

ASX ANNOUNCEMENT

30 July 2021

Norwood Corporate Overview and App 4C for June 2021 Quarter

Highlights

- Received a NZD\$639,000 Purchase Order from Spark NZ post-quarter end, underpinning FY22
- Receipts from customers for the June 2021 quarter totalled \$294,000, compared to \$277,000 in the June 2020 quarter, an increase of 6%
- Total receipts from customers for the 2021 fiscal year reaches \$1.064 million, versus \$772,000 in FY20, an increase of 38% period-to-period and a record for the Company
- Net operational cashflow for the June 2021 quarter was negative \$264,000, compared to negative \$298,000 in the June 2020 quarter, an improvement of 11%
- Secured an enhanced \$170,000 software development contract with Avicena for the development of its highly-scalable pathogen screening instrument
- Executed binding agreement to raise \$200,000 via the issue of convertible notes

‘Sharing Economy’ and ‘Communications as a Service’ pioneer Norwood Systems Ltd (“Norwood” or the “Company”) (ASX: NOR) is pleased to provide an overview of the Company’s activities for the June 2021 quarter and the accompanying Appendix 4C cashflow report.

Norwood’s CEO and Founder, Paul Ostergaard, said:

“The June quarter encompassed Norwood continuing to strengthen its operational performance in conjunction with pivoting the Company for robust growth in FY22”.

“We’ve improved our cash burn compared to the prior corresponding period, and our receipts from customers on annual basis ascended past the \$1 million-mark for the first time in the Company’s history.”

“We were delighted to strengthen our relationship with Spark NZ, following the receipt of a substantial purchase order post-quarter, which will lay the foundations for growth in FY22.”

“The latest Avicena contract secured during quarter, which is on improved commercial terms, demonstrates the breadth of our technological capabilities and the tangible translation of this into successful outcomes for customers.”

“The new purchase order from Spark NZ and the enhanced Avicena contract is a testament to the positive evolution of Norwood’s operational capability and performance.”

“Prudent capital management and cost control will be a core focus of the Company heading into FY22, so we can convert increased revenue into enhanced net earnings.”

Sales and Commercialisation Activities

Spark NZ Contract

Post-quarter end, on 16 July 2021, Norwood announced that long-term customer Spark NZ supplied the Company with a Purchase Order worth approximately NZD\$639,000 (c. AUD\$603,000) for services to be provided across the 2022 financial year.

The Purchase Order comes under an agreement between the Company and Spark NZ that was initially announced to the ASX on 30 January 2020 (“Agreement”).

Under the Agreement, Norwood has provided Spark with a Spark-branded version of Norwood’s World Voicemail service and application, for use by Spark NZ subscribers, available on the New Zealand App Stores. Spark commenced promoting this branded version – Spark Voicemail – to its subscribers in March 2020 (see ASX announcement dated 4 March 2020).

Furthermore, a multi-site, geo-redundant on-premises visual voicemail solution in conjunction with other subcontractors was delivered in October 2020, and is now integrated into Spark’s virtualised network and compute infrastructure (see ASX announcement dated 16 October 2020).

Prior to this Agreement, Norwood had received other Purchase Orders from Spark NZ, notably a Purchase Order worth approximately NZD\$244,000 (see ASX announcement dated 11 July 2019).

Corporate

Avicena Contract

On 3 June 2021, Norwood announced it received a \$170,000 contract for software development services from Perth-based Avicena Systems (Avicena), in relation to the Avicena Sentinel pathogen screening instrument.

Under the contract, Norwood will further develop and enhance the software functionality of the Avicena Sentinel’s Automated Lamp Testing System (ALTS), which enables the pathogen screening instrument to deliver up to 100,000 assays daily.

Previously on 16 December 2020, Norwood announced to the market it had secured a \$100,000 contract with Avicena to develop the ‘operational prototype’ requirements of the ALTS.

The current contract is anticipated to be completed during the September quarter.

Convertible Note Raise

On 17 May 2021, Norwood announced it executed a binding terms sheet and issued 8,333,333 unsecured convertible notes (“Notes”) with a face value of \$0.024 each to Paul Ostergaard to raise \$200,000 for the Company.

The terms of the Notes include 8% interest per annum, a conversion price of \$0.024, and a maturity of 12 months from the issue date of 17 June 2021. The funds raised from the Notes will go towards the Company’s working capital requirements.

As the proposed Noteholder is significant shareholder and Managing Director of the Company, Paul Ostergaard, Norwood was required to seek the relevant shareholder approval for the Notes at a General Meeting.

The Company will seek approval of the Notes and their conversion at a shareholder meeting to be convened shortly.

Business Activities Expenditure

In accordance with ASX Listing Rule 4.7C.1, with respect to business activities expenditure, Norwood can confirm there was an increase in in business expenditure by \$19,000 in comparison to the previous quarter expenditure.

Total direct business expenditure was \$580,000 for the June 2021 quarter (vs \$561,000 last quarter), consisting of research and development expenses of \$224,000 (vs \$176,000), operating costs of \$20,000 (vs \$81,000), staff costs of \$170,000 (vs \$140,000), and administration and corporate costs of \$166,000 (vs \$164,000).

Net cash used in the operating activities decreased to \$264,000, which was primarily due to an increase in customer receipts and a reduction in product manufacturing and operating costs as Norwood enhanced its focus on sales and commercialisation activities relative to product development activities.

Payments

Norwood notes that item 6.1 in the Appendix 4C relates to executive and non-executive director fees.

Approved for release by the Board of the Company.

<ENDS>

Company: Paul Ostergaard , CEO & Founder Office: +61 8 9200 3500 Web: www.norwoodsystems.com Twitter: @norwoodsystems, @paulostergaard	Investor Relations: Shane Murphy , FTI Consulting Office: +61 8 9485 8888 email: shane.murphy@fticonsulting.com Mobile: +61 420 945 291 Twitter: @ShaneWMurphy
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About Norwood Systems

Norwood Systems Ltd (ASX: NOR) is revolutionizing mobile voice, messaging, data and cyber security services through its pioneering award-winning virtual mobile services platforms and associated Apps.

The Company's breakthrough offerings deliver Over the Top (OTT) connectivity, knowledge and intelligence services. Norwood's products and services are targeted at a broad spectrum of prospective customers from individuals through to large enterprises and government agencies.

Norwood has delivered services to more than 7 million customers since launching its platform in mid-2014, servicing people in 200+ countries & territories and 5000+ cities worldwide and has achieved a 4+ App Store rating on all published Apps.

Appendix 4C

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

Name of entity

NORWOOD SYSTEMS LIMITED

ABN

15 062 959 540

Quarter ended ("current quarter")

 30th June 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	294	1,064
1.2 Payments for		
(a) research and development	(224)	(875)
(b) product manufacturing and operating costs	(20)	(315)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(170)	(622)
(f) administration and corporate costs	(166)	(653)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	22	970
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(264)	(431)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
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)	-	220
3.2	Proceeds from issue of convertible debt securities	200	200
3.3	Proceeds from exercise of options	-	135
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	101	296
3.6	Repayment of borrowings	-	(547)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	301	304

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	15	179
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(264)	(431)
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 (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	301	304
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	52	52

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	22	(15)
5.2	Call deposits	30	30
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)	52	15

6. Payments to related parties of the entity and their associates

6.1 Aggregate amount of payments to related parties and their associates included in item 1

6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
58
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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

7. Financing facilities

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.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	197	197
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	197	197

7.5 **Unused financing facilities available at quarter end** -

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.

Key Facility Terms:

- **Counterparty:** Innovation Structured Finance Co LLC facilitated by Radium Capital
- **Amount:** 80% of the expected R&D tax offset resulting from each period's eligible R&D expenditures, with principal and interest repaid from the actual tax offsets at the end of the financial year.
- **Final Maturity Date:** 31 November 2021.
 - Norwood has the option to repay earlier without penalties.
- **Interest Rate:** 14% per annum, and default rate of 18% (from 1 October 2020 until the loan is repaid in full).
- **Security:** Secured against the R&D refund receivable from the ATO
- **Conditions:** R&D expenditure has to be reviewed by R&D Tax Consultants
- **Purpose of Loan as per agreement:** Wholly or predominantly for working capital or research and development expenditures.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(264)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	52
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	52
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	(0.20)

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

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?

Answer: Yes

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?

Answer: Yes, the Company has taken and is taking steps to raise further cash to fund its operations. The Company intends to undertake further capital raisings as required to fund its operations. The Company believes it will be able to raise further equity or debt, if and as required, as exhibited by the successful completion of placements for \$100,000 completed in January 2021 and \$120,000 in February 2021 and \$200,000 convertible note in May 2021. The Company also retains the ability to utilise an R&D loan facility during the 30 June 2022 financial year, which is accessible subsequent to the end of each quarterly period through Radium Capital, subject to certain criteria being met. As at the end of the June quarter the Company anticipates utilising \$90,000 (approximately) for the June quarter, which would be received in the September quarter. The Company also anticipates qualifying for ongoing government Covid-19 allowances in respect of some of its staff, at a rate to be determined, and is also negotiating ongoing cost reductions including in respect of its lease and other operational items.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes, the Company expects to be able to continue its operations and to meet its business objectives based on its responses to items 1 and 2 above.

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: 30 July 2021

Authorised by: By the Board
(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.