

ASX ANNOUNCEMENT

27 October 2022

Norwood Corporate Overview and App 4C for September 2022 Quarter

Highlights

- Cash receipts from customers for the September 2022 quarter totalled \$536,000, **the highest quarterly result in the Company's history**, and representing a **year-on-year quarterly cash receipts increase of 29%** compared to the September 2021 quarter.
- Secured a contract variation with Spark NZ post-quarter, encompassing an agreement on future pricing:
 - Pricing for the Spark Voicemail service has now been agreed to the end of CY2025 and maintenance charges have also been agreed to the end of FY2026
 - Norwood supplied with new Purchase Orders totalling approximately NZD\$682,000 for the FY 2023 period (compared to approximately NZD\$639,000 for FY2022).
- Quarterly net operational cashflow improved to a \$276,000 net outflow for the September 2022 quarter, reflecting a reduction of 54% compared to the prior quarter.
- Completed both Infosys contracts during the quarter and post quarter under the advanced global technology and services supply relationship with Infosys.
- Proactively extended the maturity date of 480,000 convertible notes from 31 August 2022 to 31 October 2022 for the Company to obtain all approvals relevant to the ASX Listing Rules. Shareholder approval was received on 26 October 2022.
- Post-quarter completed an unmarketable parcel sale facility.
- Concluded the Infosys Proof of Concept project with an Australian Tier 1 Operator achieving a positive outcome. Discussions are now ongoing with the parties for the next phase of that project.
- Further focused the Company's two-and-a-half-year development effort on the Aïda Intelligent assistant service, re-branding Norwood's underlying AI platform as "**CogVoice™**", while working to finalise a number of highly novel CogVoice-powered applications, including an intelligent assistant service, as originally anticipated by Aïda.
- Towards the end of the quarter, conducted the first in-person international face-to-face outreach marketing programme in three years for the Company, engaging with a significant percentage of the North American Operator market to drive interest in the CogVoice platform and the associated CogVoice applications.

'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 September 2022 quarter and the accompanying Appendix 4C cashflow report.

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

"New income arising from Norwood's multi-year investment in advanced AI-powered voice solutions has contributed to the Company's September 2022 quarter receipts from customers surpassing the \$500,000 milestone for the first time in the Company's history, with a year-on-year quarterly cash receipts growth rate of 29%.

“This is a tremendous result for the entire Norwood team, who have been working with considerable intensity to see the Company’s cognitive AI platform developments come to economic fruition.

“During the quarter and post-quarter, we continued our efforts to expand further on this positive growth trajectory moving forward, whilst also significantly improving our cashflow.

“Norwood signed a contract variation with longstanding customer Spark NZ, on enhanced financial terms, which will take our continuously strengthening partnership with Spark NZ well beyond seven years.

“After successfully completing one project under the advanced global technology and services supply relationship with Infosys during the quarter, we recently concluded the advanced AI proof of concept project with Infosys for an Australian Tier 1 Operator, achieving a successful result and conclusion to this project following extensive testing. Discussions are now ongoing with those parties to agree next steps for further related projects.

“Underpinned by a successful round of capital raising in the June 2022 quarter, we have made considerable progress in recruiting valuable new engineering team members, bolstering our entry-level and senior-level machine learning personnel to take our CogVoice platform and its applications to the next level.

“CogVoice, as the new face of our advanced cognitive AI efforts, previously referenced using the Aïda name, is a tremendously important initiative for the Company.

“During our recent face-to-face and video conference outreaches to Operators in the North American, European and APAC regions, it has become clear that the novel capabilities enabled by CogVoice hold great potential for Operators to realise more value from their voice network assets. The level of follow-on Operator interest in the CogVoice platform that we are seeing is indeed encouraging.”

Sales and Commercialisation Activities

Spark NZ Contract

Following continued positive progression of Norwood’s pre-existing contract with long-term customer Spark NZ during the quarter, post-quarter on 14 October 2022 Norwood announced to the ASX that it had signed a variation to its voicemail service agreement with Spark NZ, which was initially announced to the ASX on 7 December 2018.

The scope of works under the updated Agreement covers Norwood’s premium Spark Visual Voicemail service offering, the pricing terms of which have now been agreed for a further three years.

In particular, the updated Agreement locks in the fee structure for the voicemail service for the three-year period from 1 January 2023 to 31 December 2025 and for maintenance charges for the three-year period from 1 July 2023 to 30 June 2026. The maintenance charges have been adjusted to reflect New Zealand CPI increases, helping to mitigate Norwood’s exposure to the emerging inflationary pressures in the current economic environment.

The Agreement variation is a robust step in the continuing positive evolution of Norwood’s longstanding relationship with Spark NZ.

As disclosed in the Company’s 30 June 2022 annual report (see ASX announcement dated 28 September 2022), since the 2022 financial year-end, Spark NZ has supplied the Company with new Purchase Orders totalling approximately NZD\$682,000 for expected end user subscription services and maintenance services to be purchased by Spark from Norwood in the FY2023 period (compared to approximately NZD\$639,000 for services provided across FY2022).

By way of historical commentary, Norwood has worked with Spark NZ since 2018 to provide them with a Spark-branded version of Norwood's World Voicemail service and smartphone application, for use by Spark NZ subscribers, available on the New Zealand App Stores.

Spark NZ commenced promoting this branded version – Spark Voicemail – to its subscribers in March 2020 (refer to ASX announcement dated 4 March 2020), and a multi-site, geo-redundant on-premises visual voicemail solution in conjunction with other subcontractors was delivered in October 2020.

The service was then integrated into Spark NZ's virtualised network and compute infrastructure (refer to ASX announcement dated 16 October 2020).

Global Technology Relationship with Infosys

In the March 2022 quarter, Norwood announced that it formed a new global technology and services supply relationship with Infosys Limited (Infosys), a global leader in next-generation digital services and consulting.

Norwood subsequently entered into its first contract with Infosys for the Company to supply a communications solution to a Germany-based client of Infosys. Under the scope of the initial 12-month contract, Norwood expects to receive approximately \$170,000 in annual revenue for this contract.

Additionally, as Norwood is producing a subscription-based solution under this project, Norwood has the potential to generate ongoing recurring revenue in the long-term stemming from this agreement, should additional contract extensions be agreed.

The bespoke global communications solution that Norwood is delivering under this first contract leverages the Company's elastically-scalable, high-availability, cloud-native platform architecture that it has developed for deploying its core communications service platforms, CogVoice and World Voicemail.

During the September 2022 quarter, Norwood progressed the first project as scheduled, with continued excellent feedback from the client.

Norwood secured a second contract with Infosys in the March 2022 quarter, which encompassed the delivery of an advanced Proof of Concept (POC) communications solution, based on CogVoice technologies, for a major Tier 1 Operator in Australia and an Infosys client.

This communications solution showcases Norwood's cutting-edge CogVoice artificial intelligence capabilities for advanced Operator voice applications.

Norwood successfully completed this highly focused Proof of Concept contract during the September 2022 quarter and banked approximately \$130,000 in revenue, as a progress payment for this project, in line with Norwood's estimate.

Extension to Convertible Notes Maturity Date

On 30 August 2022, Norwood advised the market that it had executed a deed of variation to a convertible note binding term sheet of 480,000 convertible notes with a face value of \$1 each to Balmain Resources Pty Ltd, a company controlled by Non-executive Director Dr John Tarrant.

The initial convertible note was executed and announced to ASX on 28 March 2022, with a further announcement on 23 June 2022 for the additional \$200,000 of convertible notes.

Under the deed of variation, Balmain Resources Pty Ltd has agreed to extend the Maturity Date from 31 August to 31 October 2022 to allow sufficient time for the Company to obtain all approvals required pursuant to the ASX Listing Rules (including ASX Listing Rule 7.1), the Corporations Act and any other applicable law.

Shareholder approval was received to convert the convertible notes at a General Meeting held on 26 October 2022.

Completion of Unmarketable Parcel Sale Facility

Post-quarter, on 21 October 2022, Norwood announced that it had completed an unmarketable parcel sale facility (Facility) for shareholders who held less than \$500 worth of fully paid ordinary shares in the Company (Unmarketable Parcels), which was announced to ASX on 29 August 2022.

As at the facility closing date of 14 October 2022 (Closing Date), unmarketable parcels of shares in the Company totalled 7,312,257 ordinary shares of the Company, held by 1,731 shareholders (Sale Shares).

The Company has completed the facility through ACNS Capital Markets Pty Ltd T/A Alto Capital (Alto), pursuant to which Alto facilitated the sale of the Sale Shares under the Facility at a price of \$0.017016 per share, for a total consideration of \$124,425.

The share registry is now in the process of mailing out Sale Share proceeds to the 1,731 former shareholders who participated in the facility with the sale proceeds expected to be received by those former shareholders no later than 4 November 2022.


Product and Service Development Activities

Meet CogVoice, the platform to power cognitive voice applications for Operators

Norwood's previous Aïda product has been re-architected and segmented into two technology and service offerings:

- The CogVoice Platform, which provides a service creation environment for advanced cognitive applications, and
- CogVoice Applications, which include the original Aïda virtual assistant application.

Parallel to the successful implementation of the beta-stage CogVoice technology Proof of Concept for one of the Infosys contracts during the quarter, Norwood has commenced development efforts on further CogVoice applications, beyond the original anticipated Aïda offering, with the goal to build a CogVoice application portfolio that spans the Consumer, SMB and Enterprise segments typically serviced by Operators.



The graphic features the CogVoice logo on the left, which consists of a colorful, wavy soundwave icon followed by the text 'CogVoice' in a white, sans-serif font. To the right of the logo is a list of three key benefits, each with a yellow number and a bolded title, followed by a descriptive sentence. The background is dark blue with faint, overlapping speech bubble shapes. At the bottom right, the 'norwood' logo is displayed in white lowercase letters.

- 1. A revolutionary new AI voice platform**
Enabling Operators to deliver differentiated **cognitive voice engagement applications**
- 2. Breakthrough voice dialog performance**
Near-flawless natural language fluidity and intent detection when engaging with callers
- 3. Designed for mass adoption and scale**
Low-cost, hyper-scale & 4G /5G compatible, supporting high-volume operator use cases

norwood

CogVoice's low-cost positioning enables a ranges of novel mass-market cognitive voice offerings

The CogVoice Platform and the CogVoice Applications are targeted at communication service providers (“Operators”), particularly those Operators who are interested in re-monetising their voice network services. CogVoice Applications can drive value for such Operators across their full range of Consumer, SMB or Enterprise subscriber segments.

Recent and ongoing feedback to Norwood on the CogVoice platform and its applications from selected Operators around the world has been positive, resulting in several encouraging ongoing discussions with such Operators.

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 \$305,000 in comparison to the previous quarter expenditure.

Total direct business expenditure was \$817,000 for the September 2022 quarter (vs \$835,000 last quarter), consisting of research and development expenses of \$260,000 (vs \$290,000), operating costs of \$102,000 (vs \$36,000), staff costs of \$156,000 (vs \$282,000), and administration and corporate costs of \$299,000 (vs \$227,000).

Net cash used in the operating activities decreased to \$276,000, primarily due to additional cash receipts banked during the September 2022 quarter flowing from contracts secured during the March and June 2022 quarters.

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 and messaging through its ground-breaking cognitive AI services, delivered by its award-winning hyper-scale mobile service platforms and associated applications.

The Company’s breakthrough offerings encompass an array of cognitive connectivity services, targeted at a broad spectrum of prospective customers from individual consumers through to Communication Service Providers.

Norwood has delivered services to more than 6 million end user customers since launching its platform in mid-2014, having serviced 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)

30 September 2022

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	536	536
1.2 Payments for:		
(a) research and development	(260)	(260)
(b) product manufacturing and operating costs	(102)	(102)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(156)	(156)
(f) administration and corporate costs	(299)	(299)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	5	5
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes (paid) / refunded	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other: (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(276)	(276)
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 (3 Months) \$A'000
3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	-	-
3.5 Proceeds from borrowings	58	58
3.6 Repayment of borrowings	-	-
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	58	58
4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	497	497
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(276)	(276)
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)	58	58
4.5 Effect of movement in exchange rates on cash held	-	-
4.6 Cash and cash equivalents at end of period	279	279

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	249	467
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)	279	497

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	35
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

Director salary

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.

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other (please specify):

7.4 **Total financing facilities**

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	107	107
7.2	-	-
7.3	-	-
7.4	107	107

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 for FY April – June 2022 period.
- 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 June 2022.
- Final Maturity Date: 30 November 2022 and expected to be paid in October 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 in October 2022.
- 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

8.1 **Net cash from / (used in) operating activities** (Item 1.9)

8.2 Cash and cash equivalents at quarter end (Item 4.6)

8.3 Unused finance facilities available at quarter end (Item 7.5)

8.4 Total available funding (Item 8.2 + Item 8.3)

8.5 **Estimated quarters of funding available** (Item 8.4 divided by Item 8.1)

	\$A'000
8.1	(276)
8.2	279
8.3	-
8.4	279
8.5	1.0

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 steps to raise further cash to fund its operations. The company has sufficient cash flows forecast from customers to fund its operations. A further approx.\$110,000.00 is forecast to be received from the R&D loan facility in November 2022 for the period of July to September R&D work, which is accessible subsequent to the end of each quarterly period through Radium Capital, subject to certain criteria being met.

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: 27 October 2022

Authorised 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 – 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.