$500,000 under the Replacement Loan Facilities (refer to the ASX announcement dated 16 July 2021 for further details).

The deferred payment arrangements with Eastfield

Question 6: Noting that BUD has disclosed in the Initial Response that it is in 'advanced negotiations with its primary manufacturer, Eastfield Lighting (Hong Kong) Co. Limited in respect to deferred payment arrangements' Please provide the material terms of the deferred payment arrangement which BUD is negotiating with Eastfield, including:

- a) The total amount of payment being deferred by BUD;**
 - b) The period over which payments will be deferred;**
 - c) Any interest payable on the deferred amounts;**
 - d) Any other material terms.**
6. BUD has executed binding formal documentation with its primary manufacturer, Eastfield, pursuant to which the parties have agreed that BUD will pay Eastfield a settlement sum of US\$2.75 million on or before 31 August 2021 ("Eastfield Payment") in full and final settlement of all amounts owing under the line of credit and the old accounts payable, being an aggregate amount of approximately US\$5.77 million (ie. there will be no deferral arrangements). BUD will utilise US\$1 million from proceeds raised under the Placement (refer below for further details) to pay a proportion of the Eastfield Payment and intends to utilise the first US\$1.75 million raised under the entitlement offer to pay the remainder of the Eastfield Payment. If BUD does not raise sufficient funds under the entitlement offer to pay the remainder of the Eastfield Payment, BUD will issue to PFG promissory notes (or convertible notes) and will utilise these proceeds to pay the remainder of the Eastfield Payment. Refer to the ASX announcement dated 16 July 2021 for further details.

Question 7: Please set out what alternatives BUD has open to it if it is unable to agree the terms of the deferred payment arrangement with Eastfield.

7. Not applicable.

Financial queries

Question 8: Noting that BUD has disclosed that it has cash at the bank of approximately A\$1,400,000 (as at the date of the Initial Response), if BUD is not able to raise additional funds via the Capital Raising referred to in the Initial Response, what alternative arrangements does BUD have available to it to continue as a going concern.

8. Buddy has received firm commitments from institutional, professional and sophisticated investors in respect to a placement to raise A\$6.5 million ("Placement"). The directors of BUD are satisfied that BUD will continue as a going concern following the completion of the Placement and BUD is not reliant on any funds raised under the proposed entitlement offer in order to continue as a going concern. Refer to the ASX announcement dated 16 July 2021 for further details in respect to the Capital Raising.

Listing Rule queries

Question 9: Please confirm that BUD is complying with the Listing Rules and, in particular, Listing Rule 3.1.

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

Question 10: 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.

10. Yes, confirmed.

For and on behalf of Buddy Technologies Limited,

Ms. Vicky Allison

Company Secretary

Buddy Technologies Limited.



30 June 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'): Further Query Letter

ASX refers to the following:

- A. ASX's query letter dated 29 April 2021 ('Initial Query').
- B. BUD's response to the Initial Query dated 21 June 2021 (the 'Initial Response'), released on MAP on 21 June 2021.
- C. Listing Rule 18.6 which states that:
"On admission to the official list, an entity must comply with the listing rules. This applies even if quotation of the entity's securities is deferred, suspended or subject to a trading halt."
- D. 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.
- E. 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."
- F. BUD's response to question 7 of the Initial Query (Paragraph 14 of the Initial Response), which included the following disclosure:
'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'.
- G. BUD's response to question 8 of the Initial Query (at paragraph 21 of the Initial Response), which included the following disclosure:
'The Company has taken the following steps to further improve its cash position and ensure that it has sufficient cash to continue operating 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;*

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- (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 (i.e. Selling to retail customer) to B2C sales (i.e. 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.*
- H. BUD's response to question 9 of the Initial Query (paragraph 22 of the Initial Response) in which BUD disclosed that it *'believes that its financial condition is sufficient to warrant continued quotation of its securities and listing on the Official List of ASX'*.
- I. BUD's response to question 11.2 of the Initial Query (paragraph 25 of the Initial Response), which disclosed that *'the Reporting Error only affected the March 2021 management accounts as this was a one-off human reporting error'*.

Unless otherwise defined, defined terms in this letter have the same meaning as in the Initial Query and Initial Response.

Request for Further Information

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

The Loan Facility

1. Does BUD consider the Loan Facility 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. Has BUD previously announced details of the Loan Facility to the market, and if so, please provide details of such.
4. Please provide the material terms of the Loan Facility, including:
 - a) The parties to the Loan Facility,
 - b) The commencement date of the Loan Facility,
 - c) Any other material terms
5. Please confirm whether BUD has drawn down on the Loan Facility, and if so, the amount of the draw down.

The deferred payment arrangements with Eastfield

6. Noting that BUD has disclosed in the Initial Response that it is in *'advanced negotiations with its primary manufacturer, Eastfield Lighting (Hong Kong) Co. Limited in respect to deferred payment arrangements'* Please provide the material terms of the deferred payment arrangement which BUD is negotiating with Eastfield, including:

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- a) The total amount of payment being deferred by BUD;
 - b) The period over which payments will be deferred;
 - c) Any interest payable on the deferred amounts;
 - d) Any other material terms.
7. Please set out what alternatives BUD has open to it if it is unable to agree the terms of the deferred payment arrangement with Eastfield.

Financial queries

8. Noting that BUD has disclosed that it has cash at the bank of approximately A\$1,400,000 (as at the date of the Initial Response), if BUD is not able to raise additional funds via the Capital Raising referred to in the Initial Response, what alternative arrangements does BUD have available to it to continue as a going concern.

Listing Rule queries

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

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, no later than **Tuesday 6 July 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 this information immediately. This may require the information to be disclosed before the deadline set out in the previous paragraph.

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)