



Friday January 20, 2017

Dear Shareholders:

On behalf of the Board of Directors of Buddy Platform Limited and our employees in the United States and Australia, I welcome you to this new year. As we enter 2017, it's appropriate that we look back at 2016 and review where the business stands now that we're 12 months past the company's re-listing on the ASX. I wanted to take this opportunity to share with you some of the learnings we've taken from the year as well as provide clarity on our plans for 2017.

My goal with this letter is to provide a long-form discussion on our business, our prospects, our product and our team. I want to candidly walk shareholders through the ups and downs of our year just gone, and convey in some depth our approach to 2017 and beyond.

Overview

There is no question that 2016 was a year of mixed results for the company. While we exceeded the platform traffic and device volume metrics we outlined for investors in our 2015 prospectus, our share price performance clearly did not meet expectations. We had two difficult acquisition transactions – one that failed, and one we elected to walk away from – and we were competing in an extremely nascent market where the rules of engagement typically applied to mature markets simply didn't hold true. Sales pipelines were full, but top heavy with long sales cycles. Customers simply used their engagement with Buddy to "figure out" what they want to do in the IoT space. Many took considerable time and ultimately did not make a decision either way.

We did however, build an incredible team in 2016. Hiring is hard – especially so in this industry, competing against very well-known companies with outstanding compensation and benefits packages. Despite that, we've built a truly impressive team and so we're able to punch well above our weight class accordingly. We've learnt that we're able to delight customers – our churn is extremely low and customers tell us they love our deep level of engagement. We now have customers that are entering their third year of service with us, each year spending more with the company. That tells us that our product offers them value and they're comfortable growing their spend with us. These are excellent signals in a very nascent market, when what customers are looking to buy is itself a moving target.

Most importantly – as you'll read in this letter – we learnt what sells, what doesn't and how to monetize our core asset (the Buddy IoT Platform) most effectively. Those are learnings you can't get the "easy way". As we enter 2017, we do so having reflected and adjusted our strategy based on those learnings. The most successful companies in the world are always adjusting, always making small pivots, and are nimble enough to do so with minimal impact on the organization. If there's one difference between venture investors and the public markets, it's that venture investors expect these ongoing adjustments, public markets expect "stability" and certainty. I'm hopeful that communications such as this will help public market investors better understand our methods and tactics. With that in mind let's take a closer look at the year in review, what we've learnt and what adjustments we're making in response.

M&A (Mergers & Acquisitions) Activity

During the course of 2016, Buddy announced our intention to acquire two companies – Noveda Technologies, Inc. and Zentri, Inc. Neither transaction was completed, and the failure of both to conclude has definitely impacted the market's perception of Buddy. Without question, the failed acquisition of Zentri and the terminated acquisition of Noveda were two lowlights of 2016 (although we

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formally terminated the Noveda transaction in early 2017, we'll include it here for the purposes of discussion).

At the outset, I should note that one of my pet peeves for small-cap companies on the ASX is the announcement of every MOU, LOI and non-binding agreement a company enters into. Many investors don't realize that an MOU or LOI isn't meaningful news unless the "intent" is followed through on with a commercial agreement of some sort. In 2016 I saw many such documents announced and heralded by ASX companies, but rarely is there any follow up announcement when the intent is abandoned. And let's be honest – not every LOI or MOU will come to something, or even anything. The nature of business is that some work out, some don't and that's okay.

Despite having clear feelings on the matter, I broke my golden rule by announcing the intent to acquire both Noveda and Zentri – in large part because these were meaningful transactions involving a lot of people and we felt the need to ensure the market was fully appraised. Further, in both cases we already had partnership agreements in place with those companies, and so the execution of the term sheets in both cases would have a material impact on our partnership arrangements. Finally, given we conducted a capital raise in 2016, we were obligated to "cleanse the market" and reveal the true extent of our relationship and engagement with both Noveda and Zentri. So, it can be said that we were at the intersection of a "perfect storm", and the result had a meaningful impact on both transactions.

Timing had a big role to play in the outcome of our M&A activities too. We certainly didn't set out to enter into a transaction with two companies simultaneously, but opportunities aren't always possible to time perfectly, and when we saw clear value for the respective parties and shareholders, we leapt forward in both cases. Actually, negotiating both deals partially simultaneously wasn't so problematic, but being required to reveal the terms offered to both parties in the ASX-mandated Notice of Meeting we had to publish, was. Each party was able to see the terms offered to the other, prior to being bound to the terms (which wouldn't happen until at least after the shareholder vote).

I've spoken at some length on both transactions, so suffice it to say that in the case of the Zentri transaction, we were completely surprised by their termination (we'd had expressions of confidence in the transaction as recently as hours before from one of their executive officers). In the case of the Noveda transaction, we made the decision to terminate after three iterations of terms were successfully agreed upon and then sought to be renegotiated by Noveda. We elected to not attempt a fourth, and made that decision in the interests of being able to move forward with alternative options.

On a recent webinar I quoted a Harvard Business Review statistic that between 70% and 90% of M&A transactions fail. I recognize that this is little comfort for shareholders who were expecting a better result – and we certainly take no pleasure in how this aspect of our year performed, but it is a reminder that this sort of work is never a slam dunk.

Much more materially, we should reflect on what we were seeking to achieve with the transactions. In the case of Zentri, we were seeking to offer a more vertical solution reaching below our current feature set, into lower level functionality such as managing fleets of devices. Device management, firmware upgrades and asset tracking were features that customers had sought from us, and we liked what Zentri had to offer. From our due diligence we knew other providers had competing offers, but we sought to "own" the solution vs. partner for it. Since the termination of the transaction, we've maintained a relationship with Zentri, but subsequent projects haven't required that level of functionality. When future projects do, we'll have the option of working with Zentri or other providers that have since reached out and are open to engaging.

In the case of Noveda, we recognized early in the year that while our core platform was our primary IP and product offering, building a verticalized product to sit on top of that platform for only very specific markets would allow us to accelerate adoption, traffic and especially revenue. While the Buddy Platform

has applications across the IoT spectrum, we saw a particular fit with infrastructure monitoring, and we liked how seamlessly our product complemented Noveda's. Importantly, we really liked the stickiness of Noveda's energy resource monitoring and verification product. We loved the kinds of customers they worked with – customers that had a deep need for Noveda's solution, that were willing to enter into relatively long-term contracts and for whom the solution only just scratched the surface of what was possible. Notably, many of these customers are utilities and other established organizations that historically take a long time to win business with.

One important point about the Noveda transaction is that while they had an impressive sales pipeline, maximizing it was heavily dependent upon Buddy's sales, marketing and business development resources. It is true that we invested our people's time and effort in front-loading this, but as I'll elaborate on below, that effort will in no way be wasted. I'll discuss our plans post-termination of the Noveda deal in a section to follow, but suffice to say that our interest in this space and industry vertical has not diminished.

Perhaps the most important take-away for shareholders though, is that both transactions were intended to bolster and/or accelerate Buddy's stated business plan. In neither case were we seeking to pivot the business into theirs, and in neither case does the absence of the acquisitions invalidate our original plan. I certainly acknowledge the market response to neither transaction being successful, but I can unequivocally state that there is no less opportunity before us as a result. We have, and must continue to adjust our tactics, but there's no question we're marching forward with or without the acquisitions.

Selling the Buddy Platform

Buddy develops and sells access to a product called the "Buddy Platform" – an Internet-based data processing engine that takes data in from any Internet-connected product, stores the data, processes the data, and then outputs the data into a customer software solution. That solution might be a dashboard, an alerting system, a "big data" analysis system, another cloud-based system or just plain old storage.

Buddy drives revenue by selling access to this platform; in particular by charging customers to process their raw feeds of all their data, and returning back to them a managed feed that they can use. Our plan was to grow the volume of data processed by the platform until such time as there is sufficient quantity to monetize horizontally across the millions of datasets processed, and not just on a 1:1 basis directly with each individual customer. For this reason, indicators of success must first be volume-based before they can be revenue-based. That's why the performance shares metrics published in the 2015 prospectus and voted upon by shareholders were tied to traffic volume and device counts. The Buddy Platform relies upon usage-based billing, and there's no more transparent indicator of use than traffic volume and device counts (revenue is not a reliable indicator of this growth, which underpins medium-long term growth, profitability and long term company value).

Every paying customer we have today leverages the Buddy Platform at the core of what they're buying. Some are simply buying data processing capability, others are buying that capability as part of a broader product, but functionally, customers have a need for what Buddy does and the platform does what it promises.

Two key learnings from 2016 were that 1) customers rarely need *only* the data processing capability, and 2) customers rarely care how the data is processed, they just want the outcome of the process (which I not-so-jokingly refer to as "make me richer or make me smarter – I don't care how you do it"). These learnings were reinforced by our sales experiences – it turns out it is really hard to sell a piece of technology middleware, when the technology in question is as nascent as the IoT. We've found that even bleeding edge "connected things" manufacturers aren't yet making use of the vast volumes of data their

devices are generating. If those companies aren't, how long will it be before our target market will want this data (let alone, "need" that data)?

However, when positioned as part of a technology solution, then the sales cycle shortens (and simplifies) considerably. While our earliest customers bought the platform, our biggest customers bought a solution – and most of those solution customers are investing in an outcome, not a technology. None of our big customers are buying an "IoT solution", they're buying a solution and it just happens that our technology is the best/easiest/cheapest/most efficient (choose one or more) means to solve a problem.

It also turns out that while sales cycles for solutions are shorter (because the problem set is defined, the product is defined and the price is more or less defined), the customer investment is often substantially higher. Take, for example, the Thor Industries deal we recently announced. That's a A\$2.14 million deal for Buddy, with a little over A\$270k/year in software as a service (SaaS) or platform revenue. Put more obviously, it would take 8 platform-only customers to match the revenue from a solution customer like Thor. To land a platform customer almost certainly requires the customer to involve an additional party; to land a solution customer quite often can be managed entirely within or by Buddy.

When we did the investor roadshow back in 2015, and in subsequent shareholder communications, I talked about building verticalized products on top of the Buddy Platform core foundation. Noveda was an example of that, so too was a data marketplace aggregating horizontally across customers. We recognized that we had an incredible asset in the Buddy Platform itself, and monetization of the vast amounts of data we expected to process would increase exponentially beyond simply selling customer's data back to them once processed.

A major goal for 2016 was to spend the year servicing business across all manner of verticals – connected cars, smart mining, connected homes, smart retail, smart agriculture, etc... and understand where Buddy was best positioned to apply specific focus in 2017 and 2018 (en route to hitting profitability in 2019 as we've stated). With our 2016 learnings in hand, it was very apparent that our "smart cities" customers were the ones growing the fastest – both in spend and in deployments – and that we were best served offering a solution built upon the Buddy Platform, not only the platform as a technology component itself.

Focus for 2017 and Beyond

Shareholders only need to open a newspaper or turn on the news to see references to "smart cities" technology on nearly a daily basis. While many Australian cities are taking aggressive steps here, almost every major city on the planet has a CIO and a team of people seeking to leverage smart city technology to improve the efficiency, capacity and lower the costs of operating & managing their municipality. In Australia, the Turnbull Government has set aside A\$50 million for their "Smart Cities and Suburbs Program", and in the United States, the incoming Trump administration has indicated that up to US\$1 trillion might be sought to invest in nationwide infrastructure projects, which will surely include a substantial "smart" component.

In 2016 more than half of Buddy's traffic, and the vast majority of our revenue was sourced from infrastructure related customers & scenarios. By winning projects in this capacity, our sales team is better equipped (with case studies, customer references, etc...) to win more projects in this space and so the cycle becomes virtuous. Additionally, we spent considerable resources selling into new infrastructure customers because we expected to be selling Noveda's product in by now. There's an old saying that you "can't boil the ocean", and it is certainly true that Buddy can't service every customer in every industry vertical (even if from a technology perspective, the platform could). We've built up an incredible asset in 2016, and it is time to focus that asset on a core set of customers in the most lucrative industry vertical available to us. Our efforts in 2016 tell us that that vertical is smart cities infrastructure.

In 2017, we will completely focus our product, marketing, sales and business development teams on winning business managing the IoT data generated by infrastructure deployed in smart cities. That means utility meters, street lighting, building energy consumption, etc... We're going to be laser-focused on government and enterprise customers and will maintain a regional focus at least for now, on Australia and the United States.

This will mean that all the sales, marketing and business development efforts invested prior to the Noveda termination will not go to waste, and the know-how developed supporting our infrastructure IoT customers in 2016 will be built upon. It will also mean that the company will have the resources to sell further into our existing infrastructure IoT customers. We will not be terminating any paying customers, however we will not seek to sell into markets outside of this specific focus.

To service this market, Buddy will be bringing a new product to market no later than second quarter of calendar year 2017. This product will be a top to bottom solution that will be sold into government and enterprise customers seeking to understand the data their smart cities infrastructure generates, and with the help of partners, the product will be sold as a fully packaged solution. Importantly, it will be completely built on the Buddy Platform as a foundational technology. There will be a hardware component, it will be branded as a Buddy product, and we are actively selling into the market already.

We will release more information on this product in due course, but the market response to our sales efforts has been such that as a company, we are "all hands on deck" to launch as soon as possible. Clearly our sales "machine" has not been slowing – the A\$2.14 million customer deal announced last week is testament to that – and we will continue our sales push through the development of this new product. While that is ongoing, we have several A\$ million dollar-plus deals in the pipeline and two platform as a component deals that we're working on. Those absolutely play into the smart cities infrastructure focus, and we look forward to reveal more details on those as they progress. On a more immediate note, the team was pleased that several of our existing customers renewed their contracts with us in the last quarter, spending more year on year, and growing their business and traffic managed by us.

Parse on Buddy

Given the 2017 focus on smart cities infrastructure, investors may well wonder what role the Parse on Buddy product has moving forward. Recall that Parse on Buddy is a backend as a service offering that Buddy has developed, after taking Facebook's open source "Parse Server" product and hardening it for high scale/enterprise use. Recall also, that Parse also supported IoT devices, but was primarily known as a cloud backend for many of the world's mobile applications on iOS, Android and other platforms.

As I write this shareholder letter, I can report that a number of our Parse on Buddy metrics are doubling day on day, so it's difficult to report figures that we know will be utterly wrong in only a couple of days. That said, we will report Parse on Buddy stats as promised (look for a separate statement from this letter) as we're now 10 days away from the shutdown by Facebook of their Parse product (this week they moved the shutdown date from January 28th to January 30th).

What I can share in this letter is that we are already at a monetization point where we will recognize at least six figures of revenue from the Parse on Buddy product, and the bulk of our migration traffic is yet to happen. All of us – and I suspect the Facebook team too – have been surprised at how late customers are leaving it to migrate their applications, as well as the size and stature of organizations that either fail to understand the implications of the shutdown or are unaware of the shutdown at all. A shareholder wrote to me this week expressing skepticism and bewilderment that large companies would leave their migrations to this late stage – but it is true. Our team was on a migration conference call with a globally known brand just this week whose people were just learning of the implications of the shutdown. This isn't surprising when you realize that applications are typically tools of marketing departments at large companies, and infrastructure choices can fade from consciousness for these teams over time.

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To that end, Facebook has extended the shutdown date to January 30th (which moves the shutdown to a weekday during working hours, and not on a weekend), and is now committing to shut apps down one-by-one (rather than just wholesale turning off the product). We expect this is to allow them to manage the larger applications that haven't started a migration or are progressing slowly.

I can report that as of today the Facebook team has officially agreed to refer migration customers to Buddy directly. This is very meaningful, since although we've had a close relationship with the Parse leadership at Facebook (including visiting their offices to walk through how to build our Parse on Buddy product), they've always sought to be neutral in terms of recommending migration options. With the traffic that we've already migrated (or is in the queue to migrate) and our ability to offer a "white glove" service to major brands, Facebook's willingness to directly feed migrating customers into Buddy is a very welcome step.

To that end, we've today launched a US, Australian and UK toll-free number for 24/7 migration technical support and expect to see our migration and traffic numbers swell substantially in the next two weeks. Facebook's public statements and our correspondence with them lately further support our belief that peak migration activity will continue beyond the 30th, and that we're going to see continued growth through the quarter and into next.

Still though, the question remains – how does Parse on Buddy fit into our broader infrastructure strategy? It turns out that one of the fastest growing areas of interest for data buyers is understanding the movement of "things". City planners want to understand traffic and pedestrian patterns. Autonomous vehicles need "HD maps" that will be crowd sourced from data generated by static and mobile devices. Energy needs can be predicted by the movement of people through buildings and overlaid with external weather patterns. The Parse on Buddy system provides an incredible volume of data that when aggregated and strictly anonymized, is of substantial interest to customers in all of these segments. Better yet, when overlaid on our Buddy Platform core dataset, then there's a real asset here and one that substantially enhances our smart cities infrastructure product offering.

Finally, with the Parse on Buddy product, we will enable cities to participate in the rapidly growing "API economy" by allowing public and private entities to turn the data generated from different sources, i.e. buildings, traffic lights, street lights into a full blown "smart city data platform" that can be accessed via APIs. Leading smart municipalities are already investing in this technology, and the Parse on Buddy offering allows us to enable cities to do so via the world's most popular backend as a service platform.

I'm pleased to share that today – well before we hit a traffic or migration peak on Parse on Buddy – we will exceed our Parse subscription revenue with revenue from aggregated, fully anonymized data sales on the platform (the six figure revenue number I mentioned above – and growing). We are also in talks with another customer that may double (or more) the data sales revenue from Parse on Buddy, and I don't expect to stop there. To that end, while all Parse on Buddy subscription revenue is of interest to the business, the aggregated data revenue can be orders of magnitude greater on a per customer basis, and so is the most interesting to us in the short to medium term.

On that basis, I'm very pleased with how Parse on Buddy is progressing. With multiple sources of revenue and growing, the team and I feel absolutely comfortable having made the investment we did in bringing the Parse by Buddy product to market. Aside from revenue, we've built an incredible amount of technical competence in the team, growing a skillset that will be vital in 2017. The insights and learnings we've been able to take directly from Facebook have also been invaluable, and certainly worth the cost of product development alone.

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By the Numbers

As a technical and engineering operation, we deal with statistics, numbers and metrics on a daily basis. To that end, I asked the sales & marketing + business development teams to prepare some facts and numbers to more broadly describe the business and what we've achieved in 2016.

- Sales and Marketing:
 - We participated (at various levels) in 10 industry events in 2016, with over 6,000 attendees passing directly through and engaging with Buddy staff
 - We created 1,677 customer leads in 2016
 - 662 remain open
 - 541 are in the "contacting" stage
 - 198 are "engaged"
 - 92 are "converted" to opportunities (note that these are individuals, not companies)
 - 184 are disqualified
 - We sourced these leads thus:
 - 891 from conference and trade show attendance
 - 259 from direct mail campaigns
 - Just 1 from social media
 - 27 came in where we were the result of Internet searches
 - 12 referrals came in from partners
 - 64 came in directly from our website
 - 33 came in from customer referrals or events
 - 390 from other sources
 - Opportunities are leads that become engaged, qualified and converted
 - 76 opportunities were in the pipeline at year end (some converted leads become "lost", hence this is down from the 92 above)
 - The total pipeline value of those 76 opportunities was A\$5.7 million
 - By dollar value, 46% of the pipeline came from conference sourced leads (IoT World, CES, Mobile World Congress, Smart Cities Boston, etc...)
 - Customer referrals accounted for 16% of the pipeline dollar value and partner referrals was 9%
 - We started 2016 with only one sales resource, and we're currently staffed at three plus our GM of Australia fulfilling a business development leadership role.
- Our Australian opportunity:
 - We opened 40 leads and opportunities in Australia in 2016, all of which remain open and in progress (some were tenders, some were direct opportunities)
 - These opportunities were spread evenly between Adelaide, Sydney and Melbourne
 - Opportunities were concentrated in utilities (power and water) sectors and via channel partners at 30% each
 - Australian Federal Government funding for smart cities is currently \$50 million for pilot projects etc and forecast at \$100 million per year for 10 years thereafter (see: <https://cities.dpmc.gov.au/smart-cities-plan>)
 - The Australian smart city market according to McKinsey is \$1 trillion by 2030 (see: <http://gereports.com.au/2016/07/28/roadmap-australian-smart-cities/>)
 - We were ratified as a member of Microsoft's Independent Software Vendor (ISV) program
 - We began an association with the IoTAA – Australia's peak IoT body which advocates to government and industry for the use and value in IoT
 - We joined the AIIA – the peak ICT body in Australia

- CEO time utilization and travel:
 - Time spent in Seattle office – 68% of business work days
 - Time spent traveling – 32% of business work days
 - Time in Australia – 21% of business work days (includes some holiday/time off)
 - Time outside Australia/Seattle – 11% of business work days
 - Time working from Adelaide office – 7% of business work days
 - Time spent on investor relations related travel – 8% of business work days

In reaching the milestones and figures above, we also managed to hit a new peak traffic load in December 2016 of 53,250,863 data calls to the platform per day. In doing so we hit new hourly and weekly traffic peaks too – but more on those details in the quarterly commentary to be released at the end of the month.

With the listing of the facts and figures above, it's appropriate that I should make a comment on our level of transparency here. Many companies on the ASX are unwilling to share this level of detail about their business. The reason I'm passionate about doing so, is because I don't believe it is fair of me to ask investors to gauge Buddy's progress in-market on metrics other than revenue, without providing as much data to that end as I can.

Of course there's a very obvious counter-argument to this view, and that is that some investors are then motivated to over-analyze the figures to read into data that shouldn't necessarily be read into. For example, we've been extremely transparent about our pipeline, but that only works if the reader fully understands that a pipeline is always changing, is dynamic, and by definition most opportunities that enter a pipeline will not result in closed deals. Many leads or opportunities are lost, many are put aside to later remarket to, and so on.

The same is true of our platform metrics and performance milestones. We share those metrics publicly, despite there being a clear competitive disadvantage in doing so. We know our competitors read these materials and dial into our webinars. Regardless, I feel strongly that I'd rather investors have access to more information than less, and I'm always prepared to spend time engaging with investors who wish to discuss what these details mean directly.

That being said, our customers don't always feel the same way and so we are careful in what we share on that basis. We will always meet our obligations as a listed ASX company, but we will also do our best to protect the interests of our customers and the competitive advantages working with Buddy affords them. I continue to ask for shareholders' recognition and understanding of our needs in that regard.

Summary

Without any question, 2016 has been a turbulent year for us on the market, but one of great technical and corporate advancement. We've built a product that has afforded us the ability to zero in on a very lucrative and rapidly growing sub-market of the Internet of Things space, and we've built an incredible team that allows us to move quickly in this space. Booked revenue this quarter is already multiples of any prior quarter in the company's history, and that's before we bring into play the Parse on Buddy revenue, or any other opportunities in the pipeline.

I do want to assure shareholders that I absolutely recognize the difficult market realities of our share price and the downward path it has followed. I too share your deep disappointment that our M&A activity was unsuccessful, and I recognize that more deals and more revenue is always sought. I want to let you know that I hear you, and I'm working as hard as I can to deliver not just continued revenue growth, but a product suite that can take us from these opportunities to the global stage.

I can't crystal ball the share price or market activity this year, but I can promise our team's focus and commitment to delivering a product and expected commercial results that will give the market every

opportunity to reward shareholders accordingly. Every single employee at Buddy is a shareholder in the business, and so our motives are all aligned. To that end, as always, I encourage any shareholder interested in discussing the business in greater depth to reach out to me (ir@buddy.com) or even stop by and visit at one of our investor events in Australia during the coming year.

I remain extraordinarily upbeat about Buddy's prospects, and I know I'm not alone with this sentiment. On behalf of the entire team, Board of Directors and Board of Advisors, I thank you for your shareholding in Buddy, and wish you the very best for a happy and successful 2017.

Sincerely,



David McLauchlan

CEO, Buddy Platform Limited.

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