

ASX ANNOUNCEMENT

31 January 2022

Norwood Corporate Overview and App 4C for December 2021 Quarter

Highlights

- Released World Voicemail Version 4.0, featuring greatly improved advanced voice transcription
- Targeting an beta release of the forthcoming Aïda Intelligent Assistant service in the coming quarter
- Improved net operational cashflow for the December 2021 quarter to negative \$89,000, compared to negative \$170,000 in the prior quarter, an improvement of 48%
- Receipts from customers for the December 2021 quarter totalled \$212,000, a decrease from the record September quarter result, but an 8% increase on the prior corresponding quarter, yryr
- Received an Australian Tax Office Research and Development government grant totalling \$390,000 during the quarter
- Substantial progress on marketing initiatives to telcos and partners targeting the Aïda service
- Completed oversubscribed \$323,000 Share Placement and \$100,000 Convertible Notes issue

‘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 December 2021 quarter and the accompanying Appendix 4C cashflow report.

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

“We were really pleased to see the successful launch of Version 4.0 of Norwood’s flagship World Voicemail service platform during the quarter. World Voicemail Version 4.0 delivers greatly improved advanced voice transcription, moving the platform’s transcription quality from ‘good’ to ‘great’.

“The updated service has transformed the transcription quality and I’d encourage everyone to try the service. This key enhancement to our World Voicemail service positions Norwood extremely well over the short-to-medium-term to capture major opportunities coming from key telco prospects.

“We anticipate issuing a beta release of Aïda in the coming quarter. We have made great progress in getting Aïda’s logic frameworks and modules staged in a scalable cloud-native environment and will soon commence internal testing on live phone network terminations.

“We are seeing significant early interest in the Aïda service from telco operators, including at the most senior decision maker levels. During the past quarter we conducted a significant outreach to more than two dozen senior telco and partner decisionmakers around the world, to make such decisionmakers aware of Aïda’s potential value to their customer bases and clients.

“It has been gratifying to see that a number of these operator and partner outreaches are now progressing to advanced discussions, with some now focusing (for example) on potential co-development projects for Aïda.

“Based on the current feedback received, we could not be more optimistic for the success of Aïda. With significant new voicemail opportunities also on the horizon, and our longstanding working relationship with our main existing telco voicemail customer progressing positively, there is much to look forward to over the coming months.”

Product and Service Development Activities

Norwood releases World Voicemail Version 4.0

On 22 December 2021 Norwood announced the launch of World Voicemail Version 4.0 for telcos and consumers, with the Version 4.0 release adding support for a new, significantly improved, AI-powered speech-to-text transcription engine.

Key features of the new release include improved sentence-level transcriptions, highly accurate transcription of people's names (proper nouns), better detection of voicemail sentence structure, reduced sensitivity to callers' accents, and new support for safe content moderation for potentially sensitive transcriptions.

Norwood's World Voicemail telco-scale platform architecture features "continuously available" service delivery technologies, using cutting-edge server and distributed database technologies to scale to more than 100 million subscribers per telco operator.

These improvements dramatically enhance the contextual value of transcriptions compared to those based on older transcription technologies, whilst also greatly improving the recognition of people's names in message transcriptions and delivering further new capabilities, such as content safety filters.

The net result is an extremely high-quality and consistent voicemail transcription experience, making it easier than ever for end-users of Norwood's voicemail services to understand the accurate context of voicemails that have been left for them.

This launch represents further significant progress for Norwood's vision to bring new innovations and value to the inbound call completion segment of the telco market, particularly noting that Norwood's best-in-class voicemail service will also perfectly complement Norwood's forthcoming Aïda Intelligent Assistant service.

The launch of Norwood's World Voicemail Version 4.0 platform and associated core technologies enable Norwood to deliver significant additional competitive utility and differentiation in the worldwide \$1 billion (Norwood estimated) telco voicemail market.

AïDA – Norwood's forthcoming Intelligent Assistant service

Aïda is targeted at communication service providers ("telcos"), particularly those who are interested in modernising their general inbound voice call completion network services, to serve as a 5G Voice Innovation Service for the telcos' small and midsize business (SMB) or prosumer subscribers.

Aïda's portfolio of capabilities is ideally suited to supporting end-users who work in small businesses or are sole traders and who generally would struggle to fund a human personal assistant. It has a "dynamic transactional memory" that aids the service considerably in building robust and engaging dialogue flows.

Norwood has, through its own development efforts, developed a proprietary approach to detecting end-user intents with great reliability, which the Company is calling "Elastic Attention™". This powers Aïda's ability to maintain total fluidity in a conversation, whilst also having a precise focus on what the caller wants to achieve.

In the September quarter the Company started to pitch Aïda to both prospective network operators and vendor partners. Norwood has so far received a universally positive response, with preliminary commercial interest already apparent.

During the quarter, the Company progressed several discussions to advanced stages with operators and telco vendor partners around the world. Norwood expects to launch a beta version of Aïda in the coming quarter.

Sales and Commercialisation Activities

Telco and Partner Aïda Outreach

As referenced in the most recently released AGM presentation, during the past quarter Norwood has been ramping its outbound business development telco engagement for Aïda and has successfully gained attention and interest in the Aïda proposition from senior telco decisionmakers in Australia, North America and Europe.

An appreciable fraction of these initial engagements is now developing into detailed discussions with project and product teams in several telcos. Based on the qualitative feedback received, the Company is highly optimistic about Aïda's future commercial prospects.

Pending Telco Voicemail Tenders

The Company is aware of at least two significant voicemail tenders that are due to be issued by telcos in the near term. The Company views that the latest update to the World Voicemail platform puts the Company in a highly competitive position vis a vis other potential bidders for these potential contracts. Norwood is engaging vigorously with several partners who could provide the scale and the "arms and legs" to deliver the needed migration and implementation services complementing the World Voicemail service.

Spark NZ Contract

As referenced in the June quarterly announcement on 30 July 2021 and announced during the September quarter on 16 July 2021, long-term customer Spark NZ supplied Norwood 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 on 30 January 2020 ("Agreement").

Throughout the December quarter Norwood continued to successfully progress its Agreement with Spark NZ, which encompasses the Company providing Spark NZ with a Spark-branded version of Norwood's World Voicemail service and application, for use by Spark NZ subscribers.

Share Placement and Convertible Note Raise

On 12 October 2021, Norwood announced it received firm commitments to raise \$0.3 million via a Share Placement of 17,647,058 ordinary shares and \$0.1 million via a Convertible Notes issue.

The Share Placement was conducted at \$0.017 per share to sophisticated investors, a 4.3% premium to the Company's 15-day VWAP prior to the capital raise.

Alto Capital Pty Ltd ("Alto") was Lead Manager to the Placement. As announced on 21 October 2021, Alto closed the placement oversubscribed by \$23,000, to raise \$323,000.

The Company also executed a binding terms sheet and issued 4,166,667 Convertible Notes with a face value of \$0.024 each to Paul Ostergaard, Managing Director of the Company, to raise \$100,000.

The funds raised will be utilised to target new telco contracts in the coming couple of quarters, as well as further enhancing the Company's flagship World Voicemail product, including the forthcoming revolutionary Intelligent Assistant service. Norwood has been strongly focused on the development of this service over the past year.

Norwood today received relevant shareholder approval at the Annual General Meeting to enable the conversion of convertible notes to shares.

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 \$107,000 in comparison to the previous quarter expenditure.

Total direct business expenditure was \$691,000 for the September 2021 quarter (vs \$584,000 last quarter), consisting of research and development expenses of \$232,000 (vs \$166,000), operating costs of \$89,000 (vs \$78,000), staff costs of \$157,000 (vs \$129,000), and administration and corporate costs of \$213,000 (vs \$211,000).

Net cash used in the operating activities decreased to \$89,000, which was primarily due to the receipt of an Australian Tax Office Research and Development government grant totalling \$390,000 during the quarter.

Payments

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

<ENDS>

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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 6 million customers since launching its platform in mid-2014, servicing people in 200+ countries & territories and 5000+ cities worldwide.

Norwood Systems listed on the ASX in June 2015 and trades with the stock ticker NOR.

Appendix 4C

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

Name of entity

NORWOOD SYSTEMS LIMITED (ASX: NOR)

ABN

15 062 959 540

Quarter ended (Current quarter)

31 December 2021

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (6 Months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	212	626
1.2 Payments for:		
(a) research and development	(232)	(398)
(b) product manufacturing and operating costs	(89)	(167)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(157)	(286)
(f) administration and corporate costs	(213)	(424)
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) / refunded	-	-
1.7 Government grants and tax incentives	390	390
1.8 Other: (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(89)	(259)
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	-	-
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	-	-

Consolidated statement of cash flows	Current Quarter \$A'000	Year to date (6 Months) \$A'000
3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	323	323
3.2 Proceeds from issue of convertible debt securities	-	150
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5 Proceeds from borrowings	87	87
3.6 Repayment of borrowings	(306)	(306)
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	104	254
4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	32	52
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(89)	(259)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4 Net cash from / (used in) financing activities (item 3.10 above)	104	254
4.5 Effect of movement in exchange rates on cash held	-	-
4.6 Cash and cash equivalents at end of period	47	47
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	17	2
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)	47	32
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	61	
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-	
Note: if any amounts are shown in items 6.1 and 6.2 your quarterly activity report must include a description of, and an explanation for, such payments		

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
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.		
7.1 Loan facilities	138	138
7.2 Credit standby arrangements	-	-
7.3 Other (please specify):	-	-
7.4 Total financing facilities	138	138

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: 30th November 2022
 - Norwood has the option to repay earlier without penalties.
- Interest Rate: 14% per annum, and default rate of 18% (from 1 October 2022 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)	(89)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	47
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	47
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	0.5

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.

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 its most recent placement for \$323,000 and an additional convertible note of \$100,000 from Paul Ostergaard, Managing Director in October 2021. The Company also retains the ability to utilise an R&D loan facility, 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 December quarter the Company anticipates utilising \$120,000 (approximately) for the March quarter, which would be received in February 2022.

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.

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.

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: Monday, 31 January 2022

Authorised by: Paul Ostergaard – Managing Director
(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 – e.g. 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.