

30 September 2019

Buddy Technologies Limited (“Buddy” or “the Company”) is pleased to attach its audited Annual Report for the year ended 30 June 2019.

The Company further wishes to highlight and clarify certain differences noted in the accompanying audited Financial Statements when compared to the unaudited Financial Statements for the year ended 30 June 2019 lodged with the ASX on 30 August 2019. These differences relate to the accounting for the acquisition of Lifi Labs, Inc. (described in the notes to the audited Financial Statements). At the time that the preliminary financial statements were lodged, the Company had engaged a valuation firm to provide a Purchase Price Allocation report in relation to Buddy’s acquisition of the business and assets of Lifi Labs Inc. This engagement was still in progress at 30 August 2019 and the allocation of the purchase price in the preliminary financial statements was based on estimates provided by the valuation firm at that time. In addition, the Company reported \$50,568,406 of stock and debt issued as part of the acquisition as both financing and investing activities in the unaudited Statement of Cash Flows in order to provide the reader with a greater understanding of the “gross” economic impact of the acquisition.

Based on the final report prepared by the valuation firm, the Company has changed the estimated values which has resulted in the Company increasing net assets and total equity by \$1,185,700 (increasing total assets by \$7,849,000 and total liabilities by \$6,663,300).

The above adjustments have resulted in an overall decrease to the unaudited loss after tax for the year from \$29,306,539 to the audited loss after tax of \$28,120,839 and a decrease in the total comprehensive loss for the year from \$28,517,135 to \$27,331,435. This decrease was the result of a reduction of amortisation of \$835,000 and a deferred income tax benefit of \$350,000. There was no change to the loss per share of 0.02 cents per share.

Similarly, in the statement of cash flows, after removing all equity and debt issued to selling shareholders, investing cash flows increased from (\$74,953,349) to (\$24,384,943) and financing cash flows decreased from \$64,617,662 to \$14,049,257.

The Company encourages all shareholders and prospective investors to familiarise themselves with the audited Annual Report.

On behalf of the Board

A handwritten signature in blue ink, appearing to read 'David McLauchlan', with a stylized, cursive script.

David McLauchlan

BUDDY TECHNOLOGIES LIMITED
ACN: 121 184 316



Buddy

ACN 121 184 316

ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

BUDDY TECHNOLOGIES LIMITED
ACN: 121 184 316

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This annual report covers the Buddy Technologies Limited Group (previously known as Buddy Platform Limited), consisting of Buddy Technologies Limited ("Buddy" or the "Company") and its subsidiaries. The financial report is presented in Australian dollars.

BUDDY TECHNOLOGIES LIMITED
ACN: 121 184 316

Corporate Information

Directors:

Richard Borenstein
Non-Executive Chairman

David McLauchlan
CEO & Executive Director

John van Ruth
Non-Executive Director

Rosey Batt
Non-Executive Director

Marc Alexander
Executive Director & CTO

Company Secretary:

Stuart Usher

Chief Financial Officer:

Richard Jacroux

Auditors:

Nexia Perth Audit Services Pty Ltd
Level 3
88 William Street
Perth WA 6000

Bankers:

Westpac Banking Corporation
130 Rokeby Road
Subiaco WA 6008

Commonwealth Bank
100 King William Street
Adelaide SA 5000

Website:

www.buddy.com

ASX Code:

BUD (Ordinary Shares)

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Home Stock Exchange:

Australian Securities Exchange Limited
Level 40
Central Park
152-158 St George's Terrace
PERTH WA 6000

Share Registry:

Link Market Services Limited
Level 12, QV1 Building
250 St Georges Terrace
PERTH WA 6000

BUDDY TECHNOLOGIES LIMITED

ACN: 121 184 316

CHAIRMAN'S REPORT

Dear Fellow Shareholders,

The Board of Buddy Technologies Limited (Buddy) is pleased to present to our shareholders the Annual Report for the year ended 30 June 2019 (FY19).

Over the past 12 months, Buddy's business has evolved and changed in some significant ways. Primary among them was the acquisition of Lifi Labs Inc. (LIFX) in March 2019 which greatly enhanced Buddy's ability to make every space smarter and more efficient.

A propos of our growing family of smart space technologies, we simultaneously changed our company's name to Buddy Technologies (from Buddy Platform). We now are pursuing two fundamental market strategies: 1) build amazing customer products and services that make spaces smarter, more efficient, and/or more comfortable - like Buddy Ohm and LIFX - and 2) "power" other manufacturers' products to do the same - like Airstream's Smart Control Technology - via our Digital Transformation Services, powered by the Buddy Cloud.

Buddy Ohm

Buddy Ohm is a monitoring and control platform. The more it monitors or measures, the more valuable it becomes to customers. Ohm monitors more spaces by connecting to additional sensors and data, even those not made by Buddy. For instance, the "Works with Ohm" program allows us to seamlessly connect to a large number of water and gas meters, integrating the data into the Buddy Ohm management console and dashboard.

This year we also moved to a 3rd party hardware model for monitoring electricity - Wattwatchers. This allows us to more easily monitor individual electrical circuits and subsystems and begin to layer on systems control. By working with third parties such as Wattwatchers and our Works with Ohm partners - we offer deeper data collection functionality at a lower price point, substantially reducing cost of goods sold (COGS), improving supportability and adding a foundation for systems control.

In addition to utility monitoring, measurement and control, customers and prospects are asking for sensors to monitor occupancy, motion, ambient light (the amount of sunlight in room), fire, even seismic activity. Looking to the future, we recognized that we needed to develop a whole suite of sensors that would satisfy increasingly sophisticated customer demands. We found such a suite, readily available and capable of being in every room, in the intelligent lights produced and sold by LIFX.

LIFX

On Feb 6, 2019, Buddy announced that we were acquiring LIFX (pronounced "life-x"). LIFX pioneered the smart light in 2012 with the first Wi-Fi-enabled, multi-coloured LED light controllable via a smart device. Designed to last over 22 years, LIFX offers the brightest, most flexible smart lighting solutions for home and office. Continuously developing their own technology and intellectual portfolio, LIFX has secured a strong position in the smart lighting and smart spaces market with a range of 12 products, each uniquely delighting customers while costing up to 85% less to operate than comparable incandescent lighting.

Each of LIFX's products are capable of reporting their own energy consumption and, with continued development, capable of acting as a sensing platform for environmental & localised comfort monitoring, and more. Certain models of LIFX lights contain additional sensors and hardware that facilitate notification and control by Buddy Ohm of lights, appliances, air conditioning, security apparatus and other energy needs in an occupied space. LIFX maintains an extensive intellectual property portfolio, which currently includes 28 patents filed and granted.

Intelligent lighting will form the backbone of intelligent buildings. It is already the #1 connected device category to voice assistant technology such as Amazon Alexa, Google Assistant, and Apple's Home. LIFX is viewed as a market leader in this space, second only to Philips. Initially, Buddy will be focused on helping LIFX expand production to fill the growing demand for LIFX lights around the world.

BUDDY TECHNOLOGIES LIMITED

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CHAIRMAN'S REPORT (CONTINUED)

In time, Buddy will introduce LIFX to new commercial markets and consider the opportunity to deploy the Buddy Ohm solution via existing installations of LIFX lights in residential spaces.

Digital Transformation Services powered by the Buddy Cloud

At the beginning of the fiscal year, Buddy was proud to announce that Airstream – a wholly owned subsidiary of Thor Industries – had started shipping their trailers with a new connected experience called Smart Control Technology, build on and powered by the Buddy Cloud, part of our Digital Transformation Services offering. The Buddy and Airstream relationship continues to strengthen with enhancements of the existing technology to offer “best in class” user experience through our Design Led Thinking approach.

Airstream has a long, strong history of producing high quality recreational vehicles and has plans to expand their manufacturing capacity. We believe our partnership is solid and likely to grow in the future, possibly into other Thor recreational vehicle brands.

With LIFX, we acquired technology that easily enables hardware devices of all sorts to be connected to the internet- whether developed by Buddy or other manufacturers. With our existing hardware module, ceiling fans, motorized shades or louvers, switches and power points can report their own energy consumption and be monitored and controlled by smart phone applications or voice-assistants. Buddy's Digital Transformation Services leverages our control modules, cloud technologies, and know-how to quickly enable connectivity of new (or other's existing) hardware.

Leadership Progression

Turnover in board membership is a natural and necessary part of every corporate board. At the Annual General Meeting in November 2018, we welcomed Rosemary (Rosey) Batt, a South Australian resident and experienced legal professional. Rosey has added tremendous value to the board with her 30+ years of legal and corporate board experience.

In March 2019, we also welcomed Marc Alexander as our new CTO and technology board member. Marc is the co-founder and Chief Technology Officer at LIFX and we are thrilled to have his leadership as Buddy enters into this transformational period. Marc takes the place of Alex Gounares who served on our board since our public floatation and whose contributions to the board and company were extremely valuable.

Looking to the Future

The acquisition of LIFX, coupled with the organizational streamlining and redirection of our Ohm family of products positions us for future growth opportunities. We are grateful to our long-term shareholders who continue to support us in our efforts to grow a great company. Many challenges await us as they always do. We believe we have put together a supremely capable and highly motivated management team that will lead us to a successful and profitable future.

I look forward to continuing this journey with you, our shareholders.

Sincerely,



Richard N. Borenstein
Chairman of the Board

BUDDY TECHNOLOGIES LIMITED
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DIRECTORS' REPORT

Your Directors have pleasure in submitting their report together with the financial statements of the Company and its subsidiaries it controlled during the period, for the year ended 30 June 2019. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

DIRECTORS

The Directors in office at the date of this report and at any time during the year are as follows. Directors were in office for the entire period unless otherwise stated.

Current Directors

Mr David McLauchlan	- CEO & Executive Director
Mr Marc Alexander	- CTO & Executive Director (Appointed 1 April 2019)
Mr Richard Borenstein	- Non-Executive Chairman
Mr John van Ruth	- Non-Executive Director
Mrs Rosey Batt	- Non-Executive Director (Appointed 30 Nov 2018)

Directors who resigned during the year

Mr Alexander Gounares	- Non-Executive Director (Resigned 25 March 2019)
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Mr David McLauchlan – CEO & Executive Director

EXPERIENCE AND EXPERTISE

David spent nearly eleven years at Microsoft Corporation (Redmond, WA) before leaving in 2011 to co-found Buddy Platform, Inc. While at Microsoft, David led business development for Microsoft's Zune hardware business, spent many years in Microsoft's Windows division and prior to that served in the Server & Tools division working on the Visual C++ product. His international business development experience is considerable, having closed inbound and outbound licensing deals for Microsoft with global partners and customers in the consumer, enterprise, B2B and component industries. In addition to his work in various product groups at Microsoft, David represented the company in several international standards setting organizations, including the USB Implementers Forum, Consumer Electronics Association, Digital Living Network Alliance (DLNA), Bluetooth SIG and the IEEE Printer Work Group.

David is the co-founder of TVinteract, LLC which developed software for on-air TV talent to curate and display social media in real-time, which was acquired in 2014. David has served as a Technology Partner Network advisor for the Bill & Melinda Gates Foundation for over three years and currently serves as a mentor for the Australian incubator "Innovyz START" and is an advisor to Melbourne-based "Bluedot Innovation" and Washington DC-based "Manalto".

Prior to moving to the United States, David was a management consultant at PricewaterhouseCoopers in Melbourne, Australia, and prior to that was a professional pianist in Adelaide, Australia.

David holds a Master of Engineering: IT, Telecommunications & Business Management, and a Bachelor of Electronic Engineering (Hons.) – both from the University of South Australia.

SPECIAL RESPONSIBILITIES

Chief Executive Officer

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Nil

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Nil

BUDDY TECHNOLOGIES LIMITED
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DIRECTORS' REPORT (CONTINUED)

Mr Marc Alexander –Executive Director & CTO (Appointed 1 April 2019)

EXPERIENCE AND EXPERTISE

Marc has spent over 6 years at LIFI LABS INC. ("LIFX"), co-founding the organisation and leading the design and development in that time of LIFX products, team, technology and global business growth. Marc has extensive experience in consumer, commercial and automotive product enterprises, having served or founded businesses creating new products and services, bringing them to market, production and sales channels.

Marc has a background in product design and development, firmware and software engineering, applications, customer centric design, systems architecture, IoT, business development, startups and business models, go-to-market strategies and IP.

In addition to his work on consumer, automotive and energy focused business, Marc represented the company as the chair of the Lighting Working Group of the AllSeen Alliance, a founding group of major technology companies creating operational standards and code for IoT smart home and smart spaces platforms.

Marc was the co-founder of Advanced Engine Management, a consumer and commercial automotive product company, which was acquired in 2007. Marc currently serves as an investor or advisor for global Australian based technology companies in personalised audio, AI and machine learning space utilisation, home sports technology and electric transport. Prior, Marc was VP Engineering at the Techlynx consumer and automotive division, Lead Product Engineer at ACP for General Magic and Apple Computer projects in California and Australia, and prior to that was Technical Officer at the University of Melbourne Electrical and Electronic Engineering Department on funded R&D and teaching projects.

He has founded 5 startups and is inventor of a number of granted and pending patents in the lighting, automotive and smart spaces field.

Marc studied Certificate of Technology in Electronics at Box Hill Institute.

SPECIAL RESPONSIBILITIES

Chief Technology Officer

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Nil

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Nil

Mr Richard Borenstein – Non-Executive Chairman

EXPERIENCE AND EXPERTISE

Rick Borenstein is a venture investor, advisor and board member with over 40 years of technology company experience. He currently advises 7 venture-financed companies and sits on several boards. Mr. Borenstein brings extensive business, finance, accounting and entrepreneurial skills to each company.

Rick co-founded Sequoia Partners in 1988 and currently serves as Chairman. Sequoia Partners is a "sell side" information technology mergers & acquisitions firm. Sequoia has a long history of executing premium transactions for venture capital companies and corporate technology investors.

Mr. Borenstein started his entrepreneurial career after Wells Fargo when he conceived, built and sold 3 companies over the course of 4 years. Mr. Borenstein became President of IMSI in 1986, a \$50M per year consumer software products company. During his tenure, he took the company public in 1987 and initiated their strategy of growth through acquisition. This exposure to software company deal making convinced him that a small, "virtual", I.T. focused M&A company could be built successfully.

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DIRECTORS' REPORT (CONTINUED)

Mr Richard Borenstein – Non-Executive Chairman (continued)

Mr. Borenstein's finance training started at Harvard Business School (M.B.A. 1972) and continued through White, Weld & Co., Salomon Brothers and Wells Fargo and Co. His early investment banking training included mergers and acquisitions, leveraged buy-outs, IPOs and off balance sheet financings. At Wells Fargo, he perfected his accounting skills as Deputy Controller of the Bank; he learned lending and bank/brokerage company finance while serving as the Bank's senior brokerage industry banking officer; and he improved his deal making skills as President of Wells Fargo Investment Company, the Bank's venture capital subsidiary. Rick invested in a group of companies that have since gone on to become some of the best-known names in the Bay Area technology sector.

Mr. Borenstein grew up in New York City, and attended the University of Michigan before going to Harvard Business School. He has taught entrepreneurship at the Center for Entrepreneurship at the U of M and at San Quentin Prison (SF Bay Area) as part of The Last Mile program there.

SPECIAL RESPONSIBILITIES

Chairman of the Board

Member of the Audit and Risk Committee

Member of the Remuneration and Nomination Committee

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Nil

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Nil

Mr John van Ruth – Non-Executive Director

EXPERIENCE AND EXPERTISE

Mr van Ruth is currently Chief Executive Officer of Operation Finders Foundation, and holds a number of non-executive directorships. Prior to his work in the not for profit sector, he spent four years as Chief Financial Officer for Coopers Brewery, the largest Australian owned Brewery. Before Coopers Brewery, Mr van Ruth held a number of senior executive roles with other iconic South Australian companies including the RAA of SA, Inc., Adelaide Bank and Faulding. His early career was with professional services firms EY, KPMG and Arthur Andersen with particular focus on strategic advisory services in emerging technologies in Australia, Netherlands and Canada.

Mr van Ruth's other non-executive directorships include being a director of HAMBS a technology platform for private health. He is a director on the Australian Institute of Company Directors (AICD) SA Regional Council, governor of Wyatt Benevolent Institution Inc., member of the Advisory Board of Leepsheep startup accelerator, and member of Flinders University Finance and Investment Committee.

SPECIAL RESPONSIBILITIES

Chairman of the Audit and Risk Committee

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Nil

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Nil

BUDDY TECHNOLOGIES LIMITED
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DIRECTORS' REPORT (CONTINUED)

Mrs Rosey Batt – Non-Executive Director (Appointed 30 Nov 2018)

EXPERIENCE AND EXPERTISE

Rosey is the CEO of a boutique legal and business consultancy services firm. Prior to establishing her own business Rosey was an equity partner with Minter Ellison. She has more than 30 years' experience in advising Publicly Listed Companies, Private Companies, Incorporated Associations, Public Companies and Businesses generally on complex transactions, compliance, complex litigation and general commercial issues. Rosey has extensive non-executive Board experience including as Chair and on Audit, Risk, Nomination and Investment committees. Her other current non-executive directorships include ModMed Ltd, Windmill Theatre, the Advisory Board of the Litigation Assistance Fund, the Advisory Board of Floodlight Media Pty Ltd and as Independent Chair of the MOC for the SA Department of Health. For the past 15 years her skills in Corporate Governance have been recognised by her appointment as a facilitator for the Australian Institute of Company Directors in their acclaimed Company Directors Course both nationally and in recent years internationally. Rosey often consults to Boards on governance matters. She holds a Masters of Science and Technology Commercialization (International) from the University of Adelaide and the University of Texas at Austin.

SPECIAL RESPONSIBILITIES

Chair of the Remuneration and Nomination Committee

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Nil

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Nil

Mr Alexander Gounares– Non-Executive Director (Resigned 25 Mar 2019)

EXPERIENCE AND EXPERTISE

Alex Gounares is the founder and CEO of Polyverse Corporation, the leading provider of moving target defense based cybersecurity solutions. Previously, Alex led Concurix Corporation, a maker of Node.js profiling tools. These tools were acquired by Strongloop Inc and integrated into the Strongloop Arc platform.

Prior to Concurix, Alex served as AOL's Chief Technology Officer. In this role, he led all aspects of AOL's technology strategy, platform development and external technology partnerships. He was responsible for all of AOL's global engineering, IT, and operations functions. In addition, he served as a member of the company's Global Executive Operating Committee.

Alex joined AOL from Microsoft, where he was Corporate Vice President and Chief Technology Officer for the company's Online Services Division. During his tenure at Microsoft, Gounares led significant strategic and technical operations for some of the company's most important projects including Microsoft's global advertising platform, Bing search, MSN and Microsoft Virtual Earth. Alex also served for three years as Technology Advisor to Microsoft Chairman and founder Bill Gates, as well as Corporate Vice President of Corporate Strategy in Microsoft's Finance Department.

Prior to joining Microsoft in 1993, Alex worked at Los Alamos National Laboratory. He has founded four start-ups and is also an inventor on more than 150 U.S. patents filed and pending. Alex holds a bachelor's degree cum laude in Computer Science from Princeton University.

SPECIAL RESPONSIBILITIES

Chairman of the remuneration and nomination committee

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Nil

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Nil

BUDDY TECHNOLOGIES LIMITED

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DIRECTORS' REPORT (CONTINUED)

COMPANY SECRETARY

Mr Stuart Usher

Mr Usher is a CPA and Chartered Company Secretary with 25 years' extensive experience in the management and corporate affairs of public listed companies. He holds a Bachelor of Business degree and an MBA from the University of Western Australia and has extensive experience across many industries focusing on Corporate & Financial Management, Strategy & Planning, Mergers & Acquisitions, and Investor Relations & Corporate Governance.

PRINCIPAL ACTIVITIES

Buddy Technologies Limited (ASX: BUD) helps customers of any size "make every space smarter". Buddy has two core businesses – its Commercial Business and Consumer Business. Buddy Ohm and Buddy Managed Services are the company's core Commercial offerings that empower its customers to fully leverage digital technologies and their impact in a strategic and sustainable way. Buddy Ohm is a resource monitoring and analytics solution that provides energy monitoring, reporting and auditing services for commercial and industrial customers. Buddy Managed Services team licenses Buddy's technology platforms to customers for integration into their own products.

Buddy's Consumer Business trades under the LIFX brand, which was acquired in 2019 and whose results have been included for accounting purposes from 1 April 2019. LIFX has established a leading market position as a provider of smart lighting solutions. The company's suite of Wi-Fi enabled lights are currently used in nearly one million homes, viewed as second only to lighting giant, Philips Hue. LIFX products are sold in over 100 countries worldwide, directly and via distribution and sales partnerships with leading retailers and ecommerce platforms including Amazon, Google, Apple Stores, JB Hi-Fi, Bunnings, Officeworks, MediaMarkt, Saturn and Best Buy (in both the US and Canada).

RESULTS

The net loss after tax for the year ended 30 June 2019 amounted to \$28,120,839 (2018: \$13,877,497). The primary costs for the business are costs of sales, advertising and marketing costs and salaries expenditure, which is very much in line with the costs expected for a technology company supporting a product of Buddy Technology's technical complexity.

DIVIDENDS

There were no dividends paid or declared during the year.

OPERATING AND FINANCIAL REVIEW

This has been a year of some challenges and the opening up of some remarkable new opportunities. While the Company's share price performance has been disappointing, I truly believe that the Company has more opportunities and greater potential than at any time in our history. Following the successful acquisition of LIFX in March 2019, we now have a consumer business in smart lighting, that is second only to the number one vendor in the world. Meanwhile, our commercial business – the Buddy Ohm and Managed Services business – has been realigned after a great deal of learning and market feedback. The Managed Services business – for the most part today at least, our engagement with Airstream – is profitable as a stand-alone business and is a template for additional managed services work that the Company is presently quoting on and seeking to win.

Overview of FY19

The fiscal year just gone has been one of evolution, right-sizing, re-calibration and acquisition. It became clear to management that our Buddy Ohm product was not selling in the quantities that we had hoped, and that our sales and distribution partners had believed possible. This was a phenomenon in no way limited to Buddy Ohm – our distribution and reseller partners have told us that commercial IoT products in general have been difficult to sell, and that many products were either premature for their respective markets or product-market fit wasn't quite reached.

BUDDY TECHNOLOGIES LIMITED

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DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

As a company, we realised this in FY19, and made very significant changes to the business accordingly. While we learnt that commercial customers were not buying products like Buddy Ohm to effect energy savings in their businesses, they were interested in auditing and reporting products, especially in markets like the United Kingdom, which is introducing new corporate reporting regulations mandating the publication of information of the kind that Buddy Ohm collects. To respond to this evolution of the market, we made very significant changes to our business (reduced headcount and dramatically decreased expenditure), introduced a new hardware partner that allowed us to substantially reduce the cost of deployment, narrowed our sales focus and installed new leadership – all of which was intended to put this side of the business on a path to cashflow breakeven.

As it stands today, our commercial Buddy Ohm business remains small but is growing again, and we're seeing new customers coming on board with repeat orders and full satisfaction, leading to multi-year contracts. Our recent deployments of new interfaces and insights within the Buddy Ohm web experience is expected to help continue the growth, and so I commend our team on innovative work that they're doing.

Our Managed Services offerings within the commercial business continue to perform well. Airstream (known in earlier disclosures as "Thor" – their parent company) is a customer that has spent nearly \$5 million with us to date and continues to work very closely with us. Buddy's commercial team has become an extension of the Airstream technology team, as we help them build out their connected smart trailer product range. We've proven adept at this work, which is more broadly known as "digital transformation" in the industry, and with Travis Gerber leading the commercial team, he's able to bring a breadth of experience to this role from his many years at Microsoft and in the broader tech industry. Travis and team are now focussed on growing this business and introducing new commercial customers where we can deploy our technologies into their products, and help "digitally transform" their formerly disconnected products into connected, data-driven, voice-aware, contemporary offerings.

A significant opportunity for this business was the addition of the LIFX platform of technologies to our arsenal. Our Managed Services team is now fully staffed to help customers deploy LIFX technologies (either white-labeled or branded) into their third party products, with the first two such deals being very imminent. This will see us deploy LIFX's smart IoT platform into non-lighting (but powered) products for the consumer/home market – more details to come.

However, continuing on this theme, clearly the biggest news for FY19 was the Company's successful acquisition of the world's #2 smart lighting platform – LIFX. In completing this transaction, we created the Company's first consumer business, one whose products can be found in the world's major consumer retailers (such as Apple Stores, Best Buy, JB Hi-Fi, The Home Depot, Bunnings, Beacon Lighting, FNAC, Curry's PC World, etc...).

LIFX brings to Buddy a series of products that are consumer-first (ie: designed for the home) and which already have a considerable footprint in the marketplace. While Buddy's commercial products were new inventions creating a new market, over the past 5 years or so, LIFX has sold over 2.2 million smart lights in well over 100 countries around the world. While this comparative maturity brings some new stability to the Group, there remains a great deal of growth opportunity in the marketplace, for as a percentage of global lightbulb sales, 2.2 million is still very much a rounding error. For those who believe that over the course of time all lighting will become connected – we haven't even begun to scratch the surface of potential future scale yet. While it is very true that our largest competitor in this space holds a very dominant position in major markets like the EU and USA, we have a very comparable market position with them in Australia. This demonstrates that all things are possible in competing in this space, while also reaffirming that we have a highly competitive product that can stack up well against any in the world.

As a snapshot of the opportunity that still remains, I've just returned from a trip to Europe to visit with our major retail partners and potential partners. Europe is the home market for our largest competitor, and so they hold an overwhelmingly dominant market position there (in excess of 90%). However, this is also in large part due to the fact that with very few exceptions they are the only smart light vendor

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DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

stocked in the major European consumer electronics and DIY store retail channels. In other words, the market is only really being exposed at scale to one vendor. Retailers never like to see a single vendor become too dominant lest they start to exert control over the retailer in terms of margins and inventory flow – and so we are now currently being engaged by those major retailers to bring a formidable competitor to the European bricks and mortar market.

Estimates have sized the smart lighting consumer market in the EU to be in the order of A\$1 to A\$1.5 billion, which no party (except perhaps the incumbent) wishes to be a monopoly. Expect to see us work especially hard to grow our EU business in the coming year in partnership with key retailers in the region. Our products and our customer experience are both world class, and are more than capable of earning a slice of that enormous EU market.

Looking Ahead

As we look to the coming year, investors should expect Buddy's Board of Directors and management to continue a highly disciplined and cost-down driven approach to our commercial and consumer businesses. Unlike in previous years, we are now managing debt – but in these financial times, debt is not expensive, and growth requires capital, so we believe we have taken prudent steps to balance our growth objectives with our debt load. As a management group, we are keenly aware that reaching profitability must be (and is) the primary goal of our business, and investors will see us march towards that milestone with complete resolution. As we've demonstrated in the past year, where tough decisions need to be made, we will make them – and as with any successful tech company in a rapidly moving market – we will not be afraid to course-correct as necessary.

It is my confidently held view that Buddy Technologies Limited is endowed with a team, a set of technologies, a customer base and a product range that would be the envy of any early-stage IoT or even tech company. We have the tools needed to succeed in this market, and with your ongoing support we look forward to delivering the next stages of that success in FY20.



David McLauchlan
CEO, Buddy Technologies Limited.

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DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The Company has made price-sensitive announcements since 30 June 2019. A summary of those announcements follows. The reader is invited to read the entire announcements which are available in the investor section of the Company's website at <https://buddy.com/asx-announcements/>.

On 28 August 2019, the Company executed financing documentation with Scottish Pacific, the largest independent working capital lender in Australia and New Zealand, for the provision of a A\$20 million working capital facility.

On 11 September 2019, the Company announced:

- (a) a placement of 305.7 million Shares to institutional and sophisticated investors each at an issue price of A\$0.02 to raise approximately A\$6.1 million (before costs) to be completed in two tranches (being the Tranche 1 Placement and the Tranche 2 Placement); and
- (b) that it intends to offer all existing Shareholders with a registered address in Australia and New Zealand (Eligible Shareholders) the opportunity to subscribe for Shares each at an issue price of A\$0.02 per Share under a Share Purchase Plan (SPP) to raise up to an additional A\$5 million (before costs).

The Company completed the Tranche 1 Placement by issuing a total of 250,641,234 Shares on 19 September 2019. The Company raised a total of approximately A\$5.013 million (before costs) pursuant to the Tranche 1 Placement.

The Company will seek shareholder approval to ratify the Shares issued under the Tranche 1 Placement and approve the issue of up to 55.2 million Shares to be issued under the Tranche 2 Placement at a shareholder meeting to be held on 24 October.

The issue of Shares under the SPP is subject to shareholder approval. Refer to the Company's ASX announcements dated 11 September 2019 and 19 September 2019 for further information.

The funds used from the Placement and SPP will be utilised for operating expenses of the Company and growth of the Company's Consumer and Commercial Business.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity, in subsequent financial years.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Group that occurred during the financial period not otherwise disclosed in this report or the financial statements.

ENVIRONMENTAL REGULATION

The Directors believe that the Group has, in all material respects, complied with all particular and significant environmental regulations relevant to its operations. The Group's past operations were subject to various environmental regulations under the Federal and State Laws of Australia and the USA. The majority of the Group's past activities involved low level disturbance associated with exploration drilling programs.

BUDDY TECHNOLOGIES LIMITED
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DIRECTORS' REPORT (CONTINUED)

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has paid premiums to insure each of the following current and former Directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium. The Company has not given any further indemnity or entered into any other agreements to indemnify, or pay or agreed to pay insurance premiums.

DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the Directors in ordinary shares, listed and unlisted options of the Company were:

Director	Shares		Performance Shares		Performance Rights		Options	
	Held Directly	Held Indirectly	Held Directly	Held Indirectly	Held Directly	Held Indirectly	Held Directly	Held Indirectly
David McLauchlan	131,851,820	-	22,166,667	-	-	-	-	-
Richard Borenstein	5,011,121	16,397,547	3,333,333	-	-	-	854	-
John van Ruth	1,466,667	11,479	833,333	-	-	-	-	-
Marc Alexander	1,628,922	39,159,441	12,000,000	-	12,000,000	-	-	-
Rosey Batt	-	-	-	-	-	-	-	-
TOTAL	139,958,530	55,568,467	38,333,333	-	12,000,000	-	854	-

MEETINGS OF DIRECTORS

During the financial year, meetings of Directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

Directors	Directors meetings		Audit committee meetings		Remuneration and nomination committee meetings	
	Meetings Eligible to Attend	Meetings Attended	Meetings Attended	Meetings Eligible to Attend	Meetings Attended	Meetings Eligible to Attend
David McLauchlan	9	9	-	-	-	-
Richard Borenstein	9	9	3	3	-	-
Alexander Gounares (Resigned 25 Mar 2019)	4	4	3	3	-	-
John van Ruth	9	9	3	3	-	-
Marc Alexander (Appointed 1 Apr 2019)	2	2	-	-	-	-
Rosey Batt (Appointed 30 Nov 2018)	7	7	-	-	-	-

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DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for Directors and key management personnel of the Company for the year ended 30 June 2019. The information contained in this report has been audited as required by Section 308(3C) of the *Corporations Act 2001*.

The information provided includes remuneration disclosures that are required under Accounting Standard AASB 124 "Related Party Disclosures". These disclosures have been transferred from the financial report.

This remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes those executives in the Parent and the Group receiving the highest remuneration.

Key Management Personnel

Mr David McLauchlan	(Executive Director & CEO)
Mr Richard Borenstein	(Non-executive Chairman)
Mr John van Ruth	(Non-executive Director)
Mr Marc Alexander	(Executive Director & CTO) (Appointed 1 Apr 2019)
Mrs Rosey Batt	(Non-executive Director) (Appointed 30 Nov 2018)
Mr. Richard Jacroux	(Chief Financial Officer / Chief Operating Officer)
Mr Alexander Gounares	(Non-executive Director) (Resigned 25 Mar 2019)

Remuneration Policy

Remuneration of Directors and Key Management Personnel (KMP) is determined with regard to the performance of the Company, the performance and skills and experience of the particular person and prevailing remuneration expectations in the market. The Board will devote time on an annual basis to discuss the level and composition of remuneration for the Directors and Key Management Personnel and will ensure such remuneration is appropriate and not excessive. Details of remuneration of Directors and Key Management Personnel are disclosed in the Remuneration Report in the Annual Report. The full Board determines all compensation arrangements for Directors and has a Remuneration Committee to assist the Board in monitoring and reviewing any matters of significance affecting the remuneration of the Board and employees of the Company. It is also responsible for setting performance schemes, superannuation entitlements, retirement and termination entitlements and professional indemnity and liability insurance cover.

The Remuneration Committee charter is available on the Company's website at www.buddy.com.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive Director and executive remuneration is separate and distinct.

Non-Executive Director Remuneration

The Board policy is to remunerate non-executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting (currently \$300,000). It is the policy of the Company to compensate Directors in share based payments only through the issue of Performance Shares (subject to any necessary Shareholder and regulatory approvals).

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DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Fees for non-executive Directors are linked to the performance of the Group through the issue of Performance Shares and Performance Rights. This aligns Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are able to participate in employee option plans that may exist from time to time.

Executive Remuneration

Executive Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes). The remuneration of any executive director that may be appointed to the Board will be fixed by the Board and the remuneration and nomination committee. Executive Directors are engaged under the terms of individual employment contracts. Such contracts are based upon standard terms drafted by the Company's lawyers. Executive Directors do not receive any director's fees in addition to their remuneration arrangements.

Fixed Remuneration

All KMP are remunerated based on services provided by each person. The Board will review KMP packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

Variable Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and key management personnel. Currently, this is facilitated through the issue of Performance Rights and Incentive Rights to key management personnel to encourage the alignment of personal and shareholder interests. The issue of these securities formed part of the Consideration Securities as a result of the acquisition of Buddy Inc. The Company believes this policy will be effective in increasing shareholder wealth.

Principles used to determine the nature and amount of variable remuneration: relationship between remuneration and company performance

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and future years. Due to the nature of the Group's principal activities the Directors assess the performance of the Group with regard to the price of the Company's ordinary shares listed on the ASX, and the market capitalisation of the Group.

Service Contracts

Non-Executive Directors

The key terms of the Non-Executive Director letters of appointment are as follows:

- Terms of agreement – ongoing subject to annual review.
- Directors' Fees – the issue of Performance Shares on initial appointment.
- There is no notice period stipulated to terminate the contract by either party.

Apart from their duties as Directors, some Non-Executive Directors may undertake work for the Company over and above the specific duties of a Non-Executive Director.

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DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED)

Executives

Remuneration and other terms of employment for the Executive Director and Chief Executive Officer and the Chief Financial Officer are formalised in service agreements. Other major provisions of these agreements are set out below:

Executive Services Agreement - David McLauchlan

The Company and David McLauchlan entered into an Executive Services Agreement for his role as Chief Executive Officer commencing on the date of settlement of the Company's acquisition of Buddy Platform, Inc. being 17 December 2015.

The key terms of the Executive Services Agreement (ESA) are as follows:

- (a) Salary: Under the ESA, Mr McLauchlan receives an annual salary of US\$250,000.
- (b) Performance Bonus: The Company may, at any time, pay Mr McLauchlan, a performance-based bonus over and above the Salary.
- (c) Restraint of Trade: Upon termination of the ESA, Mr McLauchlan will be subject to a restraint of trade period of up to 6 months.
- (d) Mr McLauchlan is employed on an at-will employment relationship with the Company which may be terminated at any time by either Mr McLauchlan or the Company upon notice to the other, for any or no reason, with or without prior notice or cause. Further, the Company can demote, transfer, suspend or otherwise discipline him in its sole discretion.

Executive Services Agreement – Richard Jacroux

The Company and Richard Jacroux entered into a Services Agreement (SA) for his role as Chief Financial Officer and Chief Operating Officer commencing on his date of employment being 3rd October 2016.

The material terms of the SA are as follows:

- (a) Salary: Mr. Jacroux receives an annual salary of US\$210,000.
- (b) Employee Incentive Performance Rights (EIPR): Mr Jacroux received a grant of 8,000,000 EIPR with standard vesting over four years. In 2019, Mr Jacroux received an additional grant of 2,000,000 EIPR.
- (c) Mr Jacroux is employed on an at-will employment relationship with the Company which may be terminated at any time by either Mr Jacroux or the Company upon notice to the other, for any or no reason, with or without prior notice or cause. Further, the Company can demote, transfer, suspend or otherwise discipline him in its sole discretion.

Executive Services Agreement – Marc Alexander

The Company and Marc Alexander entered into a Services Agreement (SA) for his role as Chief Technology Officer (CTO), which he commenced after the completion of the acquisition of Lix Labs, Inc (trading as LIFX) on 29 March 2019, for which he was a co-founder of from 12 November 2012. Mr Alexander was also appointed to the Board as an executive director on 1 April.

The material terms of the SA are as follows:

- (a) Salary: Mr. Alexander receives an annual salary of US\$300,000.

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DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Executive Services Agreement – Marc Alexander (continued)

- (b) Sign-on-bonus: Mr. Alexander received a sign-on-bonus of 2,222,222 Ordinary Shares that were approved by shareholders at a meeting held 25 March 2019. These shares were issued on 1 April 2019. In addition and subject to Board approval and the creation of a new option plan, the Company will issue fully vested options with a value of approximately \$2,102,481 (the final value remains subject to the discretion of the Board). This bonus formed part of the consideration for the acquisition and is accordingly included in Note 4.
- (c) Performance Rights: Mr Alexander received a grant of 12,000,000 Performance Rights, approved by shareholders at a meeting held 25 March 2019, which will vest over a four year period as follows:
- i. one-quarter (being, 3,000,000 Performance Rights) one year following Completion; and
 - ii. one-sixteenth (being, 750,000 Performance Rights) each quarter thereafter.

If Mr Alexander ceases to be an employee of the Company the Performance Rights will lapse.

- (d) Performance Shares: Mr Alexander received a grant of 12,000,000 Performance Shares, approved by shareholders at a meeting held 25 March 2019, which will vest over a four year period as follows:
- i. 4,000,000 Performance Shares that will vest upon LIFX business contributing a cumulative A\$100 million to the Buddy Group in revenues within 18 months from Completion;
 - ii. 4,000,000 Performance Shares that will vest upon LIFX business contributing a cumulative A\$200 million in revenues to the Buddy Group within 30 months from Completion; and
 - iii. 4,000,000 Performance Shares that will vest upon LIFX business contributing a cumulative A\$250 million in revenues to the Buddy Group within 36 months from Completion.

If the milestones are not met within the designated timeframe, or Mr Alexander ceases to be an employee of the Company the Performance Shares will lapse.

- (e) **Termination:** The Company may at its sole discretion terminate the Employment in the following manner:
- (i) by giving not less than three (3) months' written notice if at any time;
 - (ii) if employment ends due to the position being made redundant, by which a payment in lieu of notice will be made.
 - (iii) summarily without notice if at any time the Executive is convicted of any major criminal offence which brings the Company or any of its affiliates into lasting disrepute, by giving notice effective immediately and without payment of any salary other than salary accrued to the date of termination or breaches the insider trading provisions of the Executive Service Agreement; or
 - (iv) if the person is or becomes of unsound mind or under the control of any committee or officer under any law relating to mental health.

Mr Alexander may at his sole discretion terminate the Employment by giving the Company 3 months' written notice.

- (f) The Executive Service Agreement contains other standard terms and conditions expected to be included in contracts of this nature.

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DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Executive Services Agreement – Tim Peters (Resigned 11 August 2019)

The Company and Tim Peters entered into a Services Agreement (SA) for his role as LIFX CEO which he commenced after the completion of the acquisition of Lifx Labs, Inc (trading as LIFX) on 29 March 2019; previously he held the role of VP of Product Management and COO at LIFX and then became CEO of LIFX in January 2018.

The material terms of the SA are as follows:

- (c) Salary: Mr Peters receives an annual salary of US\$300,000.
- (d) Sign-on-bonus: Mr. Peters has received a sign-on-bonus of 2,222,222 Ordinary Shares that were approved by shareholders at a meeting held 25 March 2019. These shares were issued on 1 April 2019. In addition and subject to Board approval and the creation of a new option plan, the Company will issue fully vested options with a value of approximately \$815,323 (the final value remains subject to the discretion of the Board). This bonus formed part of the consideration for the acquisition and is accordingly included in Note 4.
- (c) Performance Rights: Mr Peters received a grant of 12,000,000 Performance Rights, approved by shareholders at a meeting held 25 March 2019, which will vest over a four year period as follows:
 - iii. one-quarter (being, 3,000,000 Performance Rights) one year following Completion; and
 - iv. one-sixteenth (being, 750,000 Performance Rights) each quarter thereafter.

Mr Peters ceased to be an employee of the Company on 11 August 2019 and in accordance with the agreement all the Performance Rights will lapse.

- (d) Performance Shares: Mr Peters received a grant of 12,000,000 Performance Shares, approved by shareholders at a meeting held 25 March 2019, which will vest over a four year period as follows:
 - iv. 4,000,000 Performance Shares that will vest upon LIFX business contributing a cumulative A\$100 million to the Buddy Group in revenues within 18 months from Completion;
 - v. 4,000,000 Performance Shares that will vest upon LIFX business contributing a cumulative A\$200 million in revenues to the Buddy Group within 30 months from Completion; and
 - vi. 4,000,000 Performance Shares that will vest upon LIFX business contributing a cumulative A\$250 million in revenues to the Buddy Group within 36 months from Completion.

If the milestones are not met within the designated timeframe, or Mr Peters ceases to be an employee of the Company the Performance Shares will lapse. Mr Peters ceased to be an employee of the Company on 11 August 2019 and, in accordance with the agreement, all the Performance Shares will lapse.

- (e) **Termination:** Mr Peters is employed on an at-will employment relationship with the Company which may be terminated at any time by either Mr Peters or the Company upon notice to the other, for any or no reason, with or without prior notice or cause. Further, the Company can demote, transfer, suspend or otherwise discipline him in its sole discretion.
- (f) The Executive Service Agreement contains other standard terms and conditions expected to be included in contracts of this nature.

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DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Remuneration of Directors and Executives

Details of the remuneration of the Directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Buddy Technologies Limited are set out in the following table:

Key Management Personnel of Buddy Technologies Limited

2019	Short Term Benefits			Post-Employment Benefits	Share Based Payments	Total \$	% Performance Related
	Salary and Fees \$	Bonus	Non-Monetary \$	Super-annuation \$	Performance Shares & Rights \$		
David McLauchlan	349,467	-	-	-	-	349,467	-
Richard Borenstein	-	-	-	-	-	-	-
Alexander Gounares (Resigned 25 Mar 19)	-	-	-	-	10,736	10,736	100%
John van Ruth	-	-	-	-	-	-	-
Rosey Batt (Appointed 30 Nov 2018)	-	-	-	-	-	-	-
Marc Alexander (Appointed 1 Apr 2019)	111,361	-	-	10,579	129,573	251,513	52%
Richard Jacroux	293,552	-	-	-	84,485	378,037	22%
Tim Peters (Appointed 1 Apr 2019)	119,785	-	-	-	-	119,785	-
Total	874,165	-	-	10,579	224,794	1,109,538	20%

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DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Key Management Personnel of Buddy Technologies Limited (continued)

2018	Short Term Benefits			Post-Employment Benefits	Share Based Payments	Total \$	% Performance Related
	Salary and Fees \$	Bonus	Non-Monetary \$	Super-annuation \$	Performance Shares & Rights \$		
David McLauchlan ⁽²⁾	322,437	-	-	-	(405,134)	(82,697)	490%
Richard Borenstein ⁽²⁾	-	-	-	-	(60,922)	(60,922)	100%
Alexander Gounares ⁽²⁾	-	-	-	-	(12,515)	(12,515)	100%
John van Ruth ⁽²⁾	-	-	-	-	(15,231)	(15,231)	100%
Ananda Kathiravelu ⁽¹⁾	-	-	-	-	-	-	-
Richard Jacroux	270,847	-	-	-	159,984	430,831	37%
Total	593,284	-	-	-	(333,818)	259,466	89%

⁽¹⁾ Resigned 15 May 2018

⁽²⁾ Reflects the reversal of the cumulative expense recognised in the prior period in respect of the Tranche 3 performance shares as the vesting conditions for these instruments are not expected to be met.

Shareholdings of Key Management Personnel

The number of ordinary shares of Buddy Technologies Limited held, directly, indirectly or beneficially, by each Director, including their personally-related entities for the year ended 30 June 2019 is as follows:

Key Management Personnel	Held at 1 July 2018	Movement During Year	Purchase/ (Sales)	Change due to appointment/ (resignation)	Held at 30 June 2019
David McLauchlan	129,976,820	-	1,875,000	-	131,851,820
Richard Borenstein	19,533,668	-	1,875,000	-	21,408,668
Alexander Gounares (Resigned 25 Mar 2019)	1,579,242	-	-	(1,579,242)	-
John van Ruth	1,478,146	-	-	-	1,478,146
Rosey Batt (Appointed 30 Nov 2018)	-	-	-	-	-
Marc Alexander (Appointed 1 Apr 2019)	-	-	(600,000)	41,388,363	40,788,363
Tim Peters (Appointed 1 Apr 2019)	-	-	-	16,808,477	16,808,477
Richard Jacroux	3,000,000	1,500,000 ⁽¹⁾	-	-	4,500,000
Total	155,567,876	1,500,000	3,150,000	56,617,598	216,835,474

(1) Conversion of Performance Rights

Key Management Personnel	Held at 1 July 2017	Movement During Year	Purchase/ (Sales)	Change due to appointment/ (resignation)	Held at 30 June 2018
David McLauchlan	137,810,154	22,166,666 ⁽¹⁾	(30,000,000)	-	129,976,820
Richard Borenstein	20,200,334	3,333,334 ⁽¹⁾	(4,000,000)	-	19,533,668
Alexander Gounares	3,593,322	2,985,920 ⁽¹⁾	(5,000,000)	-	1,579,242
John van Ruth	844,812	833,334 ⁽¹⁾	(200,000)	-	1,478,146
Ananda Kathiravelu	106,666	-	-	(106,666)	-
Richard Jacroux	-	3,000,000 ⁽¹⁾	-	-	3,000,000
Total	162,555,288	32,319,254	(39,200,000)	(106,666)	155,567,876

(1) Conversion of Performance Shares 2nd Milestone & Performance Rights

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DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Option Holdings of Key Management Personnel

The number of options over ordinary shares in Buddy Technologies Limited held, directly, indirectly or beneficially, by each specified Director and specified executive, including their personally-related entities for the year ended 30 June 2019 is as follows:

Key Management Personnel	Held at 1 July 2018	Conversion	Expiry of Options	Change due to appointment/ (resignation)	Held at 30 June 2019	Vested and exercisable at 30 June 2019
Richard Borenstein	854	-	-	-	854	854
Alexander Gounares (Resigned 25 Mar 2019)	401,625	-	-	(401,625)	-	-
Marc Alexander (Appointed 1 Apr 2019)	-	-	-	-	-	-
Tim Peters (Appointed 1 Apr 2019)	-	-	-	532,765	532,765	532,765
Total	402,479	-	-	131,140	533,619	533,619

Key Management Personnel	Held at 1 July 2017	Conversion	Expiry of Options	Change due to appointment/ (resignation)	Held at 30 June 2018	Vested and exercisable at 30 June 2018
Richard Borenstein	854	-	-	-	854	854
Alexander Gounares	401,625	-	-	-	401,625	326,320
Total	402,479	-	-	-	402,479	327,174

Performance Shares of Key Management Personnel

The number of Performance Shares in Buddy Technologies Limited held, directly, indirectly or beneficially, by each specified Director and specified executive, including their personally-related entities for the year ended 30 June 2019 is as follows:

Key Management Personnel	Held at 1 July 2018	Conversion	Change due to appointment/ (resignation)	Held at 30 June 2019	Vested and exercisable at 30 June 2019
David McLauchlan	22,166,666	-	-	22,166,666	-
Richard Borenstein	3,333,334	-	-	3,333,334	-
Alexander Gounares (Resigned 25 Mar 2019)	2,500,001	-	(2,500,001)	-	-
John van Ruth	833,333	-	-	833,333	-
Marc Alexander (Appointed 1 Apr 2019)	-	-	12,000,000	12,000,000	-
Tim Peters (Appointed 1 Apr 2019)	-	-	12,000,000	12,000,000 ⁽¹⁾	-
Total	28,833,334	-	21,499,999	50,333,333	-

(1) Subsequent to the year ended 30 June 2019, Tim Peters ceased employment with automatic lapsing of all Performance Shares

Key Management Personnel	Held at 1 July 2017	Conversion	Change due to appointment/ (resignation)	Held at 30 June 2018	Vested and exercisable at 30 June 2018 ⁽¹⁾
David McLauchlan	44,333,333	(22,166,667)	-	22,166,666	-
Richard Borenstein	6,666,667	(3,333,333)	-	3,333,334	-
Alexander Gounares	5,000,000	(2,499,999)	-	2,500,001	-
John van Ruth Appointed	1,666,667	(833,334)	-	833,333	-
Total	57,666,667	(28,833,333)	-	28,833,334	-

(1) The vesting conditions of performance shares are not expected to be met, therefore the expenses previously recognised in respect of these instruments have been reversed. The expiry date for meeting the vesting conditions is 17 December 2018.

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DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Employee Incentive Performance Rights & Replacement Rights of Key Management Personnel

The number of Performance Rights in Buddy Technologies Limited held, directly, indirectly or beneficially, by each specified Director and specified executive, including their personally-related entities for the year ended 30 June 2019 is as follows:

Key Management Personnel	Held at 1 July 2018	Conversion	Change due to appointment/ (resignation)	Held at 30 June 2019	Vested and exercisable at 30 June 2019
Alexander Gounares (Resigned 25 Mar 19)	364,441	-	(364,441)	-	-
Richard Jacroux	5,000,000	(1,500,000)	-	3,500,000	-
Marc Alexander (Appointed 1 Apr 19)	-	-	12,000,000	12,000,000	-
Tim Peters (Appointed 1 Apr 19)	-	-	12,000,000	12,000,000 ⁽¹⁾	-
Total	5,364,441	(1,500,000)	23,635,559	27,500,000	-

(1) Subsequent to the year ended 30 June 2019, Tim Peters ceased employment with automatic lapsing of all Performance Rights.

Key Management Personnel	Held at 1 July 2017	Conversion	Change due to appointment/ (resignation)	Held at 30 June 2018	Vested and exercisable at 30 June 2018
Alexander Gounares	850,361	(485,920)	-	364,441	-
Richard Jacroux	8,000,000	(3,000,000)	-	5,000,000	-
Total	8,850,361	(3,485,920)	-	5,364,441	-

Share-based Compensation

Share-based compensation for the Directors in the current year were issued as Performance Shares, Performance Rights and Replacement options.

Other Related Party Transactions

Transactions with other related parties are made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

Armada Capital Limited, a company of which Mr Ananda Kathiravelu is Managing Director, was paid for investor relations and marketing support to the Company on normal commercial terms during the 2018 year for which it received a monthly fee of \$4,000 under a marketing and investor relations agreement with the Company. A summary of the total fees paid to Armada Capital Limited for the year ended 30 June 2018 is as follows:

	Consolidated	
	2019	2018
	\$	\$
Investor relations and marketing support	-	48,000
Total	-	48,000

Loans to Key Management Personnel

	Balance at 30 June 2018	Balance at 30 June 2019	Highest balance during period
Richard Jacroux*	\$67,650	\$163,981	\$163,981

*Relates to an advance made by the Company, the advance was fully repaid on 17 July 2019.

*******END OF AUDITED REMUNERATION REPORT*******

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DIRECTORS' REPORT (CONTINUED)

LIKELY DEVELOPMENTS

Likely developments in the operations of the Group have been disclosed in the Operating and Financial Review section of the Directors' Report.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Buddy Technologies Ltd support and have substantially adhered to the best practice recommendations set by the ASX Corporate Governance Council. For a detailed analysis of the Company's Corporate Governance Policies, visit the corporate governance section of our website at www.buddy.com.

AUDITORS INDEPENDENCE DECLARATION

The auditor's independence declaration as required under Section 307C of the Corporations Act 2001 for the year ended 30 June 2019 has been received and can be found on page 25.

AUDITOR

Nexia Perth Audit Services Pty Ltd continues in office in accordance with Section 327 of the Corporation Act 2001.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

SHARE OPTIONS

Shares under Option

As at 30 June 2019, there existed the following unlisted options:

Date Granted	Expiry Date	Exercise Price	Number Shares Under Option	Vested & Exercisable
1 Apr 2019	29 Mar 2023	7.59c	532,765	532,765
1 Apr 2019	01 Apr 2024	7.59c	100,000,000	100,000,000
17 Dec 2015	17 Dec 2020	10.0c	2,806,647	2,600,245

These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

During the year and up to the report date, no options have been exercised and converted to ordinary shares. Any unvested options due to terminated employees will be cancelled at the next annual shareholder meeting.

Performance Shares

As at 30 June 2019, the following unlisted Performance Shares were on issue:

Date Granted	Expiry Date	Exercise Price	Number	Vested & Exercisable
01 Apr 2019	1 Apr 2024	Nil	24,000,000 ⁽²⁾	-
17 Dec 2015	17 Dec 2020	Nil	31,833,333 ⁽¹⁾	-

⁽¹⁾ The Performance Shares were to convert upon satisfaction of any one of the following milestones:

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DIRECTORS' REPORT (CONTINUED)

Performance Shares (continued)

- (i) One third (1/3) of all Performance Shares held by the Holder as at the date of issue of the Performance Shares (Issue Date) shall convert upon Buddy (or its subsidiaries) logging 20,000,000 total discrete connections to any Buddy server or service (Interactions) by any approved network connected hardware or software application (Device) per day for no less than 3 consecutive weeks within a period of 24 months from the date of completion of the Capital Raising;
- (ii) One third (1/3) of all Performance Shares held by the Holder as at the Issue Date shall convert upon the total number of devices creating an Interaction with a Buddy application that it has not previously interacted with (New Connection) exceeding 500,000 per week for no less than three (3) consecutive weeks within a period of 24 months from the date of completion of the Capital Raising;
- (iii) One third (1/3) of all Performance Shares held by the Holder as at the Issue Date shall convert upon Buddy (or its subsidiaries) satisfying the following milestones within a period of 36 months from the date of completion of the Capital Raising:
 - (A) total daily device interactions with the Buddy Platform exceed 50,000,000 per day for no less than 3 consecutive weeks; and
 - (B) total number of devices creating new connections to Buddy exceeding 1,000,000 per week for no less than 3 consecutive weeks.

As at the date of this report Milestone 1 and Milestone 2 have been achieved with vesting conditions satisfied. Milestone 3 was not met. The shares are not expected to be converted and no expense has been recognised this year. Refer to the remuneration report for further details of the performance shares of Key Management Personnel.

- (2) LIFX Performance Shares are to convert upon satisfaction of any one of the following milestones which will vest over a four year period as follows:
 - i. 8,000,000 Performance Shares that will vest upon LIFX business contributing a cumulative A\$100 million to the Buddy Group in revenues within 18 months from 29 March 2019;
 - ii. 8,000,000 Performance Shares that will vest upon LIFX business contributing a cumulative A\$200 million in revenues to the Buddy Group within 30 months from 29 March 2019; and
 - iii. 8,000,000 Performance Shares that will vest upon LIFX business contributing a cumulative A\$250 million in revenues to the Buddy Group within 36 months from 29 March 2019.

Performance Rights

As at 30 June 2019, there existed the following unlisted Performance Rights:

Date Granted	Expiry Date	Exercise Price	Number	Vested
1 Apr 2019	1 Apr 2024	Nil	24,000,000 ⁽¹⁾	-
17 Dec 2015	17 Dec 2020	Nil	4,898,503 ⁽²⁾	-

- (1) The LIFX Performance Rights will vest over a four year period as follows:
 - One-quarter (being, 6,000,000 Performance Rights) one year following Completion; and
 - one-sixteenth (being, 1,500,000 Performance Rights) each quarter thereafter.
- (2) The replacement performance rights shall vest and become exercisable on a quarterly basis in equal tranches over 4 years from the employee's commencement date. During the year ended 30 June 2019 none (2018: 1,541,592) of the Performance rights converted into ordinary shares.

BUDDY TECHNOLOGIES LIMITED
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DIRECTORS' REPORT (CONTINUED)

Employee Incentive Performance Rights

As at 30 June 2019, there existed the following unlisted Employee Incentive Rights.

	2019	2018
Outstanding at the beginning of the year	55,842,716	34,062,917
Granted	42,950,000	44,496,000
Converted to ordinary shares	(17,746,185)	(16,908,835)
Forfeited	(23,877,444)	(5,807,366)
Outstanding at year-end	57,169,087	55,842,716
Vested and Exercisable*	-	-

* The employee incentive performance rights issued were valued based on the following assumptions in the table below:

Date of grant	Number granted	Underlying share price	Share exercise price
31-Jul 2018	300,000	\$0.08	Nil
30-May 2018	5,000,000	\$0.08	Nil
1-Oct 2018	500,000	\$0.08	Nil
13-Sep 2018	300,000	\$0.08	Nil
29-Mar 2019	4,000,000	\$0.08	Nil
29-Apr 2019	14,850,000	\$0.076	Nil
1-May 2019	3,000,000	\$0.076	Nil
29-May 2019	15,000,000	\$0.076	Nil

The Vesting conditions of the EIPRs are 25% vest on the first anniversary from the employee's commencement date, with the remainder vesting on a quarterly basis in equal tranches over 4 years from the employee's commencement date. Employee Rights will lapse on termination of employment. During the year ended 30 June 2019, 17,746,185 (30 June 2018: 16,908,835) of the Employee Incentive Performance Rights converted into ordinary shares.

AUDIT SERVICES

During the year the following fees were paid or payable for services provided by the auditor.

	Consolidated	
	2019	2018
	\$	\$
<i>Audit Services</i>		
Amounts payable to auditor of parent entity		
- Audit and review of financial statements	141,025	73,610
- Non-audit services	149,970	-
Amounts payable to other entities	22,210	-
	311,645	73,610

Signed in accordance with a resolution of the Directors.



David McLauchlan
CEO & Executive Director

Date: 30 September 2019

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To the directors of Buddy Technologies Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2019 there have been:

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

**Nexia Perth Audit Services Pty Ltd**

TJ Spooner
Director
30 September 2019
Perth

BUDDY TECHNOLOGIES LIMITED
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CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

		Consolidated	
	Note	30 June 2019 \$	30 June 2018 \$
Service revenue	5	8,904,895	2,083,941
Government rebates received	5	1,237,502	1,563,926
Finance & other income	5	289,840	207,636
Cost of sales		(6,856,677)	(1,450,330)
Advertising & marketing expenses		(2,710,804)	(2,016,669)
Financial, administration, insurance and compliance costs		(2,522,143)	(2,207,769)
Depreciation		(512,669)	(145,649)
IT & web costs		(581,974)	(654,699)
Employee benefits expense		(9,314,665)	(6,443,788)
Share-based payments	20	(1,009,267)	(3,460,854)
Research & development		(1,805,160)	(1,353,242)
Amortisation of intangibles	13	(1,670,000)	-
Costs of acquisition		(3,085,106)	-
Restructuring and other one-time costs		(2,689,129)	-
Interest costs		(1,113,647)	-
Option based payments	16	(4,982,105)	-
Realised foreign currency losses		(86,194)	-
		<hr/>	<hr/>
Profit / (Loss) before income tax expense		(28,507,303)	(13,877,497)
Income tax benefit	7	386,464	-
Loss for the year		<u>(28,120,839)</u>	<u>(13,877,497)</u>
<i>Other Comprehensive Income / (Loss):</i>			
Items that will not be reclassified to profit or loss:			
Revaluation of investments at fair value through other comprehensive income (FVOCI)	12	(1,089,876)	1,066,680
Foreign currency translation differences for foreign operations		1,879,280	13,983
Other comprehensive income / (loss) for the year, net of tax		789,404	1,080,663
		<hr/>	<hr/>
Total Comprehensive Loss for the year		<u>(27,331,435)</u>	<u>(12,796,834)</u>
Basic & Diluted (Loss) per share - cents per share	6	(0.02)	(0.01)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

BUDDY TECHNOLOGIES LIMITED
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	Consolidated	
		Buddy Technologies Limited	Buddy Technologies Limited
		30 June 2019	30 June 2018
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	8	2,958,055	22,377,919
Trade and other receivables	9	4,685,146	1,088,414
Inventory	10	12,334,485	662,230
Total Current Assets		19,977,686	24,128,563
Non-Current Assets			
Property, plant & equipment	11	1,095,837	321,978
Investments	12	-	1,497,580
Intangible assets	13	88,958,956	-
Total Non-Current Assets		90,054,793	1,819,558
TOTAL ASSETS		110,032,479	25,948,121
LIABILITIES			
Current Liabilities			
Trade and other payables	14	11,711,427	1,667,997
Provisions	21	513,981	119,329
Borrowings	15	14,731,751	-
Deferred acquisition consideration	15	17,240,950	-
Total Current Liabilities		44,198,109	1,787,326
Non-Current Liabilities			
Deferred Taxation	7	6,663,300	-
Total Non-Current Liabilities		6,663,300	-
TOTAL LIABILITIES		50,861,409	1,787,326
NET ASSETS		59,171,070	24,160,795
EQUITY			
Share capital	16	115,298,012	58,947,674
Reserves	16	34,033,168	27,907,462
Accumulated losses		(90,160,110)	(62,694,341)
Equity attributable to owners of the parent		59,171,070	24,160,795
TOTAL EQUITY		59,171,070	24,160,795

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

Consolidated 2019	Issued Capital \$	Share and Option Reserve \$	Foreign Currency Translation Reserve \$	Fair Value Reserve \$	Accumulated Losses \$	Total Equity \$
Total equity at 1 July 2018	58,947,674	26,945,382	(104,600)	1,066,680	(62,694,341)	24,160,795
Adjustment(s) on initial application of AASB 9	-	-	-	(655,070)	655,070	-
Total Profit / (Loss) for the period	-	-	-	-	(28,120,839)	(28,120,839)
Other Comprehensive Income	-	-	1,879,280	(1,089,876)	-	789,404
Total Comprehensive Income / (Loss) for the year	-	-	1,879,280	(1,744,946)	(27,465,769)	(27,331,435)
Transactions with equity holders:						
Shares issued during the year:						
Shares and options issued pursuant to acquisition	32,628,491	-	-	-	-	39,444,938
Shares issued pursuant to capital raising	18,100,000	-	-	-	-	18,100,000
Costs of capital raising	(1,194,600)	-	-	-	-	(1,194,600)
Share based payments	6,816,447	1,009,267	-	-	-	1,009,267
Option based payments	-	4,982,105	-	-	-	4,982,105
Total equity at 30 June 2019	115,298,012	32,936,754	1,774,680	(678,266)	(90,160,110)	59,171,070

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 30 June 2018

Consolidated 2018	Issued Capital \$	Option Reserve \$	Foreign Currency Translation Reserve \$	Assets held for Sale Reserve \$	Accumulated Losses \$	Total Equity \$
Total equity at 1 July 2017	32,090,674	23,484,528	(118,583)	-	(48,816,844)	6,639,775
Total Profit / (Loss) for the year	-	-	-	-	(13,877,497)	(13,877,497)
Other Comprehensive Income	-	-	13,983	1,066,680	-	1,080,663
Total Comprehensive Income / (Loss) for the year	-	-	13,983	1,066,680	(13,877,497)	(12,796,834)
Transactions with equity holders:						
Shares issued during the year:						
Options converted during the year	5,375,000	-	-	-	-	5,375,000
Shares issued pursuant to capital raising	23,000,000	-	-	-	-	23,000,000
Costs of capital raising	(1,518,000)	-	-	-	-	(1,518,000)
Share based payments	-	3,460,854	-	-	-	3,460,854
Total equity at 30 June 2018	58,947,674	26,945,382	(104,600)	1,066,680	(62,694,341)	24,160,795

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	Note	Consolidated	
		Buddy Technologies Limited	Buddy Technologies Limited
		30 June 2019	30 June 2018
		\$	\$
Cash flows from operating activities			
Interest received & other income	5	289,840	190,411
Receipts from customers		10,851,981	1,679,996
Receipts of Government rebates	5	1,237,502	1,563,926
Payments for research & development		(2,387,134)	(2,007,941)
Payments to suppliers and employees		(20,955,647)	(11,752,511)
Net cash flows used in operating activities	17	<u>(10,963,458)</u>	<u>(10,326,119)</u>
Cash flows from investing activities			
Proceeds from sale of listed investment	12	407,704	-
Payment on acquisition of business	4	(24,081,744)	-
Payments for plant and equipment	11	(480,494)	(153,248)
Payments for notes receivable		(230,409)	(135,300)
Net cash flows used in investing activities		<u>(24,384,943)</u>	<u>(288,548)</u>
Cash flows from financing activities			
Proceeds from borrowings	15	4,168,388	-
Proceeds from share issue	16	18,100,000	23,000,000
Repayment of borrowings	15	(6,325,536)	-
Payments of deferred acquisition consideration	15	(698,995)	-
Proceeds from conversion of options		-	5,375,000
Capital Raising Costs	16	(1,194,600)	(1,518,000)
Net cash flows provided by financing activities		<u>14,049,257</u>	<u>26,857,000</u>
Net increase/(decrease) in cash and cash equivalents held		(21,299,144)	16,242,333
Effect of FX rate changes		1,879,280	13,983
Cash and cash equivalents at the beginning of the year		22,377,919	6,121,603
Cash and cash equivalents at the end of the year	8	<u><u>2,958,055</u></u>	<u><u>22,377,919</u></u>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

BUDDY TECHNOLOGIES LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1: REPORTING ENTITY

Buddy Technologies Limited (the "Company") is a company domiciled in Australia and whose shares are publicly traded on the Australian Securities Exchange (ASX: BUD). The consolidated financial statements of the Company as at and for the year ended 30 June 2019 comprises the Company and its subsidiaries (collectively referred to as the "Group").

A description of the nature of the Group's operations and its principal activities is included in the review of operations and activities in the Directors' Report, which does not form part of this financial report.

NOTE 2: BASIS OF PREPARATION

This general purpose financial report for the year ended 30 June 2019 has been prepared in accordance with Corporations Act 2001 and Australian Accounting Standards and authoritative pronouncements of the Australian Accounting Standards Board.

The Consolidated Financial Statements and Notes of the Group comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board.

The financial statements are presented in Australian Dollars. The Group's functional currencies are US dollar, Euro and British pound.

This Consolidated Financial Report was approved by the Board of Directors on 30 September 2019.

Historical Cost Convention

These financial statements have been prepared under the historical cost convention, except for available for sale financial assets which are measured at fair value.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

Going concern

These financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business.

The Group has reported a net loss for the year of \$28,120,839 (2018: \$13,877,497) and a cash outflow from operating activities of \$10,963,458 (2018: \$10,326,119). The directors carefully manage expenditure and, subject to being able to raise further finance, are of the view, based on cash flow forecasts, that the Group will be able to continue its operations as a going concern.

The continuing applicability of the going concern basis of accounting is dependent upon the Group's ability to source additional finance. The directors are confident that the Group will be successful in securing additional funds, should the need arise.

Based on these facts, the directors consider the going concern basis of preparation to be appropriate for this financial report. Should the Company be unsuccessful in securing additional finance, there is a material uncertainty which may cast significant doubt whether the entity will be able to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

BUDDY TECHNOLOGIES LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 2: BASIS OF PREPARATION (CONTINUED)

The financial statements do not include any adjustments relative to the recoverability and classification of recorded asset amounts or, to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Consolidation

Subsidiaries

The consolidated financial statements comprise the assets and liabilities of Buddy Technologies Limited and its subsidiaries at 30 June 2019 and the results of all subsidiaries for the year then ended. A subsidiary is any entity controlled by Buddy Technologies Limited. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The financial statements of subsidiaries are prepared from the same reporting period as the Parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-entity transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered. Investments in subsidiaries are accounted for at cost in the individual financial statements of Buddy Technologies Limited.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period which Buddy Technologies has control.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (see note 3(G)).

A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Consolidation (continued)

Acquisition-related costs are recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and AASB 119 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 Share-Based Payments at the acquisition date (see below); and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

BUDDY TECHNOLOGIES LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Consolidation (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are recognised initially at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with AASB 137 and the amount recognised initially less cumulative amount of income recognised in accordance with the principles of AASB 15.

B. Segment Reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

C. Income Tax

The income tax expense or benefit for the year is the tax payable on the current year's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Income Tax (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The Company and its wholly-owned Australian resident subsidiaries have not formed a tax-consolidated Group as at balance sheet date.

D. Goods and Services Tax and Similar Taxes

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except; where the GST incurred on a purchase of goods and services is not recoverable from the taxation authorities, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense item as applicable and receivables and payables in the balance sheet are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Consolidated Statement of Financial Position. Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

E. Trade and Other Receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivables. They are included in current assets, except for those with maturities greater than 12 months after the balance date which were classified as non-current assets. Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method, less any impairment losses.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property, Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the items. Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate asset costs over their estimated useful lives, as follows:

- Computer Equipment 4 years
- Software 3 years
- Office Equipment 5 years

Immaterial items are depreciated in full in the year of acquisition.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

G. Intangible assets and goodwill

(i) Goodwill

Goodwill is initially recognised and measured as set as per note 3A.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) (CGUs) expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described as per note 3A.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Research and development

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets, including Brand/Intellectual Property, customer relationships, patents and trademarks that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(v) Amortisation and useful life

The group amortises intangible assets with a finite useful life using the straight-line method over the following periods:

Brand/Intellectual Property	5 years
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See Note 3I for the Group policy regarding impairment of goodwill.

KEY SOURCES OF ESTIMATION UNCERTAINTY

Following the assessment of the recoverable amount of goodwill allocated to the LIFX acquisition, to which goodwill of \$57,228,956 is allocated, the directors consider the recoverable amount of goodwill allocated to LIFX to be most sensitive to the achievement of future budgets. Budgets comprise forecasts of revenue, staff costs and overheads based on current and anticipated market conditions that have been considered and approved by the Board. Whilst the Group is able to manage most of LIFX's costs, the revenue projections are inherently uncertain due to the nature of consumer, retailer and competitor behaviour. Revenue of the CGUs is most sensitive to changes in the technological advancements within the company's operating in that marketplace. The market for LIFX products has seen a significant increase in turnover the past 18 months with the introduction of new products and retailers. The sensitivity analysis in respect of the recoverable amount of goodwill is presented in Note 13.

H. Investment in Associated Entities

The Group's investment in its associate is accounted for using the equity method of accounting in the consolidated financial statements, after initially being recognised at cost.

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under the equity method, the investment in the associate is carried in the Consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. Goodwill included in the carrying amount of the investment in an associate is not tested separately, rather the entire carrying amount of the investment is tested for impairment as a single asset. If an impairment is recognised, the amount is not allocated to the goodwill of the associate.

The Consolidated Statement of Profit or Loss and Other Comprehensive Income reflects the Group's share of the results of operations of the associate, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivable and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. The balance dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

I. Impairment

Impairment of Non-Financial Assets

Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount the asset or cash generating unit is considered impaired and is written down to its recoverable amount. Goodwill is tested annually for impairment. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit (group of assets) to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect of goodwill is not reversed.

Impairment of Non-Derivative Financial Assets

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment and including forward-looking information.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Share-Based Payments

The Group has provided payment to service providers and related parties in the form of share-based compensation whereby services are rendered in exchange for shares or rights over shares ('equity-settled transactions'). The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined using an appropriate valuation model for services provided by employees or where the fair value of the goods or services received cannot be reliably estimated.

For goods and services received where the fair value can be determined reliably the goods and services and the corresponding increase in equity are measured at that fair value. The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

At each balance date, the entity revises its estimates of the number of options with non-market vesting conditions that are expected to become exercisable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant parties become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

K. Cash and Cash Equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

L. Revenue recognition

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

The specific recognition criteria described below must also be met before revenue is recognised.

BUDDY TECHNOLOGIES LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Revenue recognition (continued)

Buddy Cloud

Revenue is recognised each month by reference to the stage of completion over the term of the customer service agreement. Stage of completion is measured by reference to time incurred to date as a percentage of total time for each service delivery contract.

Revenue from the sale of services is measured at the fair value of the consideration received or receivable, net of returns and allowances, discounts and volume rebates. The Group does not provide any extended warranties or maintenance contracts to its customers.

Buddy OHM

The revenue for Buddy OHM is recognised on a monthly basis based on the number of end users using the Ohm (data monitoring services).

LIFX Products

The Group recognises revenue when it satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred when the customer obtains control of that asset. Revenue is recognised when the goods are shipped to the customer.

There is no difference to the recognition of revenue for the Group under AASB 15 when compared to AASB 18.

Research and Development Grants

The Group recognises revenue from research and development grants (R&D) on receipt of the funds.

Finance Income

Finance income comprises interest income on funds invested, gains on disposal of financial assets and changes in fair value of financial assets held at fair value through profit or loss. Finance expenses comprise changes in the fair value of financial assets held at fair value through profit or loss and impairment losses on financial assets.

Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

M. Issued Capital

Ordinary shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

N. Earnings per Share

i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Trade and other payables are stated at amortised cost, using the effective interest method.

P. Foreign Currency Translation

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. As at the balance date the assets and liabilities of this subsidiary is translated into the presentation currency of Buddy Technologies Limited at the rate of exchange ruling at the balance date and their statements of comprehensive income are translated at the weighted average exchange rate for the year.

Buddy Technologies Limited has a functional currency of Australian Dollars, Buddy Platform Inc and Lifi Labs Inc. have a functional currency of USD; Buddy Platform Europe and Lifi Labs (UK) Pty Ltd have a functional currency of Euro and GBP respectively. The Group has chosen Australian dollars (AUD) as the presentation currency. The exchange differences arising on the translation are taken directly to a separate component of equity, being recognised in the foreign currency translation reserve.

Q. Employee benefits

Short-term Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at amounts expected to be paid when liabilities are settled.

Defined Contribution Superannuation Expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

R. Significant Accounting Estimates and Assumptions

Critical Accounting Estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Significant Accounting Estimates and Assumptions (Continued)

Share based payments

The Group measures the cost of equity-settled transactions with management and other parties by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by the Board of Directors using either the Binomial or the Black-Scholes valuation methods, taking into account the terms and conditions upon which the equity instruments were granted. For instruments with non-market vesting conditions the probability that the instruments will vest has to be assessed. The assumptions in relation to the valuation of the equity instruments are detailed in Note 20. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amount of assets and liabilities within the next reporting period, but may impact expenses and equity.

Intangible assets and goodwill

The Group has intangible assets with a carrying amount of \$31,730,000 (Note 13) and goodwill with a carrying amount of \$57,228,956 (Note 13), arising through a business combination completed during the year (Note 4).

Intangible assets and goodwill are regularly reviewed for impairment and whenever there is an indication that an impairment might exist. Goodwill is subject to impairment testing on, at least, an annual basis.

To assess if there is any impairment, estimates are made of the future cash flows expected to result from the use of these assets and their eventual disposal. These estimated cash flows are then adjusted to the present value using an appropriate discount rate that reflects the risks and uncertainties associated with the forecasted cash flows. Actual outcomes could vary significantly from such estimates of discounted future cash flows.

The Group applied the following key assumption for the "value in use" calculations used in the impairment testing of intangible assets and goodwill at year-end:

- discount rate in respect of goodwill and brand/intellectual property intangible asset of 19.0%

Since the cash flows also take into account tax expenses, a post-tax discount rate is used in the impairment testing.

Management estimates that the use of the post-tax discount rate approximates the results of using a pre-tax rate applied to pre-tax cash flows.

S. Comparative Information

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

T. Inventory

Inventory is measured at the lower of cost and net reliable value. The cost includes expenditure incurred in acquiring the inventories and bringing them to their existing condition.

U. Application of New and Revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the "AASB") that are relevant to its operations and effective for the current year.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 9 Financial Instruments

The Group has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch.

For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity.

New impairment requirements use an 'expected credit loss' ("ECL") model to recognise an allowance. Impairment is measured using a 12 month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition. In which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

Impact of adoption

The Group has applied AASB 9 retrospectively with the effect of initially applying this standard at the date of initial application, being 1 July 2018, and has elected not to restate comparative information. Accordingly, the information presented for 30 June 2018 has not been restated. The following is noted on the impact of AASB 9:

Investments in listed shares that are not held for trading

On initial application date, an election has been made to designate available-for-sale financial instruments that are non-derivative equity instruments not held for trading as fair value through other comprehensive income (FVOCI). Previously recognised impairment losses in profit or loss were transferred from retained earnings to the fair value reserve as from the initial application date, further gains or losses (except dividend income) will be recognised in the fair value reserve.

As this is significant to the Group, an adjustment of \$655,070 has been made to retained earnings and fair value reserve as at 1 July 2018 and has been recognised in the Statement of Changes in Equity. Other than the change disclosed above there were no other material impacts to profit or loss or net assets on the adoption of AASB 9 in the current or comparative years.

Impairment of financial assets

For trade receivables and contract assets under AASB 15 the Group applies a simplified approach of recognising lifetime expected credit losses as these items do not have a significant financing component. The impairment allowance for trade receivables was increased by \$2,091 at 1 July 2018.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

Impact of adoption

AASB 15 was adopted using the modified retrospective approach and as such comparatives have not been restated.

The adoption of AASB 15 had no impact on opening retained profits as at 1 July 2018.

AASB 16 Leases

The effective date for the Group is 1 July 2019. AASB 16 will cause the majority of leases of an entity to be brought onto the statement of financial position. There are limited exceptions relating to short-term leases and low value assets which may remain off-balance sheet. The calculation of the lease liability will take into account appropriate discount rates, assumptions about lease term and increases in lease payments. A corresponding right to use asset will be recognised which will be amortised over the term of the lease. Rent expense will no longer be shown, the profit and loss impact of the leases will be through amortisation and interest charges.

Transition and impact

The Group intends to initially apply the new standard using the modified retrospective approach, which requires no restatement of comparative information. As is permitted by the standard, the Group intends to recognise the opening balance of right of use assets to be equal to the opening lease liability, adjusted for any prepayment or accrued lease payments recognised in the financial position prior to adoption.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Group currently has \$170,040 worth of operating leases committed for a period of not longer than 1 year (Note 26) and does not expect that the standard will have a significant impact to the Group's financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 4: BUSINESS COMBINATIONS

On 29 March 2019, the Group acquired 100% of the business and asset of Lifi Labs Inc ("LIFX"), a manufacturer and seller of Wi-Fi enabled LED lighting products in the United States and internationally. The acquisition has the group expanding its offering and services as well as providing a platform to access international markets. For the purposes of these financial statements, the results of LIFX have been included beginning on 1 April 2019. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair Value
	\$
Brand/Intellectual Property	33,400,000
Cash	316,762
Inventory	8,303,804
Fixed Assets	806,034
Other Assets	516,547
Trade Debtors	5,025,207
Trade Payables	(2,141,886)
Other Liabilities	(343,851)
Workforce	(482,000)
Tax	(28,381)
Deferred tax	(7,014,000)
Loan	(23,705,376)
Fair value of assets and liabilities acquired	14,652,860
Add: Goodwill	<u>57,228,956</u>
Net assets acquired	71,881,806
<i>Satisfied by:</i>	
Cash paid	21,313,400
Cash payable	17,939,945
Ordinary shares issued (1)	31,183,252
Additional consideration (2)	1,445,209
Total consideration	71,881,806
Net cash outflow arising on acquisition:	
Cash paid	21,313,400
Less: Balances acquired	
Cash	(316,762)
	(316,762)
Net outflow of cash – investing activities	20,996,638

(1) The fair value of the 427,167,839 shares issued as part of the consideration transferred to Lifi Labs Inc amounts to \$31,183,252 is based on the closing share price as at 29 March 2019.

(2) 4,444,444 sign-on bonus shares were issued to Marc Alexander and Tim Peters, pursuant to their employment transferred to the Group. The fair value of the consideration transferred amounting to AUD\$324,444 is based on the 29 March 2019 share price. In addition to the sign-on bonus shares, 14,586,255 shares and 532,765 options were issued to Tim Peters. The fair value of the consideration transferred for the shares is \$1,096,663 and \$24,102 in respect of the Options. The fair value of the consideration transferred for the shares is based on the 29 March 2019 share price.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 4: BUSINESS COMBINATIONS (CONTINUED)

The fair value of the consideration transferred for the options was valued at \$0.045 an option using a Black-Scholes with the following assumptions:

Total Number Granted	532,765
Grant date	29 Mar 2019
Expiry date	29 Mar 2023
Underlying share price	\$0.073 per share
Volatility	87.17%

Earn-out consideration

Subject to LIFX achieving US\$70 million in gross revenues during calendar year 2019, US\$1 million is payable as follows:

- US\$510,000 payable to Luminous Wide Limited in cash; and
- An issue of fully paid ordinary shares in Buddy equivalent to US\$490,000 to the minority shareholders (in their respective proportions) based on the greater of:
 - 5-day volume weighted average price of shares following 31 December 2019; or
 - US\$0.07.

Based on management's knowledge of the business and taking into account the likely impact of the current economic environment, the fair value of the consideration has been estimated as \$nil.

Acquisition-related costs

Acquisition-related costs of \$3,085,106 that were not directly attributable to the issue of shares are included in administrative expenses in profit or loss and in investing cash flows in the consolidated statement of cash flows.

Revenue and profit contribution

The acquired business contributed revenues of \$6,523,425 and a net loss of \$4,613,056 to the group for the period from 1 April to 30 June 2019. If the acquisition had occurred on 1 July 2018, consolidated pro-forma service revenue and loss for the year ended 30 June 2019 would have been \$42,980,667 and \$39,637,279 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- (i) differences in the accounting policies between the group and the subsidiary, and
- (ii) the additional depreciation and amortisation of \$5,010,000 that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 July 2018, together with the consequential tax benefit of \$1,052,100.

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:
Intangible assets - Multi-period excess earnings method: The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the Brand/Intellectual Property, by excluding any cash flows related to contributory assets; a period of 5 years was used. A pre-tax discount rate of 19% was used.

NOTE 5: REVENUE

	Consolidated	
	2019	2018
	\$	\$
Buddy Ohm and Cloud revenues	2,381,470	2,083,941
LIFX Products revenues	6,523,425	-
Government rebate received	1,237,502	1,563,926
Interest Income	168,557	190,411
Other income	121,283	17,225
Total Revenue	10,432,237	3,855,503

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FOR THE YEAR ENDED 30 JUNE 2019

NOTE 6: LOSS PER SHARE

	Consolidated	
	2019	2018
	\$	\$
Basic and diluted profit & (loss) per share - cents	(0.02)	(0.01)
Profit/(Loss) used in the calculation of basic and diluted loss per share	(28,120,839)	(13,877,497)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic loss per share	1,271,669,718	1,026,016,554
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted loss per share	1,271,669,718	1,026,016,554

Options are considered anti-dilutive in the current year due to the loss position of the Company and are not included in the calculation of diluted earnings per share.

NOTE 7: INCOME TAX

Numerical reconciliation between aggregate tax expense recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and tax expense calculated per the statutory income tax rate.

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	Consolidated	
	2019	2018
	\$	\$
	(28,507,303)	(13,877,497)
Income tax using the domestic corporation tax rate of 30% (2018:30%)	(8,552,191)	(4,163,249)
<i>Expenditure not allowable for tax purposes</i>		
Share based payments	1,993,933	1,038,256
Non-Deductible Expenditure	3,811,449	1,710,284
<i>Non-Assessable Income</i>		
Research and Development Rebate	(360,209)	(469,177)
Temporary differences		
Unrecognised Temporary Differences	1,993,683	53,712
Capital raising costs deductible	(242,864)	(180,350)
Unrecognised tax losses	1,742,663	2,010,524
Income tax (expense)/benefit	386,464	-

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Consolidated	
	2019	2018
	\$	\$
Deductible temporary differences	1,980,112	792,111
Tax losses	2,836,125	1,282,132
Total	4,816,237	2,074,243

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 7: INCOME TAX (CONTINUED)

Future availability of the deductible temporary differences and tax losses is dependent on the Group complying with the relevant legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the entity can utilise the benefits therefrom.

Deferred tax liabilities

Deferred tax liabilities have been recognised in respect of the following items:

	Consolidated	
	2019	2018
	\$	\$
Establishment of non-amortisable intangible assets	7,014,000	-
Non-deductible amortisation	(350,700)	-
Total	6,663,300	-

NOTE 8: CASH AND CASH EQUIVALENTS

	Consolidated	
	2019	2018
	\$	\$
Reconciliation to Statement of Financial Position		
Cash at bank	2,958,055	22,377,919
Total Cash and Cash Equivalents	2,958,055	22,377,919

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Cash at bank is subject to floating interest rates at an effective interest rate of approximately 2% (2018: 2%).

NOTE 9: TRADE AND OTHER RECEIVABLES

	Consolidated	
	2019	2018
	\$	\$
<u>Current</u>		
Trade receivables	3,638,965	533,925
Other Receivables ⁽¹⁾	365,708	247,865
Prepayments & Deposits	680,473	306,624
Total Current Trade and Other Receivables	4,685,146	1,088,114

- (1) Other receivables are non-trade receivables, are non-interest bearing and have an average term of 3 months and generally receivable from the ATO for GST.

Ageing of receivables past due not impaired

Trade receivables disclosed above include amounts that are past due at the end of the reporting period for which the Consolidated Entity has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered receivable. The ageing of receivables and the loss allowance provided on trade receivables can be found in Note 22; this is the first year that an expected credit loss provision has been recognised.

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NOTE 10: INVENTORY

	2019	2018
	\$	\$
Finished goods at cost	12,334,485	662,230
Total inventory	<u>12,334,485</u>	<u>662,230</u>

The Company acquired \$8,303,804 of inventory as a result of the acquisition of LIFX.

NOTE 11: PROPERTY, PLANT & EQUIPMENT

	2019	2018
	\$	\$
<i>Computer equipment</i>		
Opening balance	69,527	106,530
Additions	13,199	17,531
Acquired through acquisition	101,571	
Disposals	-	-
Depreciation	(49,555)	(54,534)
Total office equipment	<u>134,742</u>	<u>69,527</u>
<i>Furniture & Fittings</i>		
Opening balance	15,225	7,689
Additions	-	10,234
Acquired through acquisition	18,342	-
Disposals	-	-
Depreciation	(1,490)	(2,698)
Total office equipment	<u>32,077</u>	<u>15,225</u>
<i>Office and Testing Equipment</i>		
Opening balance	237,226	200,161
Additions	20,805	125,482
Acquired through acquisition	237,640	-
Disposals	-	-
Depreciation	(77,217)	(88,417)
Total office equipment	<u>418,454</u>	<u>237,226</u>
<i>In-Store Displays</i>		
Opening balance	-	-
Additions	446,490	-
Acquired through acquisition	448,481	-
Disposals	-	-
Depreciation	(384,407)	-
Total office equipment	<u>510,564</u>	<u>-</u>
Net Book Value for Property, Plant and Equipment	<u>1,095,837</u>	<u>321,978</u>

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FOR THE YEAR ENDED 30 JUNE 2019

NOTE 12: OTHER FINANCIAL ASSETS

	Consolidated	
	2019	2018
	\$	\$
Financial assets carried at FVOCI ⁽¹⁾		
- Listed shares	-	1,497,580
Total Other Financial Assets	-	1,497,580
Opening balance	1,497,580	430,900
Revaluation of Weebit Nano Limited		
Change in fair value through Other Comprehensive Income	(1,089,876)	1,066,680
Sale of investment	(407,704)	-
Closing balance of Other Financial Assets	-	1,497,580

⁽¹⁾ Other financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

NOTE 13: INTANGIBLE ASSETS AND GOODWILL

	Brand/ Intellectual Property	Goodwill	Total
	\$	\$	\$
Balance at 1 July 2018	-	-	-
Acquisition through business combination (Note 4)	33,400,000	57,228,956	90,628,956
Amortisation	(1,670,000)	-	(1,670,000)
Impairment loss	-	-	-
Year ended 30 June 2019	31,730,000	57,228,956	88,958,956
Year ended 30 June 2018	-	-	-

Amortisation on the brand/intellectual property intangible asset has been recognised since the date of acquisition on 29 March 2019. The remaining amortisation period at year end is 4.75 years.

The carrying amount of goodwill has been allocated to LiFX products' cash generating unit (CGU).

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

LIFX Products

The recoverable amount of the segment as a CGU is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period and a pre-tax discount rate of 19% per annum (2018:Nil% per annum).

The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the group of CGUs to which goodwill is allocated. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount of LIFX Products is based would cause the aggregate carrying amount to exceed the aggregate recoverable amount of the related CGU. An underperformance of gross profit of greater than 15.3% or, separately, a discount rate of greater than 23% would result in this occurring.

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NOTE 14: TRADE AND OTHER PAYABLES

	Consolidated	
	2019	2018
	\$	\$
Trade payables ⁽¹⁾	8,500,291	1,465,112
Sundry payables and accrued expenses ⁽²⁾	2,911,136	202,885
Total Trade and Other Payables	11,711,427	1,667,997

⁽¹⁾ Trade payables are non-interest bearing and are normally settled on 30-day terms.

⁽²⁾ Other payables are non-trade payables, are non-interest bearing and have an average term of 1 month.

NOTE 15: BORROWINGS AND DEFERRED ACQUISITION CONSIDERATION

	Consolidated	
	2019	2018
	\$	\$
CURRENT		
Secured Liabilities		
Line of Credit	10,753,913	-
Temporary loan	3,977,838	-
Total borrowings	14,731,751	-
Deferred acquisition consideration	17,240,950	-
Total current	31,972,701	-
NON-CURRENT	-	-
Total Borrowings and Deferred acquisition consideration	31,972,701	-

As part of the acquisition, the Company has entered into three current obligations as follows:

First, a Line of Credit which assumed (on 1 April 2019) the balance of amounts due from LIFX to their primary manufacturer and majority shareholder. This agreement is secured by all assets of the Company except trade receivables and inventory, calls for annual interest of 12% and is due in December 2019. The Directors expect that this obligation will be repaid or replaced with long-term debt.

Second, on 19 April 2019, the Company entered into a temporary loan with a lender with a monthly interest rate of 1% until June 30 and 2% thereafter. The primary use of funds was to pay down the Line of Credit. This loan is secured by trade receivables and inventory and is due on 30 September 2019. The Directors expect that this loan will be repaid with the financial close of new trade finance facilities.

The third agreement is the establishment (on 1 April 2019) of a deferred consideration obligation for \$17,240,950 which represents the unpaid portion of the cash consideration of the acquisition. This obligation has an annual interest rate of 10% and is due in March 2020. In conjunction with this obligation, the Company issued 100 million options with an exercise price of \$0.0759 and a term of 5 years. The Company engaged a valuation firm who valued the options at \$4,982,105 which has been included in option based payments in the financial statements. While the entire deferred consideration is classified as current, the Directors expect that the entire balance will be deferred further or replaced with long-term debt.

Defaults and breaches

During the current and prior year, there were no defaults or breaches on any of the loans.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 15: BORROWINGS AND DEFERRED ACQUISITION CONSIDERATION (CONTINUED)

	1 Jul 2018	Cash flows	Non-cash changes			30 June 2019
	\$	\$	Acquisition	Equity-Settled	Exchange	\$
Line of credit	-	(6,134,986)	23,584,122	(6,816,477)	121,254	10,753,913
Temporary loan	-	3,977,838	-	-	-	3,977,838
Deferred acquisition consideration	-	(698,995)	17,939,945	-	-	17,240,950
Total	-	(2,856,143)	41,524,067	(6,816,477)	121,254	31,972,701

NOTE 16: SHARE CAPITAL & RESERVES

CONSOLIDATED AND PARENT ENTITY 2019

(a) Issued and Paid Up Capital

Fully paid ordinary shares

	#	\$
Ordinary Shares		
	1,869,320,010	115,298,012

(b) Movements in fully paid shares on issue

Opening balance	1,091,410,055	58,947,674
Capital raising 29 Mar 2019	226,250,000	18,100,000
Other Capital Raising Cost	-	(1,194,600)
Employee Incentive Performance Rights Converted net of adjustments (Note 20)	14,700,044	-
Replacement Performance Rights Converted	907,822	-
Repayment of loan	89,853,551	6,816,447
Consideration shares issued on acquisition of LIFX	446,198,538	32,628,491
Balance as at 30 June 2019	1,869,320,010	115,298,012

Opening balance 1 July 2017	872,739,954	32,090,674
Capital raising	115,000,000	23,000,000
Other Capital Raising Cost	-	(1,518,000)
Options exercised (Note 20)	52,500,000	5,375,000
Replacement Performance Rights Converted (Note 20)	2,427,933	-
Employee Incentive Performance Rights Converted (Note 20)	16,908,835	-
Performance Shares Converted (Note 20)	31,833,333	-

Balance as at 30 June 2018	1,091,410,055	58,947,674
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(c) Movements in share based payments reserve:

	2019	2018
	\$	\$
Opening Balance at the start of the period:	26,945,382	23,484,528
*Expense recognised in relation to Performance Shares	-	(581,809)
*Expense recognised in respect of Replacement Options	2,996	12,180
*Expense recognised in respect of Performance Rights	23,787	100,819
*Expense recognised in respect of Employee Incentive Performance Rights (EIPR)	982,484	3,929,664
Broker Options	4,982,105	-
Balance at the end of the reporting period:	32,936,754	26,945,382

* The expense recognised over the vesting period is in accordance with the terms and conditions of the options. The total expense for the year ended 30 June 2019 was \$1,009,267 (2018: \$3,460,854). Refer to Note 20 Share Based Payments for further disclosure.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 16: SHARE CAPITAL & RESERVES (CONTINUED)

Nature and Purpose of Reserves

1) Share Based Payments Reserve

The options reserve is used to recognise the fair value of all options on issue but not yet exercised. This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. Includes share-based payments used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 20 for further details of these plans.

2) Foreign Currency Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

All other reserves are as stated in the consolidated statement of changes in equity.

NOTE 17: OPERATING CASH FLOW INFORMATION

	Consolidated	
	2019	2018
	\$	\$
Reconciliation of cash flow from operations with profit/(loss) after income tax:		
Loss for the year	(28,120,839)	(13,877,497)
Add - Noncash items:		
Share-based payments	1,009,267	3,460,854
Option based payments	4,982,105	-
Amortisation of intangibles	1,670,000	-
Depreciation	512,669	145,649
Acquisition related expenses	3,085,106	-
Deferred tax benefit	(350,700)	-
<i>Changes in assets and liabilities</i>		
Movement in inventory	(3,368,451)	(555,587)
Movement in trade creditors and employee provisions	7,441,955	921,632
Movement in other debtors and receivables	2,175,430	(421,170)
Cash flows used in operations	(10,963,458)	(10,326,119)

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NOTE 18: INTERESTS IN CONTROLLED ENTITIES

The Company has the following subsidiaries:

Name of Subsidiary	Country of Incorporation	Class of Shares	Percentage held	
			2019	2018
Buddy Platform Inc	USA	Ordinary	100%	100%
Citadel Potash Pty Ltd	Australia	Ordinary	100%	100%
Buddy Finance Pty Ltd	Australia	Ordinary	100%	-
Buddy Platform (Europe) Ltd	Ireland	Ordinary	100%	100%
Lifi Labs Inc ¹	USA	Ordinary	100%	-
Lifi Labs Management Pty Ltd ¹	Australia	Ordinary	100%	-
LIFX UK Ltd ¹	UK	Ordinary	100%	-
Citadel Capital Holdings Inc ²	USA	Ordinary	-	100%
K2O Utah LLC ³	USA	Membership interests	-	100%

¹ Company acquired on 29 March 2019

² Company dissolved on 23 May 2019

³ Company dissolved on 18 April 2019

NOTE 19: RELATED PARTY TRANSACTIONS

a) Parent and Ultimate Controlling Party

The parent entity and ultimate controlling party is Buddy Technologies Limited.

b) Related Party Compensation

Compensation of key management personnel of the Group

	2019	2018
	\$	\$
Short-term employee benefits	874,165	593,284
Post-employment benefits	10,579	-
Share-based payments	224,794	(333,818)
Total compensation paid to key management personnel	1,109,538	259,466

The amounts disclosed in the table are the amounts recognised as an expense during the period which related to the compensation key management personnel.

c) Shares and Options held by Directors and Key Management Personnel

Information on remuneration and shares and options held by Directors and Key Management Personnel is contained in the Remuneration Report within the Directors' Report.

d) Loans To and From Related Parties

Key management personnel of the Group:

	Consolidated	
	2019	2018
	\$	\$
Key management personnel loans *	163,981	67,650
	163,981	67,650

* The amount is classified as other receivable and the loan was repaid on 17 July 2019

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NOTE 19: RELATED PARTY TRANSACTIONS (CONTINUED)

The ultimate parent

The ultimate parent of the Group is Buddy Technologies Limited and is based and listed on ASX in Australia. There were no transactions other than inter-company fund transfers to its wholly owned subsidiary Buddy Platform Inc. based in USA and Europe.

Loans between entities in the wholly owned Group are not interest bearing, unsecured and are payable upon reasonable notice having regard to the financial stability of the Company.

Transactions with key management personnel

Information on remuneration and shares and options, performance shares, performance rights held by Directors and Key Management Personnel is contained in the Remuneration Report within the Directors' Report.

e) Other Related Party Transactions

Transactions with other related parties are made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

Armada Capital Limited, a company of which Mr Ananda Kathiravelu is Managing Director, was paid fees during the previous reporting period in relation to investor relations and marketing support to the Company on normal commercial terms during the year.

There were no related party transactions for the year ended 30 June 2019. A summary of the total fees paid and payable to Armada Capital Limited for the year ended 30 June 2018 were as follows:

	Consolidated	
	2019	2018
	\$	\$
Investor relations and marketing support	-	48,000
Total	-	48,000

NOTE 20: SHARE BASED PAYMENTS

The Company completed the following share-based payment arrangements for the year ended 30 June 2019.

(a) Performance Shares

	2019	2018
Outstanding at the beginning of the year ¹	29,833,334	63,666,667
Granted	-	-
Converted to ordinary shares	-	(31,833,333)
Expired	-	-
Forfeited	-	(2,000,000)
Outstanding at year-end	29,833,334	29,833,334
Total Vested	-	-

¹ Outstanding at the beginning of the year were 29,833,334 Performance Shares, issued when the Company completed its 100% acquisition of the issued capital of Buddy Platform Inc. and was completed in accordance with a Prospectus dated 3 November 2015. Shareholder approval was obtained on 9 November 2015.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 20: SHARE BASED PAYMENTS (CONTINUED)

The performance shares were valued using the following assumptions:

Performance Shares were deemed to be valued at \$0.14 based on the following inputs:

Underlying share price	\$0.139 per share
Share exercise price	Nil
Effective date	17 December 2015
Share expiry date	17 December 2020

The issue was made to key management and employees who have an impact on the group's performance, and will vest over a period of 5 years subject to meeting performance milestones as listed below.

The Performance Shares will convert upon satisfaction of any one of the following milestones:

- (i) One third (1/3) of all Performance Shares held by the Holder as at the date of issue of the Performance Shares shall convert upon Buddy (or its subsidiaries) logging 20,000,000 total discrete connections to any Buddy server or service (Interactions) by any approved network connected hardware or software application (Device) per day for no less than 3 consecutive weeks within a period of 24 months from the date of completion of the Capital Raising;
- (ii) One third (1/3) of all Performance Shares held by the Holder as at the Issue Date shall convert upon the total number of devices creating an Interaction with a Buddy application that it has not previously interacted with (New Connection) exceeding 500,000 per week for no less than three (3) consecutive weeks within a period of 24 months from the date of completion of the Capital Raising;
- (iii) One third (1/3) of all Performance Shares held by the Holder as at the Issue Date shall convert upon Buddy (or its subsidiaries) satisfying the following milestones within a period of 36 months from the date of completion of the Capital Raising:
 - total daily device interactions with the Buddy Platform exceed 50,000,000 per day for no less than 3 consecutive weeks; and
 - total number of devices creating new connections to Buddy exceeding 1,000,000 per week for no less than 3 consecutive weeks.

On July 17 2016, the first milestone was achieved of 20 million discrete connections per day for 3 consecutive weeks. Accordingly the full cost of the share based payment of the first milestone was recognised in 30 June 2016. During the year ended 30 June 2017, the company successfully completed the Second Performance Milestone of more than 500,000 New Connections per week for no less than three (3) consecutive weeks. These shares were converted in October 2017. As at the date of this report, Milestone 3 was not met. The shares are not expected to be converted and no expense has been recognised this year.

(b) LIFX Performance Shares

	2019	2018
Outstanding at the beginning of the year	-	-
Granted ¹	24,000,000	-
Converted to ordinary shares/Expired/Forfeited	-	-
Outstanding at year-end*	24,000,000	-
Total Vested	-	-

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NOTE 20: SHARE BASED PAYMENTS (CONTINUED)

(b) LIFX Performance Shares (continued)

¹ Performance Shares were issued on 1 April 2019 after the completion of the acquisition of Lifx Labs, Inc (trading as LIFX) on 29 March 2019. Shareholder approval was received on 25 March 2019.

The performance shares were valued using the following assumptions:

Performance Shares were deemed to be valued at \$0.073 based on the following inputs:

Underlying share price	\$0.073 per share
Share exercise price	Nil
Effective date	1 April 2019
Share expiry date	1 April 2024

The issue was made to key management and employees who have an impact on the group's performance and will vest over a period of 5 years subject to meeting performance milestones as listed below.

The Performance Shares will vest over a four year period as follows:

- i. 8,000,000 Performance Shares that will vest upon LIFX business contributing a cumulative A\$100 million to the Buddy Group in revenues within 18 months from Completion;
- ii. 8,000,000 Performance Shares that will vest upon LIFX business contributing a cumulative A\$200 million in revenues to the Buddy Group within 30 months from Completion; and
- iii. 8,000,000 Performance Shares that will vest upon LIFX business contributing a cumulative A\$250 million in revenues to the Buddy Group within 36 months from Completion.

Continuing employment service is one of the key terms of the Performance shares. On 11 August 2019, 12,000,000 Performance Shares were forfeited on ceasing employment with the Company.

(c) Share Options

	2019	Weighted Average Exercise Price \$	2018	Weighted Average Exercise Price \$
Outstanding at the beginning of the year ¹	2,806,647	0.10	55,306,647	0.10
Granted ²	100,000,000	0.08	-	-
Exercised	-	0.10	(52,500,000)	0.10
Expired/forfeited ¹	(19,886)	0.10	-	-
Outstanding at year-end	102,786,761	0.10	2,806,647	0.10
Total Vested	102,786,761	0.10	2,600,245	0.10

¹ Included in the above share options are 2,806,647 of replacement options granted on 17 December 2015. The replacement options shall vest and become exercisable on a quarterly basis in equal tranches over 4 years from the employee's commencement date. The options expire on 17 December 2020.

² On 1 April 2019, 100,000,000 options were granted to secure a financing arrangement.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 20: SHARE BASED PAYMENTS (CONTINUED)

(c) Share Options (continued)

The options issued on 1 April 2019 were valued at \$0.0498 per option based on the following assumptions:

Total Number Granted	100,000,000
Grant date	1 Apr 2019
Expiry date	30 Mar 2024
Underlying share price	\$0.073 per share
Share exercise price	\$0.0759
Volatility	88.56%
Risk free rate	1.44%

The remaining weighted average contractual life of the outstanding options is 4.7 years (2018: 2.4 years).

(d) Employee Incentive Performance Rights

The objective of the Employee Incentive Performance Rights Plan (EIPR) is to attract, motivate and retain key employees and it is considered by the Company that future issues under the plan will provide selected Directors, and permitted employees and contractors of the Company with the opportunity to participate in the future growth of the Company. Employee rights granted under the plan will be issued for nil consideration. The summary of the movements in employee incentive rights is as per the table below.

	2019	2018
Outstanding at the beginning of the year	55,842,716	34,062,917
Granted	42,950,000	44,496,000
Converted to ordinary shares	(17,746,185)	(16,908,835)
Forfeited	(23,877,444)	(5,807,366)
Outstanding at year-end	57,169,087	55,842,716
Vested and Exercisable	-	-

The following EIPRs were granted during the year and valued based on the following assumptions:

Date of grant	Number granted	Underlying share price	Exercise price
31-Jul 2018	300,000	\$0.08	Nil
30-May 2018	5,000,000	\$0.08	Nil
1-Oct 2018	500,000	\$0.08	Nil
13-Sep 2018	300,000	\$0.08	Nil
29-Mar 2019	4,000,000	\$0.08	Nil
29-Apr 2019	14,850,000	\$0.076	Nil
1-May 2019*	3,000,000	\$0.076	Nil
29-May 2019	15,000,000	\$0.076	Nil

The Vesting conditions of the EIPR's are that 25% vest on the first anniversary from the employee's commencement date, with the remainder vesting on a quarterly basis in equal tranches over 4 years from the employee's commencement date. Employee Rights will lapse on termination of employment.

BUDDY TECHNOLOGIES LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 20: SHARE BASED PAYMENTS (CONTINUED)

(d) Employee Incentive Performance Rights (continued)

*Further vesting conditions are attached to the 3,000,000 EIPRs granted on 1 May 2019:

- 1,000,000 EIPRs will vest upon LIFX business contributing a cumulative A\$100 million to the Company in revenues within 18 months from completion of the LIFX acquisition;
- 1,000,000 EIPRs will vest upon LIFX business contributing a cumulative A\$200 million in revenues to the Company within 30 months from completion of the LIFX acquisition; and
- 1,000,000 EIPRs will vest upon LIFX business contributing a cumulative A\$250 million in revenues to the Company within 36 months from completion of the LIFX acquisition.

(e) LIFX Incentive Performance Rights

The objective of the LIFX Performance Rights is to motivate and retain two key employees following the completion of the acquisition of Lifx Labs, Inc (trading as LIFX) on 29 March 2019. Shareholder approval was received on 25 March 2019. The summary of the movements in incentive performance rights is summarised below.

	2019	2018
Outstanding at the beginning of the year	-	-
Granted	24,000,000	-
Converted to ordinary shares	-	-
Forfeited	-	-
Outstanding at year-end	24,000,000	-
Vested and Exercisable*	-	-

The Performance Rights have a nil exercise price.

* The performance rights issued on 1 April 2019 were valued based on the following assumptions:

Total Number Granted	24,000,000
Underlying share price	\$0.073 per share
Share exercise price	Nil

The LIFX Performance Rights will vest over a four year period as follows:

- i. one-quarter (being, 6,000,000 Performance Rights) one year following Completion; and
- ii. one-sixteenth (being, 1,500,000 Performance Rights) each quarter thereafter.

Continuing employment service is one of the key terms of the Performance Rights. On 11 August 2019, 12,000,000 Performance Rights have been forfeited on ceasing employment with the Company.

(f) Replacement Performance Rights

	2019	2018
Outstanding at the beginning of the year	5,846,670	8,274,603
Granted	-	-
Converted to ordinary shares	(907,822)	(2,427,933)
Forfeited	(96,241)	-
Outstanding at year-end	4,842,607	5,846,670
Vested and Exercisable*	-	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 20: SHARE BASED PAYMENTS (CONTINUED)

(f) Replacement Performance Rights (continued)

*The replacement rights were issued on 17 December 2015 and shall vest and become exercisable on a quarterly basis in equal tranches over 4 years from the employee's commencement date and have a nil exercise price. At 30 June 2019 the remaining weighted average contractual life of the EIPR's was 1.5 years (2018: 2.5 years).

(g) Repayment shares

On 3 April 2019, 89,853,551 shares were issued at \$0.0759 per share to repay \$6,816,477 of a loan facility.

NOTE 21: EMPLOYEE BENEFITS LIABILITY

Annual leave

	Consolidated	
	2019	2018
	\$	\$
Current		
Annual leave	513,981	119,329
	513,981	119,329

NOTE 22: AUDITORS' REMUNERATION

Audit Services

Amounts payable to auditor of parent entity

- Audit-related	141,025	57,950
- Non-audit services	149,970	-
Amounts payable to other entities	22,210	-
	311,645	57,950

NOTE 23: FINANCIAL RISK MANAGEMENT

The summary of the Group's financial instruments are disclosed in the table below:

	Non- Interest Bearing	Floating Interest Rate	Fixed Interest Rate	Total
2019	\$	\$	\$	\$
<i>Financial assets:</i>				
Investments (FVOCI)	-	-	-	-
Cash and cash equivalents	-	2,958,055	-	2,958,055
Trade and other receivables	4,004,673	-	-	4,004,673
	4,004,673	2,958,055	-	6,962,728
<i>Financial liabilities:</i>				
Trade and other payables	(11,711,427)	-	-	(11,711,427)
Borrowings	-	-	(14,731,751)	(14,731,751)
Deferred acquisition consideration	-	-	(17,240,950)	(17,240,950)
	(11,711,427)	-	(31,972,701)	(43,684,128)
Net financial instruments	(7,706,754)	2,958,055	(31,972,701)	(36,721,400)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 23: FINANCIAL RISK MANAGEMENT (CONTINUED)

2018	Non- Interest Bearing \$	Floating Interest Rate \$	Fixed Interest Rate \$	Total \$
<i>Financial assets:</i>				
Investments (FVOCI)	1,497,580	-	-	1,497,580
Cash and cash equivalents	-	22,377,919	-	22,377,919
Trade and other receivables	781,790	-	-	781,790
	<u>2,279,370</u>	<u>22,377,919</u>	<u>-</u>	<u>24,657,289</u>
<i>Financial liabilities:</i>				
Trade and other payables	(1,667,997)	-	-	(1,667,997)
	<u>(1,667,997)</u>	<u>-</u>	<u>-</u>	<u>(1,667,997)</u>
Net financial instruments	<u>611,373</u>	<u>22,377,919</u>	<u>-</u>	<u>22,989,292</u>

The Company's principal financial instruments comprise cash, short-term deposits and borrowings.

The main purpose of these financial instruments is to finance the Group's operations and the acquisition of a business during the year. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the entire period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the Group's interest bearing financial instruments is cash flow interest rate risk and foreign currency risk. The Board review and agrees policies for managing each of these risks. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as mitigating foreign exchange and interest rate and credit risks.

a) Market Risk

Foreign Currency Risk

As a result of significant operations in the United States, the United Kingdom and Europe, the Group's statement of financial position can be affected significantly by movements in the USD\$/AUD\$, £/AUD\$ and €/AUD\$ exchange rates. The parent Company Buddy Technologies Limited lends money to its US subsidiary Buddy Platform Inc. During the year, the Company also acquired LIFX via a transaction denominated in USD\$. Approximately USD\$12.3 million of deferred consideration remained outstanding at year end. Two further balances denominated in USD\$ totalling USD\$10.3 million remained outstanding at year end. If the USD\$/AUD\$ exchange rate were to strengthen/weaken by 5%, this would result in a decrease/increase in profit or loss and equity of AUD\$726,000. The Company will be exposed to any material changes in the value of the AUD compared to the USD. The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

b) Credit Risk

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from receivables from customers and cash and cash equivalents. All cash balances are held with recognised institutions limiting the exposure to credit risk. There are no formal credit approval processes in place.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 23: FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to credit risk

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

The ageing of the Consolidated Entity's trade and other receivables are as follows:

	Consolidated Entity	
	June 2019	June 2018
	\$	\$
Not past due	2,517,369	272,813
Past due 0-30 days	1,605,337	26,533
Past due 31-90 days	427,912	31,210
Past due 90+ days	192,736	203,370
Total	4,743,353	533,925
Less expected credit loss provision	(1,104,388)	-
	3,638,965	533,925
Average age (days)	42	49

c) Liquidity Risk

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate working capital is maintained for the coming months. Upcoming capital needs and the timing of raisings are assessed by the Board at each Meeting of Directors.

Excluding trade payables, the contractual maturities of the Group's financial liabilities as at 30 June 2019 are disclosed in Note 15. In the previous year, the Group did not have any financial liabilities other than trade payables. The contractual maturities of the Group's trade payables as at the end of this year and last year were 2 months or less.

d) Cash Flow and Interest Rate Risk

The Group is exposed to the risks of changes in market interest rates primarily on the Company's short-term deposits with a floating interest rate. These financial assets with variable rates expose the Company to cash flow interest rate risk. All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The Company does not engage in any hedging or derivative transactions to manage interest rate risk.

In accordance with AASB 7 the following sensitivity analysis has been performed for the Company's Interest Rate risk:

Consolidated	Risk Variable	Sensitivity*	Effect On:		Effect On:	
			Loss	Loss	Equity	Equity
			2019	2018	2019	2018
		\$	\$	\$	\$	
Interest Rate	+ 1.00%	29,581	223,779	29,581	223,779	
	- 1.00%	(29,581)	(223,779)	(29,581)	(223,779)	

* It is considered that 100 basis points a 'reasonably possible' estimate of the sensitivity in the interest rate.

Based on the sensitivity analysis only interest revenue from variable rate deposits and cash balances are impacted resulting in a decrease or increase in overall income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 23: FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Fair values of financial assets

The fair values of all financial assets and liabilities of the Group approximate their carrying values. The methods and valuation techniques used for the purpose of measuring fair value of the company's financial assets are unchanged compared to the previous reporting period.

The levels of the hierarchy are as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This applies to the financial assets described below.

	2019	2018
	\$	\$
Investment in Weebit Nano Limited	-	1,497,580

The Group's investment in Weebit Nano Limited was classified as a Level 1 financial asset as the investment was valued based on a quoted price in an active market.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group's capital includes ordinary share capital supported by financial assets.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor the Group are subject to externally imposed capital requirements.

NOTE 24: SEGMENT REPORTING

Prior to the acquisition of LIFX, the chief operating decision makers, being the executive management team & the board, received operating results for the Company as a whole, therefore the Company was deemed to be one operating segment. The total column in the table below represents this basis of segmentation. Following the acquisition of LIFX, the Group's operations changed which resulted in a new basis of segmentation beginning 1 April 2019.

Beginning with the acquisition of LIFX, the chief operating decision makers received operating results for the following three segments:

- Commercial Business. This segment includes all activities related to Buddy Ohm and Buddy Managed Services as well as any future products or services sold where the end-customer is a commercial business.
- Consumer Business. This segment includes all activities related to LIFX as well as any future products or services sold where the end-customer is a consumer whether sold through retailers or directly.
- Corporate. This segment includes the costs and expenses for operating the corporate operating functions including the corporate-level officers, insurance, ASX/ASIC fees, legal, audit and professional service fees, etc. It also includes all government rebate revenue, investment gains and losses, interest income and expense, share and option-based payments and any amortisation or impairment of intangibles.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 24: SEGMENT REPORTING (CONTINUED)

Selected financial data for operating segments for the year ended 30, June 2019

	Company prior to 1 April 2019	Commercial Business	Consumer Business	Corporate	Total
	\$	\$	\$	\$	\$
External revenues	1,825,045	549,759	6,530,091	1,237,502	10,142,397
Inter-segment revenue	-	-	-	-	-
Total segment revenue	1,825,045	549,759	6,530,091	1,237,502	10,142,397
Result from operating activities	(11,453,736)	(1,643,317)	(3,590,168)	(6,762,976)	(23,450,197)
Loss before income tax	(11,373,555)	(1,643,317)	(3,590,168)	(12,735,263)	(29,342,303)
Income tax benefit	-	-	35,764	-	35,764
Loss after income tax	(11,373,555)	(1,643,317)	(3,554,404)	(12,735,263)	(29,306,539)
Interest & other income	157,679	-	-	132,161	289,840
Interest expense	-	-	-	(1,113,647)	(1,113,647)
Segment assets	n/a	2,415,238	18,658,285	81,109,956	102,183,479
Capital expenditures	(23,792)	(3,903)	(452,799)	-	(480,494)
Segment liabilities	n/a	1,598,015	17,902,696	24,697,398	44,198,109
<i>Material non-cash items</i>					
Depreciation and amortisation	(79,677)	(25,655)	(407,337)	(2,505,000)	(3,017,669)
Impairment expense	-	-	-	-	-
Share based payments	(1,436,654)	-	-	427,387	(1,009,267)
Option based payments	-	-	-	(4,982,105)	(4,982,105)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 25: PARENT ENTITY DISCLOSURES

As at and throughout the financial year ending 30 June 2019 the legal parent company of the Group was Buddy Technologies Limited.

Results of the Parent Entity	2019	2018
	\$	\$
Loss for the year	(26,800,961)	(21,556,164)
Other comprehensive income	-	-
Total Comprehensive Loss for the year	<u>(26,800,961)</u>	<u>(21,556,164)</u>
 Financial Position of the Parent Entity at Year End		
Current Assets	1,188,486	22,553,488
Non-Current Assets	82,608,894	1,644,660
Total Assets	<u>83,797,380</u>	<u>24,198,148</u>
 Current Liabilities	 24,626,310	 853,140
Total Liabilities	<u>24,626,310</u>	<u>853,140</u>
 Total Equity of the Parent Entity comprising of:		
Share Capital	115,298,012	58,947,674
Reserves	33,529,077	27,907,462
Retained Losses	(89,656,019)	(63,510,128)
Total Equity	<u>59,171,070</u>	<u>23,345,008</u>

Parent Entity Contingencies

The Directors are not aware of any contingent liabilities that may arise from the Company's operations as at 30 June 2019.

NOTE 26: SUBSEQUENT EVENTS

The Company has made price-sensitive announcements since 30 June 2019. A summary of those announcements follows. The reader is invited to read the entire announcements which are available in the investor section of the Company's website at <https://buddy.com/asx-announcements/>.

On 28 August 2019, the Company executed financing documentation with Scottish Pacific, the largest independent working capital lender in Australia and New Zealand, for the provision of a A\$20 million working capital facility.

On 11 September 2019, the Company announced:

- (c) a placement of 305.7 million Shares to institutional and sophisticated investors each at an issue price of A\$0.02 to raise approximately A\$6.1 million (before costs) to be completed in two tranches (being the Tranche 1 Placement and the Tranche 2 Placement) (Placement); and
- (d) that it intends to offer all existing Shareholders with a registered address in Australia and New Zealand (Eligible Shareholders) the opportunity to subscribe for Shares each at an issue price of A\$0.02 per Share under a share purchase plan to raise up to an additional A\$5 million (before costs) (SPP).

The Company completed the Tranche 1 Placement by issuing a total of 250,641,234 Shares on 19 September 2019. The Company raised a total of approximately A\$5.013 million (before costs) pursuant to the Tranche 1 Placement.

BUDDY TECHNOLOGIES LIMITED

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

NOTE 26: SUBSEQUENT EVENTS (CONTINUED)

The Company will seek shareholder approval to ratify the Shares issued under the Tranche 1 Placement and approve the issue of up to 55.2 million Shares to be issued under the Tranche 2 Placement at a shareholder meeting to be held on 24 October.

The issue of Shares under the SPP is subject to shareholder approval. Refer to the Company's ASX announcements dated 11 September 2019 and 19 September 2019 for further information.

The funds used from the Placement and SPP will be utilised for operating expenses of the Company and growth of the Company's consumer and commercial business.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity, in subsequent financial years.

NOTE 27: COMMITMENTS

Rent for leased premises

	Consolidated Entity	
	June 2019	June 2018
	\$	\$
Not longer than 1 year	170,040	411,031
Longer than 1 year and not longer than 5 years	-	133,414
Longer than 5 years	-	-
	<u>170,040</u>	<u>544,445</u>

NOTE 28: CONTINGENT LIABILITIES

The Directors are not aware of any contingent liabilities that may arise from the Group's operations as at 30 June 2019.

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DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Buddy Technologies Limited, I state that:

a) the financial statements and notes of Buddy Technologies Limited for the financial year ended 30 June 2019 are in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements;

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards as disclosed in Note 2.

This declaration is made after receiving the declarations required to be made to the Directors by the Chief Executive Officer and the Chief Financial Officer in accordance with Section 295A of the Corporations Act 2001 for the year ended 30 June 2019.

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

On behalf of the Board



David McLauchlan
CEO & Executive Director

30 September 2019

Independent Audit Report to the Members of Buddy Technologies Limited

Report on the financial report

Opinion

We have audited the financial report of Buddy Technologies Limited ("the Company"), including its subsidiaries ("the Group") which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the 'auditor's responsibilities for the audit of the financial report' section of our report. We are independent of the entity in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

Without modifying our opinion, we draw attention to Note 2 of the Financial Report, which indicates that the Group will require further funding in the next twelve months from the date of this report to fund its planned operating costs. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Business combination <i>(Refer to Notes 3A, 3G and 4 of the financial report)</i></p> <p>Measurement of intangible assets acquired as part of the LIFX business acquisition is a Key Audit Matter due to:</p> <ul style="list-style-type: none"> • the relative size of the acquisition (base purchase consideration of \$72 million); and • the level of judgement required in evaluating the purchase price allocation (PPA) against accounting standards. <p>The Group engaged an external expert to advise on the identification and measurement of intangible assets in connection with the PPA. Significant judgement was required by us in assessing the valuation methodologies applied to the intangible asset, and inputs into the valuation, including forecasted revenues and discount rate.</p> <p>In assessing this key audit matter, we involved senior audit team members, including valuation specialists.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> • reading the sale and purchase agreement to understand the key terms and conditions of the transaction relating to the identification and measurement of consideration; • verifying the balances on the acquisition date Statement of Financial Position of LIFX; • assessing the methodology applied for consistency with industry practices and criteria in the accounting standards; • assessing the discount rate applied by the Group using our knowledge of the Group, its industry and publicly available data of comparable entities; • evaluating forecast revenues; • assessing the competence, objectivity and the scope of the external expert; and • assessing the Group's disclosures in respect of the acquisition against the accounting standards.
<p>Impairment of the goodwill and intangible assets <i>(Refer to notes 3I, 3R and 13 of the financial report)</i></p> <p>Given the constantly changing and competitive nature of the industry in which the Group operates as well as net operating losses and net operating cash outflows in the current and prior financial years, there is a risk that there could be a material impairment to goodwill and intangible asset balances. Determination as to whether or not there is an impairment relating to an asset or Cash Generating Unit (CGU) involves significant judgement about the future cash flows and plans for these assets and CGUs.</p> <p>The impairment of the goodwill and intangible assets was a key audit matter because the model involved key assumptions and judgements which had material impacts on the impairment assessments.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> • assessing whether the CGU appropriately included all directly attributable assets and liabilities; • assessing the reasonableness of the cash flow projections used in the impairment models; • assessing the reasonableness of key assumptions including the discount rate and forecast growth assumptions; • performing sensitivity analysis by adjusting the key inputs into the cash flow projections; and • having determined the change in assumptions individually that would be required for the CGU to be impaired, we considered the likelihood of such a movement in those key assumptions arising. <p>We evaluated the adequacy of the disclosures included in the financial report.</p>

Other information

The directors are responsible for the other information. The other information comprises the information in Buddy Technologies Limited annual report for the year ended 30 June 2019, but does not include the consolidated financial report and the auditor's report thereon.

Our opinion on the consolidated financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the consolidated 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that include our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our auditor's report.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 21 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Buddy Technologies Limited for the year ended 30 June 2019, complies with Section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Nexia Perth Audit Services Pty Ltd



TJ Spooner
Director

Perth
30 September 2019

BUDDY TECHNOLOGIES LIMITED
ACN: 121 184 316

ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Report is set out below.

SHAREHOLDINGS

The issued capital of the Company at 20 September 2019 is ordinary fully paid shares. All ordinary shares carry one vote per share.

QUOTED SECURITIES

ORDINARY FULLY PAID SHARES AS AT 20 SEPTEMBER 2019

TOP 20 SHAREHOLDERS

	No. of Shares Held	% Held
1 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	192,686,449	8.98
2 MR DAVID PETER MCLAUCHLAN	129,976,820	6.06
3 KING LIFI PTY LTD <THE KING LIFI>	96,746,958	4.51
4 SEQUOIA CAPITAL USV XIV HOLDCO LTD	89,853,551	4.19
5 EASTFIELD LIGHTING (HONG KONG) CO LIMITED	83,685,064	3.90
6 MUTUAL TRUST PTY LTD	82,153,991	3.83
7 MR JEFFREY MACDUFF	77,095,658	3.59
8 CITICORP NOMINEES PTY LIMITED	68,761,598	3.20
9 DM CAPITAL MANAGEMENT PTY LTD <MCEVOY FAMILY A/C>	66,311,829	3.09
10 J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	49,749,850	2.32
11 MERRIN ALEXANDER <ATF M&M ALEXANDER	39,159,441	1.83
12 BNP PARIBAS NOMS PTY LTD <DRP>	37,715,507	1.76
13 BRISPOP NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	36,133,335	1.68
14 UBS NOMINEES PTY LTD	33,315,448	1.55
15 ANFIELD GROUP PTY LTD <THE ANFIELD FAMILY>	20,248,692	0.94
16 FERNSHA PTY LIMITED <SIMON'S BROOKLYN A/C>	19,298,431	0.90
17 MR SHAWN BURKE	18,958,544	0.88
18 TIMOTHY PETERS	13,127,630	0.61
19 EDGEWOOD PARTNERS LLC	12,892,784	0.60
20 MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	12,515,860	0.58
	1,180,387,440	55.02

DISTRIBUTION OF SHAREHOLDINGS

	No. of Holders	No. of Shares
1 – 1,000	362	169,895
1,001 – 5,000	1,025	3,261,869
5,001 – 10,000	731	6,008,581
10,001 – 100,000	2,344	96,046,409
100,001 and over	1,135	2,039,995,215
	5,597	2,145,481,969

2,931 shareholders holding less than a marketable parcel

Shareholders by Location*

	No. of Holders	No. of Shares
Australian holders	5,350	1,367,417,850
Overseas holders	255	503,523,716
	5,605	1,870,941,566

*Based on end of August data

BUDDY TECHNOLOGIES LIMITED
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ASX ADDITIONAL INFORMATION (CONTINUED)

ESCROW SHARES

There are no shares as at the date of this report held in escrow in accordance with ASX requirements of Reinstatement on the ASX on 30 December 2015.

VOTING RIGHTS

In accordance with the Company's Constitution, on a show of hands every shareholder present in person or by proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy, attorney or representative of a shareholder has in respect of fully paid shares, one vote for every share held. No class of option holder has a right to vote, however the shares issued upon exercise of options will rank pari passu with the then existing issued fully paid ordinary shares.

SUBSTANTIAL SHAREHOLDERS AS AT 20 SEPTEMBER 2019

	No. of Shares Held	% Held
1 FIL Limited	131,300,963	7.86
2 David McLauchlan	129,976,820	7.22
3 Sequoia Capital	110,606,012	6.62
4 King Lifi Pty Ltd <The King LIFI Trust>	96,746,958	5.37
5 Clark Lifi Pty Ltd <The Clark Lifi A/C>	91,282,212	5.07
6 King Lifi Pty Ltd <The King LIFI Trust>	96,746,958	5.37

UNQUOTED SECURITIES

OPTIONS

The Company has the following classes of options on issue at 20 September 2019 as detailed below. Options do not carry any rights to vote.

Class	Terms	No. of Options	
1. Unquoted (Replacement Options)	Exercisable at 10c expiring 17-Dec 2020	2,806,647	
	Name	Options	%
	Shawn Burke	1,461,801	52.06
	Christian Csar	739,143	26.33
2. Unquoted Options	Exercisable at 7.59c expiring 1-Apr 2024	100,000,000	
	Name	Options	%
	Luminous Wide Ltd	100,000,000	100
3. Unquoted Options	Exercisable at 7.59c expiring 29-Mar 2023	532,765	
	Name	Options	%
	Tim Peters	532,765	100

PERFORMANCE RIGHTS

As at 20 September 2019 the Company had 55,897 Performance Rights which do not carry any voting rights.

Name	Options	%
Christian Csar	55,897	100

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ASX ADDITIONAL INFORMATION (CONTINUED)

LIFX PERFORMANCE RIGHTS

As at 20 September 2019 the Company had 24,000,000 Performance Rights which do not carry any voting rights.

Name	Options	%
Tim Peters	12,000,000	50
Marc Alexander	12,000,000	50

PERFORMANCE SHARES

As at 20 September 2019 the Company had 31,833,333 Performance Shares which do not carry any voting rights.

Name	Options	%
David McLauchlan	22,166,667	69.6

LIFX PERFORMANCE SHARES

As at 20 September 2019 the Company had 24,000,000 Performance Shares which do not carry any voting rights.

Name	Options	%
Tim Peters	12,000,000	50
Marc Alexander	12,000,000	50

EMPLOYEE INCENTIVE PERFORMANCE RIGHTS

As at 20 September 2019 the Company had 28,594,088 Employee Incentive Performance Rights which do not carry any voting rights.

Name	Options	%
Travis Gerber	5,625,000	19.67
Charles Eliot	3,750,000	13.11
Richard Jacroux	3,500,000	12.24
Paul Russell	3,437,500	12.02