

Norwood First Half Financial Report for FY17

Highlights

- Positive gross underlying margin recorded on product and services sales for the period.
- Strong focus on sales activities, leading to sales pipeline growth with several ongoing pilot programs.
- Launch of **World Phone®** 2.0 with complete iOS 10 integration.
- First major enterprise contracts signed with **Cytec Industries Limited** and **Oceaneering International Inc.**
- Continued development and refinement of **World Phone®**, **World WiFi**, **World Message**, and the **Corona® Platform**.
- Distribution agreement negotiated and signed subsequent to the period with leading loyalty program provider, **Affinion International**, creating a high margin distribution channel for the World Apps.
- Strong sales outlook in the Enterprise and Loyalty market for remainder of year, with active negotiations and pilot programs taking place.
- Significantly narrowed net loss of \$2,938,878 down from \$9,966,384 over the same period the corresponding year.

'Sharing Economy' telecommunications pioneer Norwood Systems Ltd (Norwood or the Company) (ASX: NOR) is pleased to provide its interim financial report for the six months ended 31 December 2016.

The Company is pleased to report it recorded a positive gross underlying margin on product and services sales for the period. This has given Norwood significant confidence that increasing sales over time will ultimately lead to positive margins as sales overtake fixed costs.

Both the Company's sales activities and sales pipeline were boosted in the period, which has led to the progression of several pilot programs in the Enterprise market. The Company is also currently in the negotiation and proposal stages with several Loyalty partners. Targeted brands include major card processors and issuers, and firms in the financial services, retail, travel, and ecommerce sectors. As a result, the Company sees a strong sales performance for the remainder of the year.

The Company also created an additional revenue stream, with the signing of two major enterprise contracts with international customers, Cytec Industries Limited and Oceaneering International Inc. The Company expects steady revenue growth from this enterprise offering in the following reporting period.

The first half of the year saw a lot of major development and refinement work carried out on the Company's various Apps. After the launch of World Phone in 2015, the Company released World Phone® 2.0 with complete integration with iOS 10 in the period, which has been of particular significance to our customer base.

Subsequent to the period, Norwood agreed and signed a distribution deal with loyalty and engagement programs company, Affinion International, which will see Norwood's World Apps (World Phone, World Wi-Fi and World Message) integrated into leading loyalty programs worldwide, under a high margin Software as a Service (SaaS) revenue model.

Norwood Managing Director, Paul Ostergaard, said: "We are particularly pleased to have increased our sales and sales pipeline over this time to a point where we can be confident of a strong outlook for the rest of the year."

"The international enterprise contracts, and the recent agreement with loyalty program provider, Affinion International, reflect increased interest in our suite of Mobile Apps and technology, which aims bring a lower cost, simplified but innovative corporate communication systems to customers around the world."

Financial results for the period included a significantly narrowed net loss of \$2,938,878 down from \$9,966,384 over the same period the corresponding year. The loss reflects the ongoing investment in developing the Company's suite of product offerings.

Norwood's cash position at the end of the period was \$2,141,687. Norwood's Directors remain confident in the Company's ability to fund further growth.

<ENDS>

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CEO and Co-Founder

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Background

Norwood Systems provides voice, messaging and data services to consumers, enterprises, and carriers globally, leveraging its federated telecommunications service network and partnerships. Our mission is to deliver disruptive end-user communications apps that streamline and simplify how users around the world can access affordable, high-quality telecommunications services – anywhere, anytime.

Currently, customers in over 5000 cities and 200 countries are using Norwood's services today with the World Phone® App. The World Message App, gives users seamless and cost effective international SMS and instant messaging functionality. The World WiFi App, giving users seamless access to more than 36 million Wi-Fi Access points around the world. World Message and World WiFi are under development and near release.

Norwood Systems has built up a significant pipeline of prospects, including global players in the areas of aviation, professional services, banking, telecommunications, engineering and legal services. These prospects are motivated by various benefits of our Enterprise solution Corona®, and augmenting their loyalty offerings with distributed or white labelled World Apps.

About Norwood Systems

Norwood Systems Ltd (ASX: **NOR**) is revolutionising the 'Shared Economy' delivery of high-quality telecommunications services for individual business travellers and entire organisations globally. The Company listed on the ASX on 16 June 2015.

Norwood Systems was founded in 2011 to develop and supply the best possible global voice, data and messaging solutions using Over-The-Top (OTT) technologies. The Company's current breakthrough offerings include Enterprise communications platforms, **Corona® Cloud**, and **Corona® GTS**, that works seamlessly and effortlessly with the advanced **World Phone®** and **World Message** Apps.

The **Corona® Platform** is an award-winning, enterprise-class service that integrates compatible mobile devices securely and seamlessly with the organisation's existing Unified Communication or PBX networks, independent of their location. This provides the incredible benefits of true BYOD, identity management, and regulatory compliance management.

World Phone® is an award-winning, revolutionary communications App, delivering 'Shared economy' consumer access to leading fixed-line network service providers around the world, providing unparalleled local access to high-quality voice networks in more than 90 countries. The App is available for Android and iOS.



World Phone

Appendix 4D

ABN 15 062 959 540
Given in accordance with ASX Listing Rule 4.2A

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connect globally, locally™

For the half-year ended 31 December 2016 Results for Announcement to Market

SUMMARY RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2016

The financial report has been reviewed by the Company's auditors. As part of its review, an emphasis of matter paragraph regarding material uncertainty relating to going concern is included in the Independent Auditor's Review Report on page 45 of the financial report.

The following is a summary of the financial results for the period ended 31 December 2016 (previous corresponding period 31 December 2015). Unless otherwise stated all figures are provided in AUD.

Comparison to previous period

	Increase/ (Decrease)	Six months ended 31 Dec 2016 \$	Six months ended 31 Dec 2015 \$
Revenue from continuing operations	(61%)	119,472	308,290
Loss from ordinary activities after tax attributable to members	(71%)	2,938,878	9,966,384
Net loss for the half year attributable to members	(71%)	2,938,878	9,966,384

Brief explanation of above figures

Refer to the Review of Operations on page 7 of the attached Interim Financial Report for the period ended 31 December 2016.

Dividends

There were no dividends declared or paid during the period and the directors do not recommend that any dividend be paid.

Earnings result

The net loss of Norwood Systems Ltd for the half-year ended 31 December 2016 after providing for income tax was \$2,938,878 (31 December 2015: \$9,966,384).

Earnings Per Share (EPS)

	31 Dec 2016	31 Dec 2015
Basic loss per share (cents per share)	(0.30)	(1.26)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	968,965,390	788,791,292

The amount used as the numerator in calculating basic EPS is the same as the net profit/(loss) reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Net Tangible Asset (NTA) Backing Per Share

	31 Dec 2016	31 Dec 2015
Net tangible asset backing per share (cents per share)	0.17	0.64



Mr Paul Ostergaard
CEO and Co-Founder
27 February 2017

Half Yearly Report

For the half year ended 31 December 2016

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Norwood Systems Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

ABN 15 062 959 540

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This interim financial report covers Norwood Systems Limited ("Norwood" or the "Company"), consisting of the Company and its subsidiaries ("the Group").

Norwood Systems Limited is a company limited by shares, incorporated and domiciled in Australia. The financial report is presented in Australian dollars.

The Company has the power to amend and reissue the financial report.

Corporate Information

Directors:

Mr Paul Ostergaard
CEO and Co-Founder

Mr Michael Edwards
Non-Executive Director

Mr Amit Pau
Non-Executive Chairman

Mr Giles Everist
Non-Executive Director

Company Secretary:

Mr Steven Wood

Auditors:

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NOR

Directors' Report

Directors' Report

For the six months ended 31 December 2016

The Directors of Norwood Systems Limited present the following report for the half-year ended 31 December 2016.

Principal Activities

The principal activities during the period include:

- Strong focus on sales activities, leading to sales pipeline growth with several ongoing pilot programs;
- The signing of Norwood Systems' first Enterprise deals with Cytec Industries Limited and Oceaneering International Inc;
- Launch of **World Phone**® 2.0 with complete iOS 10 integration;
- Continued development of **World Phone**®, **World WiFi**, **World Message**, and the **Corona**® Platform.

Review of Operations

The first half of the year has led to the signing of Norwood Systems' first major enterprise contracts with international enterprises, **Cytec Industries Limited** and **Oceaneering International Inc**. These contracts initiate our highly encouraging outlook of contract value growth and the potential to sign several more contracts with high-profile clients during the remainder of the year.

Efforts of the sales team to significantly grow the sales pipeline, leading to several pilot programs in progress, has given the Company confidence in a strong finish on the sales front for the remainder of the financial year.

As a result of working closely with our existing customers and prospects, Norwood Systems has also spent considerable development effort on Corona® and our suite of World Apps. These impressed parties have voiced recommendations that led to the already announced **Salesforce integration**, and other World App developments to satisfy their needs.

Subsequent to the reporting period, Norwood Systems also announced a distribution deal with **Affinion International** to provision the World Apps to their clients. This contract comes with strong expectations of growth to more than a dozen Affinion International clients, and the growth of a major revenue channel for the company. Norwood Systems and Affinion have jointly forecast up to a \$3million dollar annual revenue stream from this distribution deal, based upon agreed commercial terms, modelled deployment, and uptake of services within Affinion's client base.

The Corona® Platform

Norwood Systems is highly impressed and encouraged by the fast progress being made by the sales team significantly growing our sales pipeline and signing initial enterprise deals in the half year.

Corona® Cloud and Corona® GTS has received outstanding feedback from existing and prospective clients. During the half year, Norwood Systems progressed on multiple pilot programs with prospective clients and signed contracts with US-based multinational firms, Cytec Industries Limited and Oceaneering International Inc. Initial combined annual revenues in the order of \$100,000 is expected from these signed contracts and are attached with strong potential to expand to the international operations of both firms.

Both clients are highly attracted to the flexibility and consolidated communications management of our Bring-your-own-device (BYOD) framework, along with the cost effectiveness of leveraging our Corona® Network for international communications. The relationships built over the half year have significantly contributed to the proposition of our products, helping Norwood Systems improve and tailor an already powerful platform for our clients. Notable development activities include increased focus on improving Corona® mobile fleet management and reporting functionalities, along with efforts to reinforce our virtual business number feature as an enterprise-grade communications tool.

Another result of our customer's feedback is the development of a unique Customer Relationship Management (CRM) integration, starting with Salesforce. This allows organisations of any size to log all records of phone or SMS communications conducted through World Phone® and World Message into their Salesforce platform. This is believed to be a highly unique and accessible functionality in the market, adding to the appeal of Corona®. Finally, World Message SMS archival services has undergone significant development and is highly sought after by prospects in the Health and Finance sectors.

The Company sees the progress thus far as a glimpse into the future of our client portfolio and are highly motivated to serve the needs of our clients and meet our commercial objectives.

Looking forward to the remainder of the financial year, Norwood Systems seeks to progress our current pilot runners through the pipeline and sign more enterprise deals. As our CEO, Paul Ostergaard, outlined at Norwood's last Annual General Meeting, BYOD and Compliance remains a significant focus of our enterprise sales efforts, with a highly active and motivated sales pipeline. It may be important to note that given the complexity and nature of our commercial environment, creating mutually rewarding contracts can involve extended lead times but come with enormous long term benefit to all stakeholders.

Norwood Systems firmly believes in our vision of innovating and simplifying corporate communication systems with the purpose of minimising costs, maximising employee convenience, and centralising communication system administration.

The logo for Corona, featuring the word "corona" in a bold, blue, lowercase sans-serif font. A registered trademark symbol (®) is located at the top right of the letter 'a'.

The World Apps

The first half of the year has seen major development and refinement efforts spent on Norwood Systems' suite of mobile Apps. Most notable to our customers, is the release of World Phone® 2.0 and its deep integration with iOS 10. This gives users the seamless calling experience and reliability normally expected from native calling.

We have received spectacular feedback in response to the calling experience, cost effectiveness, and iOS 10 compliance for World Phone® 2.0. World Phone® has amassed more than 5.2 million downloads since launch in Mid 2015, with users having collectively spent nearly 22 years of talk time in 2016 alone.

Following the strategic direction of our product owners, existing B2B customers and high-profile prospects, the development team have also been highly focused on World WiFi and World Message App development. These products bring forward their own unique challenges that require the collaboration of every department. The result has been impressive and promising.

Although World Message's expected full release to the market will be in March/April 2017, it has been in the hands of our customers and prospects since Q4 2016. World WiFi is also expected to be released before the end of 2017, with loyalty customers showing keen interest to add the App to their offerings portfolio.

Overall, the entire World App Suite has been well received by several customers and international prospects with enterprise (BYOD and Compliance) and loyalty interests. These have led to formal negotiations, detailed discussions, and term sheet presentations, giving management fair expectations for an eventful remainder of the year.



World Phone



World Message



World WiFi

Events Subsequent to Reporting Period

White Label App

Subsequent to the half year reporting period, Norwood Systems signed a breakthrough distribution agreement with leading loyalty program provider, Affinion International. This opens a new high-margin distribution channel for Norwood's suite of World Apps, covering multiple countries, products and end-user segments. Affinion International has displayed great enthusiasm to work with Norwood Systems.

This partnership means that Norwood Systems will work closely with Affinion International to promote and place World Phone®, World Message and World WiFi into the loyalty solution client propositions. Targeted brands include major card processors and issuers, and firms in the financial services, retail, travel, and ecommerce sectors. Our distributed or white label Apps will act to enrich the brand experience of millions of end-users, creating a highly engaged customer/user experience.

The partnership has already initiated the process of formulating and deploying highly compelling client engagements to deliver these value-added experiences. Based on the detailed analysis of uptake scenarios, jointly done by both parties prior to the signing of this agreement, the parties have modelled up to a \$3million dollar annual revenue stream arising to Norwood under the agreed commercial terms over multiple years, based on conservative client uptake projections, subject to additional downstream agreements with Affinion's clients.

Norwood Systems expects first revenues be generated by the first quarter of FY18. The Norwood sales and executive team is highly optimistic about this agreement and are looking forward to signing similar distribution deals in 2017.

Results

The Company has made a positive gross underlying margin¹ on product and services sales for the half year ended 31 December 2016. This give the company significant confidence in the scalability of Norwood's operating model and that increasing sales over time would lead to overall positive margins, as positive margin on sales start to overtake fixed costs on R&D and other items. Following the launch of Corona® in July, the company has created an additional revenue stream with the signing of two international customers. The company expects steady revenue growth from this Enterprise offering in the following reporting period.

The net loss attributable to members of the Group for the half year ended 31 December 2016 amounted to \$2,938,878, representing the ongoing investment in developing the Company's suite of product offerings. This is in contrast to a net loss over the same period in 2015 that amounted to \$9,966,384.

As an elaboration of the net loss incurred at 31 December 2016:

- Non-cash, share based payment expenses of \$1,253,387, in contrast from \$4,366,813 YTD 2015. The expenses relate to equity instruments issued to employees, directors and advisors of the Company as described in Note 16;
- Sales and marketing expenses of \$653,883 in contrast to \$2,956,575 YTD 2015. These expenses relate to overall Company promotion as well as marketing of the Company's products and customer acquisition costs; and
- Patent, research and development expense of \$76,689 relates to World WiFi, World Message and Corona® development and enhancements. This does not include the salaries and wages of engineers involved in R&D. Lower cost were incurred as majority of the patents have been granted before this reporting period.

At 31 December 2016 Norwood holds \$2,141,687 in cash, and the Directors remain confident in Norwood's ability to fund further growth.

¹Gross underlying margin refers to ordinary revenue minus direct costs of sales. It is presented as a guide to future possible operating margins, as sales revenue potentially increases over time.

Dividends

There were no dividends paid or declared during the year

Significant Changes in State of Affairs

Apart from as set out above there has been no significant changes in the state of affairs of the Group that occurred during the financial year not otherwise disclosed in this report or the financial statements.

Likely Developments and Expected Results of Operation

Other than as disclosed elsewhere in this report, there are no likely developments in the operations of the Group that were not finalised at the date of this report.

Matters Subsequent to the End of the Period

No matters or circumstances has arisen since the end of the financial period which significantly affected or any significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Signed in accordance with a resolution of the Directors.



Mr Paul Ostergaard
CEO and Co-Founder
27 February 2017

Directors

Directors



Amit Pau - Chairman

Amit Pau has over 20 years of experience in the technology, media and telecommunications industries. Mr Pau has held previous corporate positions at Vodafone including as Managing Director for International Accounts and Business Markets in which role he was instrumental in creating strategic OEM partnerships with Dell, IBM, and HP.

Additionally, Mr Pau led the Divisional Units of AT&T and Global TeleSystems where he launched their e-commerce products which achieved significant scale.

Mr Pau has served on a number of listed and private board such as Vodafone Spain Radamec Plc and IOS Plc and has previously been involved in a number of IPO's and trade sales in a Director capacity.

Appointed Non-Executive Chairman 14 February 2017

Appointed Non-Executive Director 8 June 2015 - 13 February 2017



Paul Ostergaard - CEO and Co-Founder

The Founder of Norwood Systems and the man, who along with CTO, David Wilson, pioneered the development the company's current cloud services offering Corona®. Responsible for the company's overall strategic direction, planning and day-to-day running, he founded Norwood Systems in 2011 with the vision to create the world's best private cloud communications platform, servicing enterprise's growing need for mobile connectivity.

Paul has a 25-year track record of success and innovation in the high-technology sector, having worked in senior executive roles in startups and large corporations across the North American, European and Asia-Pacific regions. Prior to Norwood Systems, Paul founded several companies in the wireless communications sector including the original Norwood Systems Ltd, the award-winning technology pioneer in fixed mobile convergence platforms, founded in 1999.

Appointed 8 June 2015

Directors



Michael Edwards - Non-Executive Director

Michael Edwards is a Geologist and Economist with over 20 years' experience in Senior Management in both the private and public sector. He has a Bachelor of Business (Economics and Finance) from Curtin University of Technology and a Bachelor of Science (Geology) from The University of Western Australia. He spent three years with Barclays Australia in their Corporate Finance department and then 8 years as an Exploration and Mine Geologist with companies such as Gold Mines of Australia, Eagle Mining and International Mineral Resources.

Since 2010 Mr Edwards has been consulting to numerous companies conducting project evaluations and deal structuring across a wide range of commodities and countries.

Appointed Non-Executive Director 14 February 2017

Appointed Non-Executive Chairman 20 January 2015 - 13 February 2017



Giles Everist - Non-Executive Director

Giles Everist joined the Board of Norwood Systems as a Non-Executive Director in November 2015. Mr Everist has extensive corporate and financing experience having held executive finance roles at Coopers and Lybrand, Rio Tinto, Fluor Australia, and Monadelphous. Mr Everist has previously chaired ASX listed companies and brings outstanding corporate governance credentials and superb finance capabilities to the Board of Norwood.

Mr Everist is a Chartered Accountant and a member of the Institute of Chartered Accountants (England and Wales). He holds a Bachelor of Sciences (Honours) in Mechanical Engineering from the University of Edinburgh.

Appointed 18 November 2015

Corporate Governance



Steven Wood - Company Secretary

Steven Wood has specialised in corporate advisory, company secretarial and financial management services professionally since 2011. Steven is a Chartered Accountant, and has been involved in various private and seed capital raisings as well as successful ASX listings, whilst also providing company secretarial and financial management services to both ASX and unlisted public and private companies.

Mr Wood started his career in the Perth office of Pitcher Partners where he spent several years in their corporate re-structuring division.

Key Management Personnel



David Wilson - CTO, Co-Founder

With 20 years of technology and telecommunications experience, both in software development and management, David is an IT generalist. An insightful approach to problem-solving and a long history of creating innovative solutions to business needs. As Chief Technical Officer, David helps define Norwood Systems' product strategy and steer the engineering team to deliver the company's vision.

Previously at Ocean Broadband, he held the roles of Chief Information Officer and Chief Financial Officer to see it become one of Australia's largest fixed wireless providers. In 2007, he pioneered the first ever integration of Google Earth data with Salesforce.com APIs, an achievement that was featured in several national Australian news publications.

Previously, David was the Lead Developer of the award-winning InstantCoverage planning application at the original Norwood Systems, and prior to that worked as a software engineer with the TerraSystems Group building mine planning and fleet tracking systems.

David holds a BSc and an MBA from the University of Western Australia.



Nick Horton - General Manager Consumer & Vice President Marketing

Nick is directly responsible for the company's Consumer segment and the overall supervision of brand and marketing strategy.

Nick has built and led international marketing, sales, and product management teams for global brands in the Telco and Smartphone segments, including FT/Orange, O2/Telefonica, Telecom New Zealand and BlackBerry.

He has lived in worked in Australasia, Europe, the Middle East and South East Asia.

A New Zealander, Nick graduated with a Bachelor's degree in Commerce and Administration from the Victoria University of Wellington, and holds a major in Marketing.



Steven Tot - General Manager Enterprise & Vice President Sales

Steven is responsible for Norwood's Enterprise Go to Market strategy, partner channels and overall sales execution.

Steven has 25 years of international telecoms experience spanning Australia, the UK and Silicon Valley in various roles including product marketing, pre-sales solution consulting, sales & account management, Partner & Alliance management to a senior leadership level.

Steven is a former Head of Global Consulting and General Manager, ICT Channels at Telstra. He is passionate about disruptive technology that enables clients to improve their business advantage.

About Norwood Systems

About Norwood Systems

Norwood Systems provides voice, messaging and data services to consumers, enterprises, and carriers globally, leveraging its federated telecommunications service network and partnerships. Our mission is to deliver disruptive end-user communications apps that streamline and simplify how users around the world can access affordable, high-quality telecommunications services – anywhere, anytime.

Norwood has solutions that service Enterprise, Telco and Partner channels.

Solutions

Enterprise

Norwood Systems' Enterprise solutions are divided into three segments but served by one amazing platform - Corona® Cloud.

Fleet Management enables true BYOD to realise simple, powerful and effective telecommunication capabilities. Corona® Cloud, allows organisations to equip their entire fleet with Corona® Cloud administered World Apps. This adds a business-owned number to an existing employee device with complete calling and SMS capabilities, leading to greater convenience and cost savings for every level of user. Users also leverage our international telecommunications network to make up to 80% in international call savings.

Identity Management adds a business-owned phone number to employee devices to conveniently ensure employee privacy, and business continuity. Organisations can easily protect employees from the dangers of personal number exposure, which is of particular concern in high-risk and sensitive sectors such as nursing, and teaching. Corona® managed business numbers can also be reassigned to another user, ensuring business continuity of numbers and client reachability.

Compliance Management assists corporate communications where sharing sensitive information is prevalent. Government, Health and Finance sectors especially require the recording and archival of such information. Corona® facilitates corporate communications so compliance to industry regulations becomes seamless and easy.

Corona® Cloud also enables seamless and compliant metadata and deep data collection on selected or all communication events, fulfilling regulatory obligations, and providing rich insights.

Telco

Norwood Systems' Telco Solutions addresses all three categories of telecommunication provider. Major carriers, mobile virtual network operators (MVNOs), and Data-only providers.

Major carriers can benefit from a white label solution that maximises LTV from inbound roamers and minimise the cost from outbound roaming wholesale expenses.

A specially catered white label App solution for MVNO's can also help them lower the retail cost of their roaming and long-distance call packages to create more attractive packages to offer existing and potential customers.

Data-only providers, as their name implies, markets data-only plans to customers. These plans are especially attractive to the modern consumer that only require internet access for general browsing and online communications. The low cost of data-only plans is also a compelling proposition to many consumers, however they come with the handicap of no calling and SMS facilities. Norwood Systems can help address this fundamental drawback of data-only plans by providing consumers with a white-label App, giving them all the benefits of data-only plan, and the functionality of a traditional telecommunications plan.

Partner

Designed for the forward looking, customer driven Travel and Loyalty partner, Norwood Systems' Partner Solution provides an easy way to invigorate brand offerings with App based benefits.

Travel companies can provide value added, white label communication Apps to customers. This gives tremendous value and convenience to customers during their travels, while negating the need for maintaining SIM inventories and also provides actionable customer insights to the agency.

Loyalty and Affinity partners can also provide the similar benefits to members. Giving them a meaningful way to use their loyalty points, and gives the agency a convenient way to complete their portfolio.

DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF NORWOOD SYSTEMS LIMITED

As lead auditor for the review of Norwood Systems Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Norwood Systems Limited and the entities it controlled during the period.



Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth, 27 February 2017

Financial Report

For the half year ended 31 December 2016

ABN 15 062 959 540

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 31 December 2016

	Note	Consolidated 31 Dec 2016 \$	Consolidated 31 Dec 2015 \$
Revenue	5	119,472	308,290
Other income	5	1,296,649	257,657
Cost of sales		(70,564)	(333,532)
Sales and marketing expenses		(653,883)	(2,956,575)
Patent, Research and Development expenses		(76,689)	(900,477)
IT Infrastructure Cost		(299,469)	(132,142)
Employee and director benefits expense	6	(1,369,695)	(957,421)
Listing expense		(23,288)	(57,327)
Consultancy and subcontractor fees		(8,000)	-
Legal fees		(20,303)	(18,318)
Rent		(47,613)	(62,946)
Finance Cost		(165)	(2,289)
Other expenses		(32,717)	(115,182)
Administration expenses		(490,793)	(625,719)
Share based payment expense	17	(1,253,387)	(4,366,813)
Depreciation		(8,433)	(3,590)
Loss before income tax		(2,938,878)	(9,966,384)
Income tax benefit		-	-
Loss after tax for the period attributable to the members of Norwood Systems Ltd		(2,938,878)	(9,966,384)
Other comprehensive income		-	-
Total comprehensive loss for the period attributable to the members of Norwood Systems Ltd		(2,938,878)	(9,966,384)
Basic and diluted loss per share (cents per share)	7	(0.30)	(1.26)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	Consolidated 31 Dec 2016 \$	Consolidated 30 June 2016 \$
ASSETS			
Current Assets			
Cash and cash equivalents	8	2,141,687	3,888,765
Trade and other receivables	9	200,868	261,672
Total Current Assets		2,342,555	4,150,437
Non-Current Assets			
Plant and equipment	10	55,220	59,363
Total Non-current Assets		55,220	59,363
TOTAL ASSETS		2,397,775	4,209,800
LIABILITIES			
Current Liabilities			
Trade and other payables	11	425,194	632,001
Provisions	12	181,526	151,404
Deferred revenue	13	67,453	74,032
Total Current Liabilities		674,173	857,437
Non-Current Liabilities			
Provisions	12	58,298	51,568
Total Non-Current Liabilities		58,298	51,568
TOTAL LIABILITIES		732,471	909,005
NET ASSETS		1,665,304	3,300,795
EQUITY			
Issued capital	14	22,308,701	22,258,701
Reserves	15	6,974,242	5,720,855
Accumulated losses		(27,617,639)	(24,678,761)
TOTAL EQUITY		1,665,304	3,300,795

The above Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES OF EQUITY

For the six months ended 31 December 2016

	Consolidated			Total \$
	Issued Capital \$	Option Reserve \$	Accumulated Losses \$	
	Balance at 1 July 2016	22,258,701	5,720,855	
Loss for the period	-	-	(2,938,878)	(2,938,878)
Total other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(2,938,878)	(2,938,878)
<i>Transaction with owners, directly recorded in equity</i>				
Shares to be issued post balance date (Note 17(b))	50,000	-	-	50,000
Share based payment (Note 17(a))	-	1,253,387	-	1,253,387
Total transactions with owners	50,000	1,253,387	-	1,303,387
Balance at 31 December 2016	22,308,701	6,974,242	(27,617,639)	1,665,304

	Consolidated			Total \$
	Issued Capital \$	Option Reserve \$	Accumulated Losses \$	
	Balance at 1 July 2015	12,171,805	352,984	
Loss for the period	-	-	(9,966,384)	(9,966,384)
Total other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(9,966,384)	(9,966,384)
<i>Transaction with owners, directly recorded in equity:</i>				
Issue of Ordinary Shares, net of transaction costs	6,775,952	-	-	6,775,952
Issue of Options	-	4,274,813	-	4,274,813
Expiry of Options	-	(111,900)	111,900	-
Total transactions with owners	6,775,952	4,162,913	111,900	11,050,765
Balance at 31 December 2015	18,947,757	4,515,897	(17,988,705)	5,474,949

The above Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2016

	Note	Consolidated 31 Dec 2016 \$	Consolidated 31 Dec 2015 \$
Cash flows from operating activities			
Receipts from customers		78,081	214,647
Government grants received		1,296,649	257,657
Interest received		10,317	36,326
Payments to suppliers and employees		(3,124,896)	(5,256,863)
Interest paid		(289)	(1,488)
Net cash flows used in operating activities		(1,740,138)	(4,749,721)
Cash flows from investing activities			
Purchase of plant & equipment		(6,940)	(45,556)
Net cash flows used in investing activities		(6,940)	(45,556)
Cash flows from financing activities			
Proceeds from issue of shares		-	7,100,000
Share issue costs		-	(371,802)
Director and related party loans advanced	19(a)	-	(35,738)
Net cash flows from financing activities		-	6,692,460
Net increase in cash and cash equivalents		(1,747,078)	1,897,183
Cash and cash equivalents at the beginning of the period		3,888,765	4,546,059
Cash and cash equivalents at the end of the period	8	2,141,687	6,443,242

The above Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 1: BASIS OF PREPARATION

The half-year financial report is a general purpose financial report prepared in accordance with AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*.

The half-year financial report does not include all the notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity. The half-year financial report should be read in conjunction with the annual financial report of Norwood Systems Ltd as at 30 June 2016 which was prepared in accordance with the requirements of the *Corporations Act 2001* and applicable Australian Accounting Standards. It is also recommended that the half-year financial report be considered together with any public announcements made by the Company during the period 1 July 2016 to the date of this report in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The financial report is presented in Australian currency.

Going Concern

These financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

As disclosed in the review report for the half year ended 31 December 2016 the Group recorded a loss of \$2,938,878 and had net cash outflows from operating activities of \$1,740,138. While the Group has cash on hand of \$2,141,687 at 31 December 2016, the Group's future cash flow forecast for the period ended 31 December 2016 reflects that the Group will require additional working capital through equity over that period in order to meet the Group's stated strategic objectives.

These conditions indicate the existence of a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors are satisfied they will be able to raise additional working capital as required and thus it is appropriate to prepare the financial statements on a going concern basis. In arriving at this position the Directors have considered the following matters:

- The completion of an over-subscribed placement to professional and sophisticated investors last financial year to raise \$5,600,000;
- The completion of an over-subscribed placement to institutional investors last financial year to raise \$3,500,000;
- Successful signing of Corona contracts with multinational firms during the reporting period;
- Signing of the Global Partnership Agreement with Affinion International Ltd after the reporting period;
- Development on World Wi-fi and World Message have been substantially completed and are currently moving into the launching phase;
- Active cost cutting measures have been undertaken;
- Ability to raise further capital based on historical success;
- Cash on hand of \$2,141,687 as at 31 December 2016;
- Net assets of \$1,665,304 as 31 December 2016.

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities at amounts that differ to those stated in the financial report.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 2: BASIS OF ACCOUNTING

The half-year financial report has been prepared on the basis of historical cost, except where stated. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The half-year financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

Significant Judgements and Key Assumptions

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

Share Based Payments

Goods or services received or acquired in a share-based payment transaction are recognised as an increase in equity if the goods or services were received in an equity-settled share-based payment transaction or as a liability if the goods and services were acquired in a cash settled share-based payment transaction.

For equity-settled share-based transactions, goods or services received are measured directly at the fair value of the goods or services received provided this can be estimated reliably. If a reliable estimate cannot be made the value of the goods or services is determined indirectly by reference to the fair value of the equity instrument granted using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Transactions with employees and others providing similar service are measured by reference to the fair value at grant date of the equity instrument granted using a Black-Scholes option pricing model.

NOTE 3: ADOPTION OF ACCOUNTING POLICIES

Apart from as set out below, the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2016.

Following significant growth and development of the Company and its operations during the six months ended 31 December 2016 the Group has adopted the following accounting policies for the first time during the period:

(a) Foreign Currency Translation

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency for Norwood Systems Limited and each of its controlled entities.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 3: ADOPTION OF ACCOUNTING POLICIES (CONTINUED)

(b) Trade and Other Receivables

Trade accounts and other receivables represent the principal amounts due at reporting date less, where applicable, any allowances for doubtful accounts.

Trade receivables are generally due for settlement within 45 days.

(c) Revenue Recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and any criteria specific to the type of sale have been met as set out below. The Group bases its estimates on historical results, the type of transaction, agents' reports, and internal estimates.

Revenue is measured at the fair value of consideration received or receivable.

(i) World Phone Revenue

World Phone revenue is recognised based on the stage of completion of the transaction. This is often referred to as percentage of completion method. Under this method, revenue is recognised in the reporting periods in which the services are rendered. The recognition of revenue in this basis provides useful information on the extent of service activity and performance during the period.

(ii) Advertising Revenue

The Group generates advertising revenue through the promotion of third party services within the World Phone application.

Advertising revenue is recognised in the period in which advertising services are rendered by the Group, to the extent that revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

(iii) Interest Revenue

Interest revenue is recognised using the effective interest method. It includes the amortisation of any discount or premium.

(iv) Government Grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

(d) Promotional Minutes

The Group incentivises customers through the issue of promotional minutes.

Promotional minutes issued to customers for downloading or sharing the World Phone application are recognised by the Group as a sales and marketing expense as there is no direct link between promotional minutes issued and revenue generated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 3: ADOPTION OF ACCOUNTING POLICIES (CONTINUED)

Promotional minutes issued to customers for utilising third party services advertised within the World Phone application are recognised by the Group as a cost of sale as these minutes result in the generation of advertising revenue.

Promotional minute expenses are recognised at the time of customer consumption.

NOTE 4: ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the half-year ended 31 December 2016, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2016.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies as a result of the adoption of new and revised accounting standards.

The Directors have reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2016. The Directors have decided against early adoption of any new Standards and Interpretations. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies as a result of accounting standards issued not yet effective.

NOTE 5: REVENUE AND OTHER INCOME

	Consolidated 31 Dec 2016 \$	Consolidated 31 Dec 2015 \$
Revenue and other income		
<i>Sales revenue</i>		
World Phone revenue	108,510	270,471
Other revenue	465	1,140
Total sales revenue	108,975	271,611
<i>Other revenue</i>		
Interest revenue	10,497	36,679
Total other revenue	10,497	36,679
Total revenue	119,472	308,290
<i>Other income</i>		
Government grant income	1,296,649	257,657
Total other income	1,296,649	257,657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 6: LOSS

Loss before income tax has been determined after charging the following expenses:

	Consolidated 31 Dec 2016 \$	Consolidated 31 Dec 2015 \$
Accountancy costs	86,637	100,541
Other Administration expenses	265,206	402,552
Consultancy and subcontractor fees	8,000	-
Depreciation	8,433	3,590
Electricity and telephone	14,728	9,743
IT operations	-	-
Legal fees	20,303	18,318
Other expenses	32,717	115,183
Rental expense relating to operating leases	47,613	62,946
Research and development expenses	76,689	900,477
Travel and entertainment	139,077	112,883
Total administration and other operating expenses	699,403	1,726,233
Director and employee cost	1,148,683	677,755
Superannuation	97,526	55,387
Payroll tax	86,633	163,457
Leave entitlements	36,853	43,015
Commissions	-	17,807
Total employee and director benefits	1,369,695	957,421

NOTE 7: LOSS PER SHARE

Basic loss per share amounts are calculated by dividing net loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

The following reflects the income or loss and share data used in the total operations basic and diluted earnings per share computations:

	Consolidated 31 Dec 2016 \$	Consolidated 31 Dec 2015 \$
Loss used in the calculation of basic and diluted loss per share	2,938,878	9,966,384
Basic loss per share attributable to equity holders	(0.30)	(1.26)
	Number	Number
Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted loss per share	968,965,390	788,791,292

Options outstanding during the year have not been taken into account in the calculation of the weighted average number of ordinary shares as they are considered anti-dilutive.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 8: CASH AND CASH EQUIVALENTS

	Consolidated 31 Dec 2016 \$	Consolidated 30 June 2016 \$
Cash at bank	2,141,687	3,888,765
Total Cash and Cash Equivalents	2,141,687	3,888,765

Cash at bank earns interest at floating rates based on daily bank rates.

NOTE 9: TRADE AND OTHER RECEIVABLES

	Consolidated 31 Dec 2016 \$	Consolidated 30 June 2016 \$
Current:		
Trade debtors	10,604	16,679
Related party loan – Ostergaard Family Trust (note 19(a))	58,603	58,603
Related party loan – Ocean Broadband Ltd (note 19(a))	40,469	40,469
Other receivables	54,386	101,015
Prepaid expenses	36,806	44,906
Total Trade and Other Receivables	200,868	261,672

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

	Consolidated 31 Dec 2016 \$	Consolidated 30 June 2016 \$
Leasehold Improvements – at cost	5,103	2,602
Less: Accumulated Depreciation	(2,496)	(1,982)
	2,607	620
Plant and Equipment – at cost	72,124	70,335
Less: Accumulated Depreciation	(19,511)	(11,592)
	52,613	58,743

Consolidated	Leasehold improvements \$	Plant and equipment \$	Total \$
Balance at 1 July 2015	886	892	1,778
Additions	-	69,286	69,286
Depreciation expense	(266)	(11,435)	(11,701)
Balance at 30 June 2016	620	58,743	59,363
Additions	2,500	1,790	4,290
Depreciation expense	(514)	(7,919)	(8,433)
Balance at 31 December 2016	2,606	52,614	55,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 11: TRADE AND OTHER PAYABLES

	Consolidated 31 Dec 2016 \$	Consolidated 30 June 2016 \$
Current:		
Trade payables	206,903	556,649
Other creditors and accruals	218,291	75,352
Total Trade and Other Payables	425,194	632,001

Trade payables are non-interest bearing and are normally settled on 60-day terms.

NOTE 12: PROVISIONS

	Consolidated 31 Dec 2016 \$	Consolidated 30 June 2016 \$
Current:		
Employee benefits provision	181,526	151,404
Non-Current:		
Employee benefits provision	58,298	51,568
Total Provisions	239,824	202,972

The current provision for employee benefits includes accrued annual leave and long service leave.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 13: DEFERRED REVENUE

	Consolidated 31 Dec 2016 \$	Consolidated 30 June 2016 \$
Current:		
World Phone deferred revenue	67,453	74,032
Total Deferred Revenue	67,453	74,032

Advance billings to customers give rise to provisions for unearned revenue in respect of services which have not been rendered as at the end of the reporting period.

NOTE 14: ISSUED CAPITAL

	Consolidated 31 Dec 2016 \$	Consolidated 30 June 2016 \$
970,779,598 (30 June 2016: 968,779,598) fully paid ordinary Shares	22,308,701	22,258,701
Total	22,308,701	22,258,701

	No.	\$
Opening balance – 1 July 2015	773,859,598	12,171,805
July 2015 – Issue of Shares as consideration for professional services received	1,000,000	20,000
Nov 2015 – Issue of Shares for cash pursuant to a placement to professional and sophisticated investors	70,000,000	5,600,000
Dec 2015 – Issue of Shares for cash pursuant to a Share Purchase Plan prospectus offer	18,750,000	1,500,000
Dec 2015 – Issue of Shares as consideration for professional services received	4,000,000	92,000
Costs of share issues	-	(436,048)
Jun 2016 – Issue of placement shares	100,000,000	3,500,000
Jun 2016 - Issue of Shares as consideration for professional services received	1,170,000	41,945
Costs of share issues	-	(231,001)
Closing balance – 30 June 2016	968,779,598	22,258,701
Dec 2016 – Issue of Shares as consideration for professional services received (Note 17(b))	2,000,000	50,000
Closing balance – 31 December 2016	970,779,598	22,308,701

The Company has unlimited authorised capital.

There are no restrictions on distributions of dividends or repayment of capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 15: SHARE BASED PAYMENT RESERVE

	Consolidated 31 Dec 2016	Consolidated 30 June 2016
102,374,485 (30 June 2016: 102,374,485) issued Options	102,374,485	102,374,485
	102,374,485	102,374,485

	No.	\$
Opening balance – 1 July 2015	25,970,401	352,984
Oct 2015 – Option expiry	(1,000,000)	(41,900)
Nov 2015 – Issue of options to Norwood directors, employees, and advisors	71,004,084	5,352,984
Nov 2015 – Option expiry	(2,000,000)	(70,000)
Dec 2015 – Issue of options to Norwood director	2,000,000	118,629
Jun 2016 – Issue of options to employees	6,400,000	8,158
Closing balance – 30 June 2016	102,374,485	5,720,855
Share Based Payments – Further vesting value of the options	-	1,253,387
Closing balance – 31 December 2016	102,374,485	6,974,242

Nature and Purpose of Reserve

The share based payment reserve records the value of share options issued to the Company's directors, employees, and third parties.

NOTE 16: PERFORMANCE SHARES AND RIGHTS

PERFORMANCE SHARES

	Consolidated 31 Dec 2016	Consolidated 30 June 2016
	\$	\$
78,869,761 (30 June 2016: 78,869,761) Class A Performance Shares	-	-
78,869,761 (30 June 2016: 78,869,761) Class B Performance Shares	-	-
	-	-

	No.	\$
Opening balance – 1 July 2015	157,739,522	-
Closing balance – 30 June 2016	157,739,522	-
Movement during the period	-	-
Closing balance – 31 December 2016	157,739,522	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 16: PERFORMANCE SHARES AND RIGHTS (CONTINUED)

Terms and Conditions of Performance Shares

Class A Performance Shares each convert to one ordinary fully paid share upon Norwood generating gross revenue of at least \$200,000 from two separate third party contracts in any 12 month period (which may be the same 12 month period or different 12 month periods for each contract). The expiry date of the Class A Performance Shares is 8 December 2017.

Class B Performance Shares each convert to one ordinary fully paid share upon Norwood generating gross revenue for any 12 month consecutive period of at least \$3,000,000. The expiry date of the Class B Performance Shares is 8 June 2018.

No Class A or Class B Performance Share milestones were met during the current interim period. No Performance Shares were cancelled or converted to ordinary shares during the current interim period.

Consistent with 30 June 2016, no value has been allocated the Performance Shares at 31 December 2016 due to the significant uncertainty of meeting the two performance milestones which are based on future events.

PERFORMANCE RIGHTS

	Consolidated 31 Dec 2016 \$	Consolidated 30 June 2016 \$
3,927,774 (30 June 2016: 3,927,774) Class A Performance Rights	-	-
3,927,774 (30 June 2016: 3,927,774) Class B Performance Rights	-	-
	-	-

	No.	\$
Opening balance – 1 July 2015	7,855,488	
Movement during the period	-	-
Closing balance – 30 June 2016	7,855,488	-
Closing balance – 31 December 2016	7,855,488	-

Terms and Conditions of Performance Rights

Class A Performance Rights each convert to one ordinary fully paid share upon Norwood generating gross revenue of at least \$200,000 from two separate third party contracts in any 12 month period (which may be the same 12 month period or different 12 month periods for each contract). The expiry date of the Class A Performance Rights is 13 December 2017.

Class B Performance Rights each convert to one ordinary fully paid share upon Norwood generating gross revenue for any 12 month consecutive period of at least \$3,000,000. The expiry date of the Class B Performance Rights is 13 June 2018.

No Class A or Class B Performance Right milestones were met during the current interim period. No Performance Rights were cancelled or converted to ordinary shares during the current interim period.

No value has been allocated these Performance Rights due to the significant uncertainty of meeting the two performance milestones which are based on future events.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 17: SHARE BASED PAYMENTS

Share based payments made during the half year ended 31 December 2016 are summarised below.

(a) Recognised Share Based Payment Expense

	Consolidated 31 Dec 2016	Consolidated 31 Dec 2015
	\$	\$
Expense arising from equity settled share based payment transactions	1,253,387	4,366,813

(b) Shares Granted During the Half Year

The Company granted the following fully paid ordinary shares as share based payments during the half year to 31 December 2016:

- 2,000,000 Shares having a total value of \$50,000 were granted as consideration for professional services received during the period. The value was determined with reference to the vendor's invoice.

(c) Options Granted During the Half Year

No unlisted options as share based payments were granted during the half year to 31 December 2016:

In the absence of third party vendor invoices and any other information providing a more reliable indication of fair value, all options issued during the period were valued using Black-Scholes option pricing models with the following inputs:

Tranche	Dividend yield	Expected volatility	Risk-free interest rate	Expected life of options (years)	Option exercise price	Share price at grant date
A	-	125%	2.25%	5	\$0.198	\$0.135
B	-	125%	2.25%	5	\$0.297	\$0.135
C	-	125%	2.25%	3	\$0.173	\$0.135
D	-	125%	2.25%	5	\$0.135	\$0.135
E	-	125%	2.25%	3	\$0.02	\$0.135
F	-	125%	2.25%	3	\$0.02	\$0.135
G	-	125%	2.25%	3	\$0.02	\$0.135
H	-	125%	2.25%	3	\$0.107	\$0.085
I	-	108%	2.25%	5	\$0.057	\$0.035

(d) Performance Rights Granted During the Half Year

No performance rights were granted during the half year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 18: SEGMENT INFORMATION

Segment information has been prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated Group. The Group's primary business segment is the provision of voice telecommunication services. The Company operates in one segment, voice telecommunication services.

	Voice Telecommunications Services	Corporate	Total
Segment revenue and other income			
Sales revenue	108,510	-	108,510
Interest received	10,497	-	10,497
Government grant income	1,296,649	-	1,296,649
Other income	-	465	465
Total revenue and other income	1,415,656	465	1,416,121
Segment expenses			
Cost of Sales	(70,564)	-	(70,564)
Operating expenses	(1,780,670)	(1,218,655)	(2,999,325)
Listing expenses	-	(23,289)	(23,289)
Loss on conversion of debt to equity	-	-	-
Share based payment expenses	-	(1,253,388)	(1,253,388)
Loss before depreciation	(435,578)	(2,494,867)	(2,930,445)
Depreciation	(8,433)	-	(8,433)
Loss before income tax	(444,011)	(2,494,867)	(2,938,878)
Segment assets and liabilities			
Cash	925,881	1,215,806	2,141,687
Trade and other receivables	151,629	49,239	200,868
Plant and equipment	55,220	-	55,220
Trade and other creditors	(329,542)	(95,652)	(425,194)
Provisions	(143,894)	(95,930)	(239,824)
Deferred revenue	(67,453)	-	(67,453)
Borrowings	-	-	-
Convertible notes	-	-	-
Net assets/(liabilities)	591,841	1,073,463	1,665,304

Comparatives

Parent– for the 6 months ended 31
December 2015

Segment revenue

Interest received	271,611	-	271,611
Government grant income	-	36,679	36,679
Other income	257,657	-	257,657
Total revenue	529,268	36,679	565,947

Segment expenses

Operating expenses	(5,807,538)	(354,390)	(6,161,928)
Share based payment expenses	(3,592,863)	(773,950)	(4,366,813)
Loss before depreciation	(8,871,133)	(1,091,661)	(9,962,794)
Depreciation	(3,590)	-	(3,590)
Loss before income tax	(8,874,723)	(1,091,661)	(9,966,384)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 18: SEGMENT INFORMATION (CONTINUED)

	Voice Telecommunications Services	Corporate	Total
<i>Consolidated – as at 30 June 2016</i>			
Segment assets and liabilities			
Cash	91,683	3,797,082	3,888,765
Other receivables	62,472	199,200	261,672
Plant and equipment	59,363	-	59,363
Trade and other creditors	(506,516)	(125,485)	(632,001)
Provisions	(190,794)	(12,178)	(202,972)
Deferred revenue	(74,032)	-	(74,032)
Net assets	(557,824)	3,858,619	3,300,795

NOTE 19: RELATED PARTY TRANSACTIONS

(a) Loans with Key Management Personnel

Ocean Broadband Ltd (Mr Paul Ostergaard – Managing Director, appointed 8 June 2015)

Ocean Broadband Ltd, a company of which Mr Paul Ostergaard is a Director and Shareholder, shared office space and employees with Norwood Systems (Aust) Pty Ltd until approximately 30 June 2016. A loan balance has arisen between Norwood Systems (Aust) Pty Ltd and Ocean Broadband Ltd as a result of these shared transactions and cash transfers. Movements in the loan account during the half year are as follows:

	Consolidated 31 Dec 2016 \$	Consolidated 30 June 2016 \$
Opening balance receivable due to/(payable by) the Group	40,469	40,469
Loan proceeds received	-	-
Total receivable due to the Group	40,469	40,469

The loan is non-interest bearing and has no set date of repayment.

Ostergaard Family Trust (Mr Paul Ostergaard – Managing Director, appointed 8 June 2015)

The Company has a loan account with the Ostergaard Family Trust, the movements in which are as follows:

	Consolidated 31 Dec 2016 \$	Consolidated 30 June 2016 \$
Opening balance	58,603	18,739
Loans advanced	-	39,864
Total receivable due to the Group	58,603	58,603

The loan is non-interest bearing and has no set date of repayment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 19: RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other Transactions with Key Management Personnel

Transactions with other related parties are made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

Shadwick Nominees Pty Ltd (Michael Edwards - Non-Executive Director from 14 February 2017, appointed Non-Executive Chairman 20 January 2015 - 13 February 2017)

Shadwick Nominees Pty Ltd, a Company of which Mr Michael Edwards is a Director, provided Non-Executive Chairman services to the Company during the half year. A total amount of \$27,500 (2015: \$24,000) was incurred to Shadwick Nominees Pty Ltd for the above services during the half year ended 31 December 2016. The total amount of fees due to Shadwick Nominees Pty Ltd as at 31 December 2016 was \$4,400 (30 June 2015: \$8,000).

Ariadne Capital Ltd (Mr Amit Pau - Non-Executive Chairman from 14 February 2017, appointed Non-Executive Director 8 June 2015 - 13 February 2017)

Ariadne Capital Ltd, a Company of which Mr Amit Pau is a Director, provided marketing and strategic advice to the Company during the half year. The total amount incurred and paid to Ariadne Capital in relation to these services during the half year was \$91,179. The total amount of fees due to Ariadne Capital as at 31 December 2016 was \$2,646 (30 June 2016: nil).

SHP Marketing Solutions Ltd (Mr Amit Pau - Non-Executive Chairman from 14 February 2017, appointed Non-Executive Director 8 June 2015 - 13 February 2017)

SHP Marketing Solutions Ltd, a Company of which Mr Amit Pau is a Director, provided Non-Executive Director services to the Company during the half year. A total amount of \$19,710 (2015: \$19,710) was incurred to SHP Marketing Solutions Ltd for the above services during the half year ended 31 December 2016. The total amount of fees due to SHP Marketing Solutions Ltd as at 31 December 2016 was nil (30 June 2016: \$3,285).

The NeVERN Group Pty Ltd (Mr Giles Everist – Non-Executive Director, appointed 18 November 2015)

The NeVERN Group Pty Ltd, a Company of which Mr Giles Everist is a Director, provided Non-Executive Director services to the Company during the half year. A total amount of \$21,681 (2015: \$5,256) was incurred to the NeVERN Group Pty Ltd for the above services during the half year ended 31 December 2016. The total amount of fees due to The NeVERN Group Pty Ltd as at 31 December 2016 was nil (30 June 2016: nil).

NOTE 20: EVENTS OCCURRING AFTER THE REPORTING PERIOD

White Label App

Subsequent to the half year reporting period, Norwood Systems signed a breakthrough distribution agreement with leading loyalty program provider, Affinion International. This opens a new high-margin distribution channel for Norwood's suite of World Apps, covering multiple countries, products and end-user segments. Affinion International has displayed great enthusiasm to work with Norwood Systems.

This partnership means that Norwood Systems will work closely with Affinion International to promote and place World Phone®, World Message and World WiFi into the loyalty solution client propositions. Targeted brands include major card processors and issuers, and firms in the financial services, retail, travel, and ecommerce sectors. Our distributed or white label Apps will act to enrich the brand experience of millions of end-users, creating a highly engaged customer/user experience.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

NOTE 20: EVENTS OCCURRING AFTER THE REPORTING PERIOD (CONTINUED)

The partnership has already initiated the process of formulating and deploying highly compelling client engagements to deliver these value-added experiences. Based on the detailed analysis of uptake scenarios, jointly done by both parties prior to the signing of this agreement, the parties have modelled up to a \$3million dollar annual revenue stream arising to Norwood under the agreed commercial terms over multiple years, based on conservative client uptake projections, subject to additional downstream agreements with Affinion's clients.

Norwood Systems expects first revenues be generated by the first quarter of FY18. The Norwood sales and executive team is highly optimistic about this agreement and are looking forward to signing similar distribution deals in 2017.

NOTE 21: CONTINGENT LIABILITIES

The Group has a contingent liability in respect of promotional minutes issued to and unconsumed by customers as at the reporting date. If the full balance of promotional minutes on issue were to be consumed by customers, the maximum cost to the Group is estimated to be \$197,223. The ultimate cost that will be incurred by the Group, if any, is dependent upon a variety of factors including customer consumption, consumption timing, prevailing USD:AUD exchange rates, and supply agreements.

The Directors are not aware of any other contingent liabilities that may arise from the Group's operations as at 31 December 2016.

DIRECTORS' DECLARATION

The directors of the Group declare that:

- (a) the financial statements comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes, are in accordance with the *Corporations Act 2001* and:
 - i. comply with Accounting Standard AASB 134 Interim Financial Reporting, the Corporations Regulations 2001, and other mandatory professional reporting requirements; and
 - ii. give a true and fair view of the Group's financial position as at 31 December 2016 and of its performance of the half year ended on that date.
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Paul Ostergaard', written in a cursive style.

Mr Paul Ostergaard
CEO and Co-Founder
27 February 2017

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Norwood Systems Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Norwood Systems Limited, which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Norwood Systems Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Norwood Systems Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Norwood Systems Limited is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 20167
prowse and of its performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

BDO Audit (WA) Pty Ltd

BDO

A handwritten signature in black ink, appearing to read 'P. Murdoch', written over a horizontal line.

Phillip Murdoch
Director

Perth, 27 February 2017

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norwood
connect globally, locally™