



ASX MARKET RELEASE

Buddy Technologies Limited – September Quarterly 4C Review (Q1FY22)

29 October 2021 – Adelaide, South Australia

Buddy Technologies Limited (Company) (ASX:BUD), a leading provider of solutions for making spaces smarter, has today released its Quarterly Appendix 4C filing for the September 2021 quarter (Q1FY22).

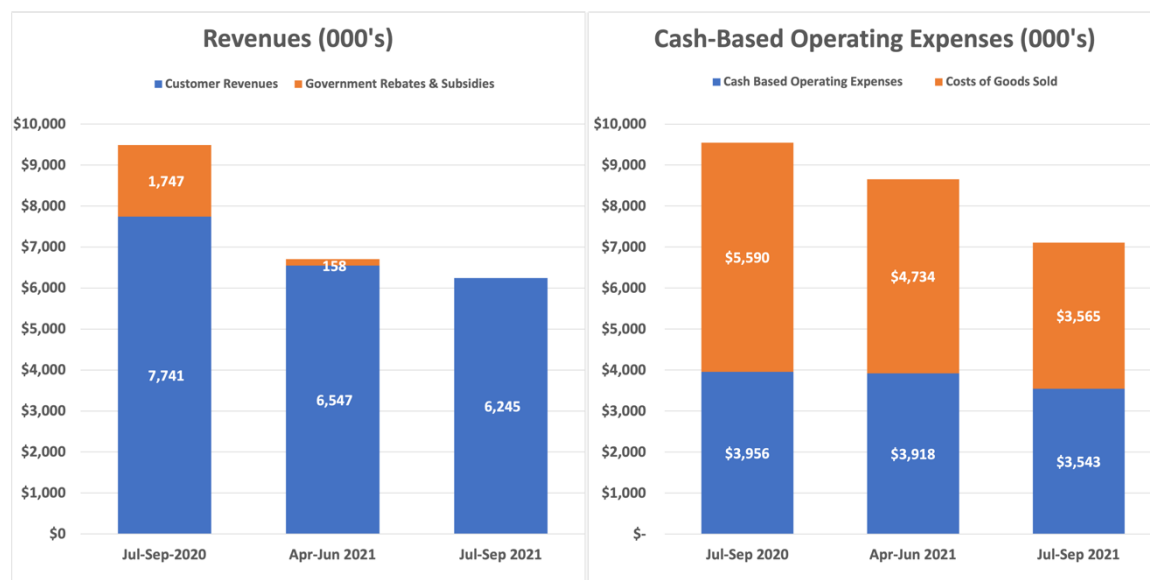
SUMMARY

- **Customer revenues of A\$6.3 million**, which were down 18% over the year-ago quarter and down 4% over the prior quarter (in both cases largely due to the shift in timing of Amazon Prime Day)
- **Cash receipts of A\$7.8 million**, which were up 39% from the year-ago quarter, and down 14% from the prior quarter (also largely due to the shift in timing of Amazon Prime Day)
- **Adjusted EBITDA: negative A\$879k** for the quarter (compared to negative A\$1.9 million for the year-ago quarter, and A\$32k for the prior quarter)
- **Current assets of A\$20.3 million**
 - **Cash on hand at 30 September 2021 totalled A\$2.1 million**
 - **Trade and other receivables** totalled **A\$3.8 million**
 - **Inventories** (and prepayments) totalled **A\$14.4 million**
- **Other major milestones**
 - September 2021 was **net cashflow positive, at A\$1.3 million**, and **EBITDA positive**, at A\$14k
 - In July 2021, the Company completed a placement of shares to sophisticated and institutional investors to raise A\$6.5 million (before costs) and subsequently launched an entitlement offer to existing shareholders which raised an additional A\$220k
 - A debt refinancing was agreed whereby (amongst other matters) US\$3.02 million of debt was forgiven, and the Company paid US\$2.75 million to its primary manufacturer, Eastfield, in full and final settlement of a line of credit facility and historical accounts payable (from prior to the LIFX acquisition, with such amounts totalling ~US\$5.77 million). Further, PFG (Buddy's secured lender) has also agreed to favourably restructure its existing term debt facility (refer to ASX announcements dated 16 July 2021 for further details).

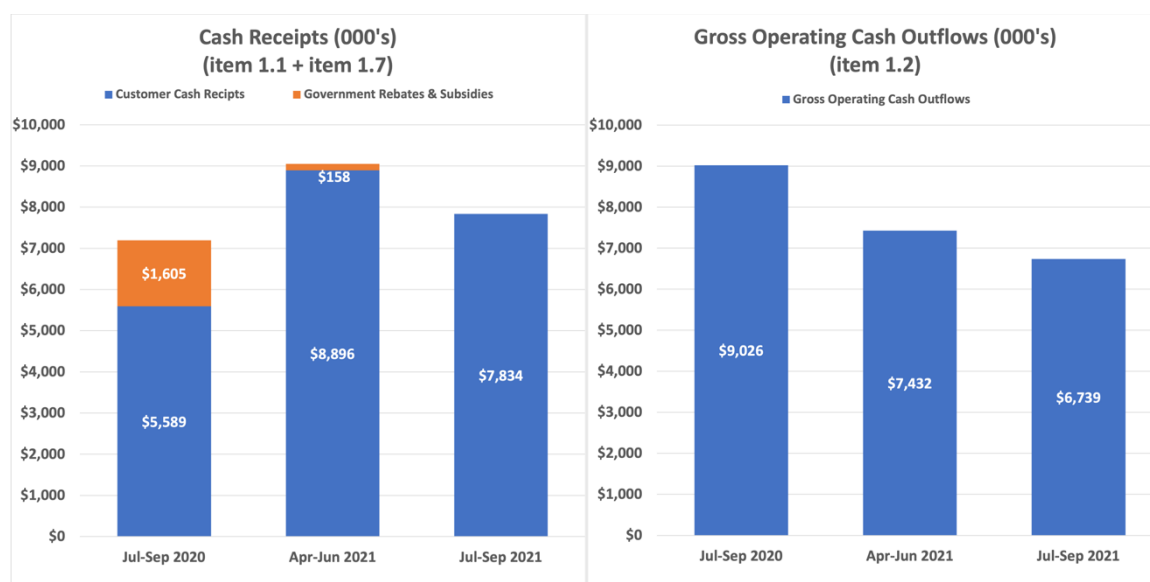
*Adjusted EBITDA is equal to revenues (not including other income) less cash-based operating expenses (which excludes any non-recurring items such as acquisition or restructuring costs, costs relating to finance facilities and any share-based expenses).

QUICK LOOK

Revenues and Cash-based Operating Expenses



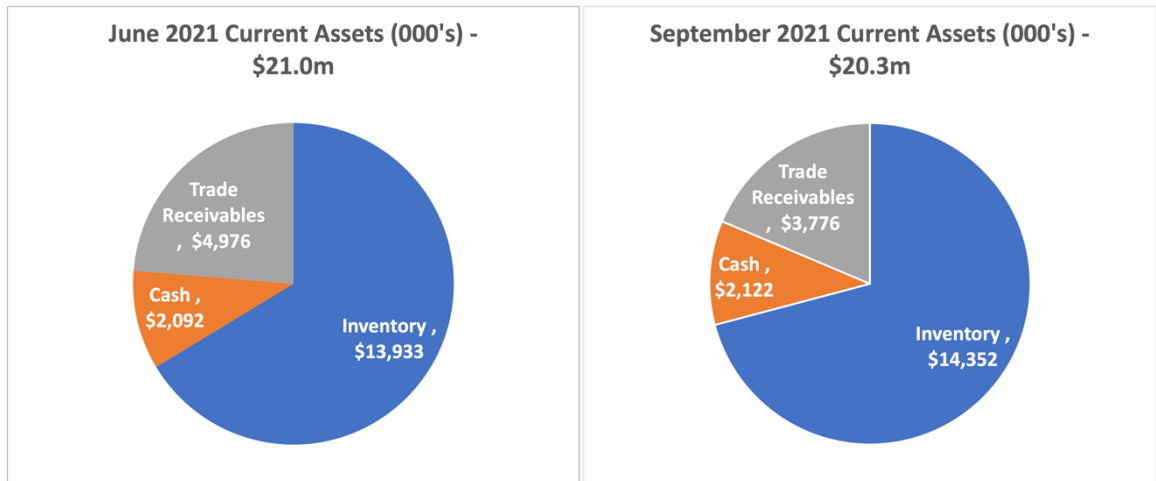
Cash Receipts and Gross Operating Cash Outflows*



*Cash-based operating expenses exclude any non-recurring items such as acquisition-related costs, restructuring costs, costs relating to finance facilities and any share-based expenses. Gross operating cash outflows are the amounts listed under item 1.2 in the Appendix 4C report.

Cash Position and Current Assets

Current assets decreased approximately A\$700k quarter-on-quarter. As of 30 September 2021, the Company had utilised US\$8.0 million of its US\$10 million trade and inventory finance facility.



Q1FY22 FINANCIALS COMMENTARY

The quarter saw a 4% drop in customer revenues (to A\$6.3 million) over the prior quarter, due in large part to the shift in timing of Amazon's Prime Day year over year (ie: the Company's largest non-holiday promotion moved from calendar Q3 in 2020 to calendar Q2 in 2021). Impacts were also felt as global retail continued to reflect the changing dynamics of lockdowns, re-openings, shifts between brick'n'mortar and online sales channels, and the global semiconductor shortage. The Company has successfully managed its way through earlier critical component shortages, and while continued instability in the broader semiconductor industry is expected for some time, there are currently no shortages impacting current production schedules of LIFX products.

Cash receipts are up year on year by 39% to A\$7.8 million (and down 14% on the prior quarter), helped by an increased availability of inventory versus the year ago quarter, but down on the prior quarter again largely due to the shifted timing of Amazon's Prime Day promotion (and accordingly, revenues and receipts last quarter – Q4FY21 – reflected an increase due to this event).

Were it not for the one-time expenses incurred in August associated with the reductions in staff, redundancy payments and other costs incurred in the process of reducing recurring expenditure, this quarter would have been net cashflow positive. Notably, the month of September was significantly net cashflow positive (from operations – ie: not due to any debt or equity financing) at A\$1.3 million. Accordingly, the Company is pleased to report that net cash used in operations for the whole quarter was only A\$216k, which represents a dramatic improvement over the year ago quarter (a near 90% reduction from Q1FY21 net cash used of A\$2.1 million).

As the Company continues on its cost consolidation program, its fiscal position has further improved. While an EBITDA loss of A\$879k was recorded this quarter, this was impacted materially by A\$354k in one-time restructuring costs while the year ago quarter's positive EBITDA of A\$32k was materially helped by A\$1.7 million of government rebates and

subsidies which were not available to the Company this quarter (the Company recognised no government rebates or subsidy income this quarter). In fact, the final month of the quarter, September, recorded positive EBITDA of A\$14k.

With a solid September performance, the Company ended the quarter with A\$2.1 million in cash, up A\$30k on the prior quarter. Trade & other receivables totalled A\$3.8 million, and inventories & prepayments totalled A\$14.4 million. Management considers this an outsized inventory position relative to where the Company would ordinarily prefer to be, however this figure represents a build-up for the holiday quarter, includes prepayments on long lead time components to minimise component supply risk in 2022, and further reflects the need for the Company to maintain a broad mix of SKU across regions and retailers. Investors should note that this figure includes inventory in transit from the factories, inventory in production, and materials purchased or pre-purchase amounts made to secure materials, with the clear majority of this figure being inventory landed and at Company warehouses or in transit from China to our warehouses.

Capital Raising & Debt Restructure

The Company conducted a capital raising during the quarter which yielded A\$6.6 million of proceeds, of which A\$6.3 million was spent on debt repayments and associated transaction costs. The Company retired A\$5.3 million of debt, as well as achieved debt forgiveness of US\$3.02 million.

While the Company conducted a debt restructuring during the quarter with its secured financier, Partners for Growth ("PFG"), the parties have made no changes to the US\$10 million working capital facility that will continue to be used to fund manufacturing and other working capital requirements.

For further details on the debt restructure, refer to the ASX announcement dated 16 July 2021 and the prospectus dated 20 July 2021.

Critical Component Supply

On 1 September 2021, the Company disclosed an update on its sourcing of a critical component that had previously caused the suspension of manufacturing scheduling.

- 1.3 million parts of the critical component ordered for the balance of 2021 production – which will serve inventory needs through most of the first half of 2022 - have been delivered to the Company's manufacturers
- Accordingly, sufficient quantities of this part are on-hand for the Company's current manufacturing needs.

Supply Chain

As continues to be widely reported in the mainstream press, there remains significant disruptions across the global supply chain, and especially amongst semiconductor suppliers in China. Investors are advised that instability remains within the Company's component supply chain, the supply of future component requirements may be subject to extended lead times and some uncertainty may still be present. However, the Company is pleased to report that it currently has sufficient quantities of components to meet its needs on current open orders with manufacturers into 2022.

Turning to shipping and delivery, the Company is fortunate to work with a network of very strong logistics partners that service major brands, and so can provide us with priority delivery slots into ports and through customs. Landed inventory levels are high (ie: in

warehouses), and while shipping and port delays are at record levels, this is not expected to materially impact the availability of core SKUs this holiday quarter.

In the U.S., the Company is seeing receiving delays at its largest retailers due to labour shortages related to the COVID-19 pandemic. This is resulting in inventory ordered by retailers being shipped immediately, processing this inventory is often delayed. While this hasn't impacted orders, it has impacted the time for retailers to process invoices and thus payment timeframes to the Company.

Manufacturing & Inventory

Manufacturing commenced for the LIFX White and LIFX Colour 800/1000 range of products at the Company's second major manufacturer during the quarter (refer to the ASX announcement dated 24 September 2021). Additional manufacturers are in process to further expand and derisk the Company's product supply chain.

We are pleased to report that overall inventory levels are strong across all regions heading into Q2FY22. While inventory levels were challenged earlier in the year by manufacturing delays and parts shortages (resulting in inventory that was ordered as long ago as November 2020 not arriving until as late as this quarter), the arrival of most of the US\$17 million of manufacturing orders placed by January 2021 has positioned the Company well leading into the holiday quarter. Orders that were placed subsequently have either arrived, or are on ships in-transit, and so the supply team has now turned their attention to inventory planning for 2022.

Despite this strong inventory position, there remain a few SKUs in certain regions where stock is low or out. This is primarily due to demand exceeding forecast, which in turn is due to the unusually long lead time between ordering and delivery (ie: SKUs that weren't popular when ordered back in 2020 but have found renewed popularity in 2021 may be in short supply). To a very limited extent, the Company is rush manufacturing to fill gaps where possible, but the affected SKUs are generally not core products and not in core regions. They may also be multi-packs of SKUs where single packs are in good supply, so retailers and our sales teams have options for replacing those multipacks with soft-bundled single packs. Manufacturing commenced for the LIFX White and LIFX Colour 800/1000 range of products at the Company's second major manufacturer during the quarter (refer to the ASX announcement dated 24 September 2021).

Buddy Commercial

Buddy Ohm is once again seeing growth in energy-conscious markets across Europe, with additional sites added in United Kingdom, Germany, Spain, Italy and Sweden. Recent cost cutting exercises took our Buddy Ohm sales resources back to a very limited level, however despite this, the business is not dependent upon the LIFX/consumer side of the business and we are now seeing success this quarter in developing markets in the Caribbean and Latin America. In this market we're seeing use cases in manufacturing, datacentre monitoring, retail distribution, and healthcare. The Company has contracts to deploy 15 new sites/expansions in the holiday quarter.

Residential energy monitoring and collaboration with major LIFX partners is increasingly becoming a differentiator in many markets with LIFX smart lights and switches already providing data to these platforms to help consumers make energy-conservation decisions in their smart home.

Amazon Alexa remains a key integration with the Buddy Ohm energy data feeds, with this feature now live in all markets where the Alexa In-App Energy Dashboard is supported.

COVID-19 UPDATE

As with a great many companies, the Buddy team continues to primarily work from home, with certain employees availing themselves of our office facilities in Adelaide, Melbourne and Shenzhen China. All U.S. employees remain working from home, and Australian employees impacted by the recent lockdowns are now taking advantage of the opportunity to reconnect in person.

We are pleased to report that while COVID has dramatically changed the retail landscape worldwide – and in particular, accelerated the shift to online shopping – retail in Australia has continued to perform well, with recent Asia Pacific internal revenue targets being met despite the recent lockdowns in major urban areas of the country.

ASX LISTING RULE DISCLOSURES

CASH FLOW DISCUSSION

As at 30 September 2021 the Company's cash balance was A\$2.1 million (up A\$30k from 30 June 2021), and cash flows regarding the Company's activities reported above are summarised below.

Cash flows from operating activities during the quarter comprised:

- Receipts from customers of A\$7.8 million from the sale of LIFX products and provision of commercial services/products
- Expenditure of A\$166k on research and development and web costs for new products and the Company's online presence
- Product manufacturing and operating costs for manufacturing LIFX and commercial products of A\$3.7 million
- Advertising & marketing costs of A\$276k
- Staff costs totalling A\$2.0 million
- Administration and corporate costs of A\$585k
- Payment of interest of A\$744k
- No government rebates or subsidies for COVID-19 support
- Payment of A\$539k for non-recurring costs related to the debt restructuring (such as legal fees), restructuring (including reduction in force costs) and FX costs.

Cash flows from financing activities included:

- A\$6.6 million of proceeds from an equity capital raising
- A\$0.4 million of transaction costs related to the capital raising and the debt restructuring
- Repayments of A\$5.9 million related to repayment of borrowings and associated borrowing costs.

RELATED PARTY TRANSACTIONS

As noted in Item 6 of the Company's Appendix 4C for Q1FY22, there were no payments to related parties or their associates during the quarter. This is due to the CEO electing to forgo his salary (which is normally fixed and paid in US\$ but may fluctuate with changes in exchange rate as it is reported here in A\$).

STAFFING CHANGES

VP of Product & Engineering, Travis Gerber, has accepted the role of Chief Operating Officer. Product, Engineering and Supply & Operations will now all report into Travis.

Former VP of Global Sales, Don Hicks has left full-time employment at the Company, and has accepted the position of Board Advisor – Global Sales, advising the Company's board of directors.

VP of Marketing, Brian Seitz, will now take on the role of VP of Sales & Marketing, leading both the sales and marketing teams globally, which will also come with the benefit of bringing the Company's e-commerce and traditional retail teams much closer together (reflecting current retail trends).

Cres Ramirez has been promoted to General Manager, Americas – Sales, and will have responsibility for LIFX retail sales and Buddy commercial sales for the Americas region. Cres was formerly a national account manager at LIFX, and prior to that was a sales leader at smart home company, Ring. Cres joins existing GMs Martin Carroll (EMEA) and Matthew Lau (Asia Pacific) who together have day to day responsibility for regional sales, and who will all now report into Brian Seitz.

Former CFO, Richard Jacroux, has left full-time employment at the Company, and candidates are presently being interviewed for this role.

WHAT'S NEXT

Looking to the holiday quarter, which is traditionally the Company's most important quarter for sales, we have Halloween, the Thanksgiving/Black Friday/Cyber Monday promotional period (now known in the industry as "Turkey 10" – the 10 days surrounding Thanksgiving in the U.S.), the Christmas leadup, Boxing Day and New Year's sales.

The global team is actively working to maximise both our sell-in and sell-through across both our retail partners and our own online channels. Marketing efforts have been escalated going into this period, with a recent morning television campaign (as an example) driving customers for LIFX Clean to Amazon seeing rises in glances and site traffic extending several weeks beyond the TV spots.

With recent reductions in force across the Company, management believes staffing levels are right-sized for the business, and with expenses reduced, healthy inventory levels and refreshed manufacturing agreements, the global team looks forward to resuming growth and entering new retailers and markets in regions around the world. We look forward to reporting on our holiday quarter, and to what 2022 has in store for us and the smart lighting and power businesses in general.

For and on behalf of Buddy Technologies Limited.



David P. McLauchlan

Chief Executive Officer

Buddy Technologies Limited.

About Buddy

Buddy Technologies Limited (BUD.ASX) 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 licenses Buddy’s technology platforms to customers for integration into their own products.

Buddy’s Consumer Business trades under the **LIFX** brand and 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, JB Hi-Fi, Bunnings, Officeworks, MediaMarkt, Saturn and Best Buy (in both the U.S. and Canada).

Buddy is headquartered in Adelaide, Australia, with offices in Melbourne (AU), Seattle (US), Dublin (IE), Shenzhen (CN) and Silicon Valley (US).

For more information, visit www.buddy.com and www.lifx.com.

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Buddy Technologies Contact:
Vicky Allinson, Company Secretary
Email: cosec@buddy.com

Buddy Technologies Limited
Level 3, 12 Pirie Street
Adelaide, SA 5000
AUSTRALIA



Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Buddy Technologies Limited

ABN

21 121 184 316

Quarter ended ("current quarter")

30 September 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	7,834	7,834
1.2 Payments for		
(a) research and development	(166)	(166)
(b) product manufacturing and operating costs	(3,707)	(3,707)
(c) advertising and marketing	(276)	(276)
(d) leased assets		
(e) staff costs	(2,005)	(2,005)
(f) administration and corporate costs	(585)	(585)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(744)	(744)
1.6 Income taxes paid	(28)	(28)
1.7 Government grants and tax incentives		
1.8 Other (FX & restructuring costs)	(539)	(539)
1.9 Net cash from / (used in) operating activities	(216)	(216)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		
(d) investments		
(e) intellectual property		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(f) other non-current assets		
2.2 Proceeds from disposal of:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		
(d) investments		
(e) intellectual property		
(f) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Other (provide details if material)		
2.6 Net cash from / (used in) investing activities		

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	6,595	6,595
3.2 Proceeds from issue of convertible debt securities		
3.3 Proceeds from exercise of options		
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(401)	(401)
3.5 Proceeds from borrowings		
3.6 Repayment of borrowings	(5,290)	(5,290)
3.7 Transaction costs related to loans and borrowings	(653)	(653)
3.8 Dividends paid		
3.9 Other (provide details if material)		
3.10 Net cash from / (used in) financing activities	251	251

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	2,092	2,092
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(216)	(216)
4.3 Net cash from / (used in) investing activities (item 2.6 above)		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	251	251
4.5	Effect of movement in exchange rates on cash held	(5)	(5)
4.6	Cash and cash equivalents at end of period	2,122	2,122

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,469	2,092
5.2	Call deposits	653	
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,122	2,092

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	nil
6.2	Aggregate amount of payments to related parties and their associates included in item 2	nil
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	25,731	22,731
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities	25,731	22,731
7.5	Unused financing facilities available at quarter end		3,000
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

Loan facility: PFG Line of Credit (revolver)

Total drawn at 30 September 2021: US\$8.0 million

Total Facility Amount: US\$10 million

Use of funds: Working capital

Lender: Partners For Growth

Interest Rate: 12.5%.

Secured or unsecured: secured by receivables and inventory

Payment: Revolving LoC

Term: December 2023

Loan facility: PFG Term Loans

Total drawn at 30 September 2021: US\$4.1 million

Loan: Term Loan

Total Facility Amount: US\$4.1 million

Use of funds: refinancing previously existing debt

Lenders: Partners For Growth

Interest Rate: 12.5%

Secured or unsecured: secured by company assets

Payment: Monthly payments of principal of US\$128,920 plus interest due.

Term: May 2024

Loan facility: PFG Convertible Promissory Notes

Total drawn at 30 September 2021: US\$4.25 million

Total Facility Amount: US\$4.25 million

Use of funds: refinancing previously existing debt

Lenders: Partners For Growth

Interest Rate: 12.5% (see also payment below)

Secured or unsecured: secured by company assets

Payment: Interest due monthly until converted or paid. The Convertible Notes are convertible (all or some) into shares of the Company at a conversion price of A\$0.025 per share. If not converted, on the maturity date, the Company would repay PFG the principal amount plus any accrued interest.

Term: August 2021 to 4 May 2024

Loan facility: Loan Facility 1

Total drawn at 30 September 2021: nil

Total Facility Amount: \$1.5 million

Use of funds: Working capital

Lender: DM Capital Management Pty. Ltd.

Interest Rate: 10%.

Secured or unsecured: unsecured

Payment: upon maturity (26 November 2022)

Term: 26 May 2021 – 26 November 2022

Loan facility: Loan Facility 2

Total drawn at 30 September 2021: nil

Total Facility Amount: \$1.5 million
 Use of funds: Working capital
 Lender: Anfield Group Pty. Ltd.
 Interest Rate: 10%.
 Secured or unsecured: unsecured
 Payment: upon maturity (26 November 2022)
 Term: 26 May 2021 – 26 November 2022

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(216)
8.2	Cash and cash equivalents at quarter end (item 4.6)	2,122
8.3	Unused finance facilities available at quarter end (item 7.5)	3,000
8.4	Total available funding (item 8.2 + item 8.3)	5,122
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	23.7
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>		
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	<div style="border: 1px solid black; height: 30px; margin-top: 5px;"></div> Answer:	
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	<div style="border: 1px solid black; height: 30px; margin-top: 5px;"></div> Answer:	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	<div style="border: 1px solid black; height: 30px; margin-top: 5px;"></div> Answer:	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>		

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 29 October 2021



Authorised by:
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg *Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.