



Buddy

ACN 121 184 316

INTERIM FINANCIAL REPORT

for the Half Year ended 31 December 2019

BUDDY TECHNOLOGIES LIMITED
ACN: 121 184 316

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This financial report covers the Buddy Technologies Limited Group, consisting of Buddy Technologies Limited 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

Marc Alexander
CTO & Executive Director

Rosemary Batt
Non-Executive Director

Lawyers:

DLA Piper
Level 31, Central Park
152-158 St Georges Terrace
Perth, WA 6000

Auditors:

RSM Australia Partners
Level 21
55 Collins Street
Melbourne, VIC 3000

Bankers:

Westpac Banking Corporation
108 Stirling Highway
Nedlands, WA 6009

Commonwealth Bank
100 King William Street
Adelaide, SA 5000

Website:

www.buddy.com

Registered & Principal Office:

Level 3, 12 Pirie Street
Adelaide, SA 5000

Telephone: +1 800 831 317
Facsimile: +61 8 8125 5931

Postal Address:

Level 3, 12 Pirie Street
Adelaide, SA 5000

Seattle Office:

1201 Third Avenue, Suite 2200
Seattle, Washington 98101
USA

Telephone: +1 206 745 9112

Home Stock Exchange:

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

Company Secretary:

Ben Secrett

ASX Code:

BUD (Ordinary Shares)

Share Registry:

Link Market Services Limited
QV1 Building, Level 12
250 St. George's Terrace
Perth, WA 6000

BUDDY TECHNOLOGIES LIMITED
ACN: 121 184 316

Directors' Report

The Directors have pleasure in submitting their report of Buddy Technologies Limited ("Company") and its controlled entities ("Group"), for the six months ended 31 December 2019.

DIRECTORS

The names and details of Directors in office at any time during the period were:

Richard Borenstein	Non-Executive Chairman
David McLauchlan	CEO & Executive Director
Marc Alexander	CTO & Executive Director
John van Ruth	Non-Executive Director
Rosemary Batt	Non-Executive Director

Directors have been in office since the start of the period to the date of this report.

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 on 31 March 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.

RESULTS

The net loss attributable to members of the parent entity for the period ended 31 December 2019 amounted to \$14,779,721 (2018: \$8,099,929 loss).

OPERATING AND FINANCIAL REVIEW

For the six-months ending 31 December 2019, total service revenues were \$21.2 million representing a 1541% increase over \$1.3 million in the same period in the prior year. In addition, the Company recognized \$87,013 of finance income (\$115,956 in the prior year) and \$27,350 of government rebates.

After deducting total expenses of \$36.1 million, the Company recorded a loss for the period of \$14.8 million. In the prior year, total expenses were \$9.5 million resulting in a loss of \$8.1 million for the same period in the prior year.

Basic and diluted loss per share of \$0.007 was the same as in the same period in the prior year.

As at 31 December 2019, total equity was \$56.0 million with total assets of \$107.0 million and liabilities of \$51.1 million. At 30 June 2019, there was \$110.8 million in assets and \$50.9 million in liabilities. Total current assets was \$20.2 million (\$20.7 million at 30 June 2019) and total current liabilities totalled \$45.0 million (\$44.2 million at 30 June 2019).

For the half year ended 31 December 2019 the net cash used in operating activities was \$7.5 million including debt raising costs and interest paid compared to \$7.2 million in the same period in the prior year. This includes cash receipts of \$17.1 million of which \$17.0 million was cash received from customers with the remainder coming from interest received and government rebates. For the same period in the prior year, cash receipts of \$1.7 million was from customers and \$115,956 was interest received.

BUDDY TECHNOLOGIES LIMITED
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Net cash provided by (used in) investing activities – for the purchase of property, plant and equipment and changes in notes receivable, was \$266,148 versus (\$174,931) for the same period in the prior year.

During the six-months ending 31 December 2019, the company generated net proceeds from financing activities of \$8.1 million. This included a net of \$9.0 million from the issuance of shares (after deducting capital raising costs) and net repayments of borrowings of \$865,770.

LIKELY DEVELOPMENTS

Other than as disclosed elsewhere in this report, there are no likely developments in the operations of the Group that were not finalised at the date of this report.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL HALF-YEAR

The Company has made price-sensitive and other announcements since 31 December 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 8 January 2020, Buddy announced the launch of five new products, a new LIFX app and Flic integration at the 2020 Consumer Electronics Show (CES) in Las Vegas, USA.

On 20 January 2020, Buddy announced the hiring of a new Global VP of Sales – Mr. Donald Hicks, formerly VP of Global Retail Sales at Smart home security company, Ring

On 6 February 2020, Buddy announced the appointment of Mr. Ben Secrett as Company Secretary

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* for the six months ended 31 December 2019 has been received and can be found on page 4.

AUDITOR

RSM Australia Partners was appointed in office in accordance with section 327 of the Corporation Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to Section 306(3) of the *Corporations Act 2001*.



David McLauchlan

CEO, Executive Director

Dated: 28 February 2020

Adelaide, Australia.

RSM Australia Partners

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PO Box 248 Collins Street West VIC 8007

T +61 (0) 3 9286 8000
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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Buddy Technologies Ltd for the half year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.



RSM AUSTRALIA PARTNERS



M PARAMESWARAN
Partner

Dated: 28 February 2020
Melbourne, Victoria

BUDDY TECHNOLOGIES LIMITED
ACN: 121 184 316

Condensed Consolidated Statement of Profit or Loss and Other
Comprehensive Income
For the Half-year ended 31 December 2019

		Consolidated	
		Half year ended 31 December 2019	Half year ended 31 December 2018
	Note	\$	\$
Service revenue	4	21,240,227	1,293,974
Finance income		87,013	115,956
Government Rebate		27,350	-
Cost of sales		(14,578,292)	(966,057)
Advertising, marketing & travel		(3,118,921)	(852,784)
Financial, administration, insurance and compliance costs		(1,518,345)	(945,667)
Depreciation		(189,274)	(59,243)
Amortization of intangibles		(3,340,000)	-
IT & web costs		(102,422)	(271,066)
Employee benefits expense		(5,383,412)	(4,158,427)
Share based payments	5	(1,637,987)	(1,436,654)
Research & development		(833,405)	(819,961)
Refinancing and acquisition-related costs		(1,887,411)	-
Interest costs		(3,315,997)	-
Option based payments	5	(426,000)	-
Foreign exchange loss		(476,223)	-
		<hr/>	<hr/>
Loss before income tax expense		(15,453,099)	(8,099,929)
Income tax benefit		673,378	-
		<hr/>	<hr/>
Loss for the period		(14,779,721)	(8,099,929)
Other Comprehensive Income / (Loss):			
Items that may not be reclassified subsequently to profit or loss:			
Revaluation of financial assets at fair value through other comprehensive income		-	(862,243)
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		(546,579)	81,774
		<hr/>	<hr/>
Other comprehensive Income / (Loss) for the period, net of tax		(546,579)	(780,469)
		<hr/>	<hr/>
Total Comprehensive Income / (Loss) for the period		(15,326,300)	(8,880,398)
Total Comprehensive Income / (Loss) attributable to:			
Owners of the parent		(15,326,300)	(8,880,398)
Non-controlling interest		-	-
Basic & Diluted Profit / (Loss) per share - cents per share		(0.007)	(0.007)

The above Condensed 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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Condensed Consolidated Statement of Financial Position
As at 31 December 2019

		Consolidated	
	Note	31 December 2019	30 June 2019
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents		3,305,859	2,958,055
Trade and other receivables		8,939,923	4,685,146
Inventory		7,923,357	13,091,401
Total current Assets		20,169,139	20,734,602
Non-Current Assets			
Property, plant & equipment		982,124	1,095,837
Right of use asset		253,372	-
Intangible assets		85,618,956	88,958,956
Total Non-Current Assets		86,854,452	90,054,793
TOTAL ASSETS		107,023,591	110,789,395
LIABILITIES			
Current Liabilities			
Trade and other payables		12,129,183	11,711,427
Lease liability		104,297	-
Provisions		664,778	513,981
Borrowings	7	13,865,981	14,731,751
Deferred acquisition consideration	7	18,198,251	17,240,950
Total Current Liabilities		44,962,490	44,198,109
Non-Current Liabilities			
Lease liability		144,649	-
Deferred taxation		5,961,900	6,663,300
Total Non-Current Liabilities		6,106,549	6,663,300
TOTAL LIABILITIES		51,069,039	50,861,409
NET ASSETS		55,954,552	59,927,986
EQUITY			
Share capital	5	124,276,339	115,298,012
Reserves		35,861,128	34,033,168
Accumulated losses		(104,182,915)	(89,403,194)
Equity attributable to owners of the parent		55,954,552	59,927,986
TOTAL EQUITY		55,954,552	59,927,986

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

BUDDY TECHNOLOGIES LIMITED
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Condensed Consolidated Statement of Changes in Equity
For the half year ended 31 December 2019

Consolidated 2019	Issued Capital \$	Option Reserve \$	Foreign Currency Translation Reserve \$	Fair Value Reserve \$	Accumulated Losses \$	Total Equity \$
Total equity at 30 June 2019	115,298,092	32,936,754	1,774,680	(678,266)	(89,403,194)	59,927,986
Total Comprehensive Profit / (Loss) for the period						
Total Loss for the half year to 31 December 2019	-	-	-	-	(14,779,721)	(14,779,721)
Other Comprehensive Income/(Loss)	-	-	(546,579)	-	-	(546,579)
Total Comprehensive Loss for the period	-	-	(546,579)	-	(14,779,721)	(15,326,300)
Transactions with equity holders:						
Shares issued during the period:						
Options converted during the period	-	-	-	-	-	-
Shares issued pursuant to capital raising	9,437,481	-	-	-	-	9,437,481
Costs of capital raising	(459,154)	-	-	-	-	(459,154)
Share based payments	-	1,948,539	-	-	-	1,948,539
Option based payments	-	426,000	-	-	-	426,000
Total equity at 31 December 2019	124,276,339	35,311,293	1,228,101	(678,266)	(104,182,915)	55,954,552

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

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Condensed Consolidated Statement of Changes in Equity (continued)
For the half year ended 31 December 2019

Consolidated 2018	Issued Capital \$	Option Reserve \$	Foreign Currency Translation Reserve \$	Fair Value Reserve \$	Accumulated Losses \$	Total Equity \$
Total equity at 30 June 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	-	-	-	(658,250)	658,250	-
Total Comprehensive Profit / (Loss) for the period						
Total Loss for the half year to 31 December 2018	-	-	-	-	(8,099,929)	(8,099,929)
Other Comprehensive Income/(Loss)	-	-	81,774	(862,243)	-	(780,469)
Total Comprehensive Loss for the period	-	-	81,774	(1,520,493)	(7,441,679)	(8,880,398)
Transactions with equity holders:						
Shares issued during the period:						
Options converted during the period	-	-	-	-	-	-
Shares issued pursuant to capital raising	-	-	-	-	-	-
Costs of capital raising	-	-	-	-	-	-
Share based payments	-	1,436,654	-	-	-	1,436,654
Total equity at 31 December 2018	58,947,674	28,382,036	(22,826)	(453,813)	(70,136,020)	16,717,051

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

BUDDY TECHNOLOGIES LIMITED
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Condensed Consolidated Statement of Cash Flows
For the half year ended 31 December 2019

	Note	Consolidated	
		Half year ended 31 December 2019 \$	Half year ended 31 December 2018 \$
<i>Cash flows from operating activities</i>			
Cash received from customers		16,980,656	1,721,496
Interest received		87,013	115,956
Government rebate		27,350	-
Payments for research & development		(833,405)	(1,219,646)
Payments to suppliers and employees		(21,045,081)	(7,788,666)
Debt raising and acquisition related costs		(1,990,566)	-
Interest paid		(710,289)	-
Net cash used in operating activities		(7,484,332)	(7,170,860)
<i>Cash flows from investing activities</i>			
Payments for plant & equipment		(75,561)	(24,001)
Payments received (made) for notes receivable		341,709	(150,930)
Net cash used in investing activities		266,148	(174,931)
<i>Cash flows from financing activities</i>			
Proceeds from share issue		9,437,481	-
Proceeds from borrowings		5,240,283	-
Payments on borrowings		(6,106,053)	-
Capital raising costs		(459,154)	-
Net cash provided by financing activities		8,112,557	-
Net increase/(decrease) in cash and cash equivalents		894,383	(7,345,791)
Cash and cash equivalents opening balance		2,958,055	22,377,919
Effects of exchange rate changes on the balances of cash held in foreign currencies		(546,579)	81,774
Cash and cash equivalents at the end of the period		3,305,859	15,113,902

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

BUDDY TECHNOLOGIES LIMITED
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Notes to the Financial Statements
For the half year ended 31 December 2019

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting*, Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with IAS 34 *Interim Financial Reporting*. The interim financial report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in a full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2019 and any public announcements made by the Company during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

This consolidated interim financial report was approved by the Board of Directors on 28 February 2020.

BASIS OF PREPARATION

This general purpose financial report 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.

Historical Cost Convention

These financial statements have been prepared under the historical cost convention.

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

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

As disclosed in the financial statements, the consolidated entity incurred a loss after tax of \$14,779,721 and had net cash outflows from operating activities of \$5,697,041 for the half-year ended 31 December 2019. As at that date the consolidated entity had net current liabilities of \$24,793,351. Included within net current liabilities is \$18,198,251 of deferred acquisition consideration and line of credit payable to Luminous Wide Limited and Eastfield Lighting (Hong Kong) Co Limited which is due on 31 March 2020.

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Notes to the Financial Statements
For the half year ended 31 December 2019

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Despite this financial position, the Directors believe that there are reasonable grounds to believe that the consolidated entity will be able to continue as a going concern, after consideration of the following factors:

- The consolidated entity is currently in discussions with Luminous Wide Limited and Eastfield Lighting (Hong Kong) Co Limited to extend the repayment date of the deferred consideration and line of credit payable; and
- In conjunction with these discussions the consolidated entity will seek to raise additional capital. The group has a proven record of being able to raise capital to support its business plan including receiving \$9.4 million capital raising during the half-year ended 31 December 2019.

Accordingly, the Directors believe that the consolidated entity will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

In the event that the repayment date of the deferred acquisition consideration and line of credit payable is unable to be extended, and should the capital raising be unsuccessful and insufficient funds are available to extinguish the deferred acquisition consideration and line of credit payable, there would be a material uncertainty which may cast significant doubt as to whether the consolidated entity will 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.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the consolidated entity does not continue as a going concern.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY ESTIMATES

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 are:

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.

Intangible assets and goodwill

The Group has intangible assets with a carrying amount of \$28,390,000 and goodwill with a carrying amount of \$57,228,956, arising through a business combination completed during the year.

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.

BUDDY TECHNOLOGIES LIMITED
ACN: 121 184 316

Notes to the Financial Statements
For the half year ended 31 December 2019

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (CGU) 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 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.

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.

New Accounting Standards

AASB 16 Leases

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are in financing activities.

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption was not material to the financial statements. On adoption the group recorded a right of use assets of \$304,047 and a corresponding liability for the same amount. There was no impact on opening retained profits as at 1 July 2019.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

BUDDY TECHNOLOGIES LIMITED
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Notes to the Financial Statements
For the half year ended 31 December 2019

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

NOTE 2 - PRIOR PERIOD ERROR

It has been identified during this period that freight inwards and landing costs were not being capitalised to the inventory balance as prescribed under *AASB 102 Inventory*. The impact is material on the prior period (30 June 2019) and the comparatives have been restated where applicable. The impact is as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the six months ending 31 December 2018 - No impact on comparatives

Condensed Consolidated Statement of Financial Position as at 30, June 2019 - Inventory has increased by \$756,916 and accumulated losses has decreased by \$756,916

Condensed Consolidated Statement of Changes in Equity

No impact on comparatives except to the opening balances as at 30 June 2019

This has not had an impact on the earnings per share of the comparative.

NOTE 3 - BUSINESS COMBINATION

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.

The results of LIFX have been included beginning on 1 April 2019.

The net assets acquired included Brand/Intellectual property of \$33,400,000 and deferred tax of \$7,014,000 both of which are being amortized over 5 years and have current carrying values of \$28,390,000 and \$5,961,900, respectively. Additionally, the Group assumed a loan of \$23,705,376, which has a current balance of \$10,764,657, and incurred deferred acquisition consideration of \$17,939,945, which has a current balance of \$18,198,251.

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Notes to the Financial Statements
For the half year ended 31 December 2019

NOTE 4 – DISAGGREGATION OF REVENUE

Half year ended:	31 December 2019	31 December 2018
	\$	\$
<i>Major product lines</i>		
Consumer products	19,595,425	-
Commercial products	1,644,802	1,293,974
Total service revenue	21,240,227	1,293,974
<i>Geographic regions</i>		
Americas	12,971,821	1,268,337
Europe, Middle East & Africa (EMEA)	4,176,927	7,827
Asia-Pacific (APAC)	4,091,479	17,810
Total service revenue	21,240,227	1,293,974
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	19,595,425	-
Services transferred over time	1,644,802	1,293,974
Total service revenue	21,240,227	1,293,974

NOTE 5 - ISSUED CAPITAL & RESERVES

CONSOLIDATED AND PARENT ENTITY 2019

Issued and Paid Up Capital

Fully paid ordinary shares

	#	\$
Ordinary Shares		
	2,380,279,339	124,276,339
Movements in fully paid shares on issue		
Opening balance as at 1 July 2019	1,869,320,010	115,298,012
Capital raising	471,874,037	9,437,481
Other capital raising costs	-	(459,154)
EIPR and Performance Rights converted	39,085,292	-
Balance as at 31 December 2019	2,380,279,339	124,276,339

BUDDY TECHNOLOGIES LIMITED
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Notes to the Financial Statements
For the half year ended 31 December 2019

NOTE 5 – ISSUED CAPITAL & RESERVES (CONTINUED)

Movement in option reserve

	\$
Balance at 1 July 2019	32,936,754
Share based payments for the period	1,948,539
Option based payments for the period	426,000
Closing Balance at 31 December 2019	35,311,293

The share based payment expense for the period to 31 December 2019 consist of the following:

	\$
Share based payments for equity instruments issued in prior to 30 June 2019	1,340,574
Share Based Payments for EIPR's proposed during the period	297,413
Total	1,637,987

Movement in Number of Options and Performance Rights for the period 31 December 2019

	#
Employee Incentive Performance Rights (EIPR)	
Opening Balance 1 July 2019	57,169,087
EIPR forfeited/lapsed	(8,798,870)
EIPR converted to ordinary shares	(34,242,687)
EIPR pending conversion	(98,332)
EIPR issued	67,138,058
Closing balance at 31 December 2019	81,167,255

	#
Performance Rights	
Opening Balance 1 July 2019	4,842,606
Performance rights converted to ordinary shares	(4,842,606)
Closing balance at 31 December 2019	-

	#
LIFX Performance Rights	
Opening Balance 1 July 2019	24,000,000
Performance shares forfeited	(12,000,000)
Closing balance at 31 December 2019	12,000,000

	#
LIFX Performance Shares	
Opening Balance 1 July 2019	24,000,000
Performance shares forfeited	(12,000,000)
Closing balance at 31 December 2019	12,000,000

	#
Performance Shares	
Opening Balance 1 July 2019	31,833,334
Performance Shares converted to ordinary shares	-
Closing balance at 31 December 2019	31,833,334

	#
Share Options	
Opening Balance 1 July 2019	102,786,761
Options granted	60,532,765
Closing balance at 31 December 2019	163,319,526

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Notes to the Financial Statements
For the half year ended 31 December 2019

NOTE 5 – ISSUED CAPITAL & RESERVES (CONTINUED)

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.

Fair Value Reserve

The fair value reserve comprises the cumulative difference between cost and fair value for financial instruments that were not held for trading. The Group sold all such financial instruments in June 2019.

NOTE 6 – RELATED PARTY TRANSACTIONS

Other related party transactions are in the form of short term employee benefits, post-employment benefits, share based payments and loans to subsidiaries.

NOTE 7 - BORROWINGS

Trade Finance Facility

The Trade Finance Facility (dated 17 October 2019) with Scottish Pacific Bank has a total facility amount of \$20 million, is secured by trade receivables, has in interest rate of Prime rate plus 6.5%. and a term of 24 months. The total drawn at 31 December 2019 is \$1,071,273.

Inventory Finance Facility

The Inventory Finance Facility (dated 16 October 2019) with The Challenger Trade Finance Segregated Portfolio of the South Africa Alpha SPC has a total facility amount of US\$6 million (A\$8.564 million at 31 December 2019), is secured by inventory at specific locations, has in interest rate of LIBOR plus 9.5% (plus a drawdown fee of 0.5% of the balance drawn, not to exceed 3% in any year). and a term of 24 months. The total drawn at 31 December 2019 was \$2,030,050.

Line of Credit

As part of the acquisition, the Group 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% (+5% for late payments) and was originally due in December 2019 and is now due in March 2020. The consolidated entity is currently in discussions with Luminous Wide Limited and Eastfield Lighting (Hong Kong) Co Limited to extend the repayment date of the line of credit payable.

Deferred Consideration Obligation

On 1 April, 2019, the Group entered into a US\$ denominated deferred consideration obligation which represents the unpaid portion of the cash consideration of the acquisition with a balance of \$18,198,251 at December 31, 2019. This obligation has an annual interest rate of 10% (+5% for any late payments) and is due in March 2020. The consolidated entity is currently in discussions with Luminous Wide Limited and Eastfield Lighting (Hong Kong) Co Limited to extend the repayment date of the deferred consideration.

NOTE 8 – CONTINGENT LIABILITIES

There has been no change in contingent assets or liabilities since the last annual reporting date.

BUDDY TECHNOLOGIES LIMITED
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Notes to the Financial Statements
For the half year ended 31 December 2019

NOTE 9 – SUBSEQUENT EVENTS

The Company has made price-sensitive and other announcements since 31 December 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 8 January 2020, Buddy announced the launch of five new products, a new LIFX app and Flic integration at the 2020 Consumer Electronics Show (CES) in Las Vegas, USA.

On 20 January 2020, Buddy announced the hiring of a new Global VP of Sales – Mr. Donald Hicks, formerly VP of Global Retail Sales at Smart home security company, Ring

On 6 February 2020, Buddy announced the appointment of Mr. Ben Secrett as Company Secretary

NOTE 10 – SEGMENT REPORTING

Prior to the acquisition described in Note 3, those charged with governance receive operating results for the Group as a whole, therefore the Group is deemed to be one operating segment. Therefore, the segment revenue and results for the period ending 31 December 2018 are those of the Group as a whole and are set out in the statement of profit and loss and the segment assets and liabilities are those of the Group as a whole and are set out in the statement of financial position.

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:

- 1.) **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.
- 2.) **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.
- 3.) **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.

BUDDY TECHNOLOGIES LIMITED
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Notes to the Financial Statements
For the half year ended 31 December 2019

NOTE 10 – SEGMENT REPORTING (CONTINUED)

Half year ended 31 December 2019

	Commercial Business	Consumer Business	Corporate	Total
	\$	\$	\$	\$
Customer revenues	1,644,802	19,595,425	-	21,240,227
Inter-segment revenue	-	-	-	-
Total segment revenue	1,644,802	19,595,425	-	21,240,227
Result from operating activities	(517,549)	(4,392,337)	(10,543,213)	(15,453,099)
Loss before income tax	(517,549)	(4,392,337)	(10,543,213)	(15,453,099)
Income tax benefit (expense)	-	(28,022)	701,400	673,378
Loss after income tax	(517,549)	(4,420,359)	(9,841,813)	(14,779,721)
Interest & other income	-	85,141	29,222	114,363
Interest expense	(1,051,363)	-	(2,264,634)	(3,315,997)
Segment assets	1,319,242	19,676,486	86,027,863	107,023,591
Capital expenditures	(18,618)	(56,943)	-	(75,561)
Segment liabilities	277,294	23,758,785	27,032,960	51,069,039
<i>Material non-cash items</i>				
Depreciation and amortisation	(52,521)	(136,753)	(3,340,000)	(3,529,274)
Impairment expense	-	-	-	-
Share based payments	-	-	(1,637,987)	(1,637,987)
Option based payments	-	-	(426,000)	(426,000)

BUDDY TECHNOLOGIES LIMITED
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Directors' Declaration

In the opinion of the directors of Buddy Technologies Limited ('the Company'):

1. The attached condensed consolidated interim financial statements and notes thereto are in accordance with the Corporations Act 2001 including:
 - a. complying with Australian Accounting Standard AASB 134 Interim Financial Reporting, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2019 and of its performance for the period 1 July 2019 to 31 December 2019.
 - c. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the board,



David McLauchlan

CEO, Executive Director

Dated: 28 February 2020

Adelaide, Australia

RSM Australia Partners

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INDEPENDENT AUDITOR'S REVIEW REPORT To the Members of Buddy Technologies Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Buddy Technologies Limited ("the company") and its controlled entities ("the consolidated entity") which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Buddy Technologies Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Buddy Technologies Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the half-year financial report, which indicates that the consolidated entity incurred a loss after tax of \$14,779,721 during the half-year ended 31 December 2019 and, as of that date, the consolidated entity's current liabilities exceeded its current assets by \$24,793,351. This includes an amount of \$18,198,251 which is due for payment on 31 March 2020. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Conclusion

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

- (a) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



RSM AUSTRALIA PARTNERS



M PARAMESWARAN
Partner

Dated: 28 February 2020
Melbourne, Victoria