

ASX ANNOUNCEMENT

31 July 2019

Norwood Corporate Overview and App 4C for June 2019 Quarter

Highlights

- **144% quarterly growth in customer receipts from \$49k to \$120k**
- **Quarterly growth in cash balance from \$174k to \$407k**
- **14% decrease in operating costs from \$154k to \$134k**
- **NZ\$244,000 Purchase Order from Spark NZ received to be invoiced and paid post quarter-end, marks the commencement of annual recurring revenue from that contract**
- **Continued targeting of revenue from its four-year business plan with Spark of NZ\$2.0 million, with minimum estimated revenue of NZ\$1.1 million**
- **Completed pro-rata non-renounceable entitlement issue partially underwritten to \$1.1 million**

‘Sharing Economy’ and ‘Communications as a Service’ pioneer Norwood Systems Ltd (Norwood or the Company) (ASX: NOR) is pleased to provide an overview of the Company’s activities for the June 2019 quarter and the accompanying Appendix 4C cashflow report.

Norwood’s CEO and Founder, Paul Ostergaard, said: *“This has been a strong quarter for Norwood, demonstrated by progress with the Spark NZ contract, which has led to material revenue being recognised post-quarter-end. We continue to pursue what the Company believes is a very significant opportunity in the Telco space. We see Telco providers that are looking to retire legacy voicemail offerings, aiming to both reduce legacy service costs and differentiate their basic voice service with premium features, exactly like those offered by our scalable ‘telco-grade’ World Voicemail platform.*

“The detailed level of high-quality interaction that we continue to have with very credible partners in the Telco market gives us great encouragement that we are pursuing a substantial opportunity and further that Norwood has developed an innovative, scalable and novel technology platform to take advantage of this identified market opportunity.

“Our business development activities this quarter have been, and continue to be, focused almost exclusively on the World Voicemail Telco opportunities identified. Norwood continues to have detailed interaction with very credible partners in the Telco space, and we are excited about the future near and mid-term opportunities that we see before us.

“We are also pleased to report a continued decrease in our operating costs, in addition to a 144% increase in our receipts from customers. Taking into account the July purchase order from Spark NZ, the Company is now in a stronger position financially and we expect the commencement of annually recurring revenue from the Spark contract.”

Sales and Commercialisation Activities

Post quarter-end, Norwood was pleased to announce that it has received a further purchase order for software licenses from Spark NZ to the value of NZ\$244,000. The value is payable in Q1 FY20 according to the applicable terms of Norwood’s contract with Spark.

Norwood is supplying a modern telco-grade premium voicemail service platform to Spark under the terms of this contract.

Norwood has quantified the potential application of its voicemail telco platform to the worldwide telco market, in particular focusing on mobile network operators (MNOs) with more than 100,000 subscribers.

Norwood has found through its own primary research that there are more than 500 such MNOs worldwide (the median subscriber base is approximately 3 million subscribers) and has determined that roughly 85% of these MNOs (approximately 420) are potential candidate customers for Norwood's modernised telco voicemail platform.

Norwood is vigorously pursuing leads and pilots with such telcos, either directly or through telco vendor partners, as previously disclosed, and will announce further developments to the market as material progress is achieved.

Product Development Activities

Product development activities continue to be focused on Norwood's World Voicemail Telco-grade platform.

Key efforts over the quarter have focused on deliverables for the Spark contract and further efforts to ensure scalability to support large-scale deployments of the World Voicemail platform to in excess of ten million active end users per telco.

Norwood has developed a highly scalable platform architecture using state-of-the-art technologies, such as Kubernetes¹ and Cassandra², to deliver a telco-grade solution that scales to a minimum of ten million subscribers, delivering both the high availability and geographic redundancy features demanded by Tier 1 Telco operators.

This platform can be deployed both "on-premises" at a Telco using either NFV³ or Kubernetes orchestration environments or it can be hosted in the cloud on one of the many available commercial cloud platforms, enabling the Company to address potentially all of the 420 telcos that Norwood identified as running outdated voicemail systems.

Corporate

Capital Raising

In May, Norwood was pleased to announce the Company received valid applications from shareholders under the Entitlement Issue for 96,595,292 Shares and 96,595,292 free attaching options for a total subscription amount of \$289,786. The Entitlement Issue was partially underwritten by Pinnacle Corporate Finance Pty Ltd ("Pinnacle") for the amount of \$1,083,391, with the shortfall subsequently placed.

Net proceeds from the Entitlement Issue will be geared towards pursuing material licensing deals and revenue generating contacts related to Norwood's World Voicemail Telco-grade platform.

Post quarter end on 26 July, Norwood issued a Notice of General Meeting in respect of a number items of corporate housekeeping with respect to prior share, option and convertible note issues, as well as to consider for shareholder approval the issue of further securities to parties including Directors of the Company. It is noted that the proposed issue of the 40,000,000 shares and 40,000,000 NOROA Options to Mr Paul Ostergaard under Resolution 13 and Resolution 11 as outlined in the Notice of General Meeting is subject to both shareholder approval and the Company executing an agreement with a third-party customer which has a contract value of in excess of A\$1,500,000, and the Company receiving a minimum of A\$1,000,000 in cash receipts under that contract on or before 31 August 2019 (**Ostergaard Condition**). To clarify, the Ostergaard Condition is not satisfied by the current Spark NZ contract, and an additional contract is required prior to 31 August 2019 to satisfy the Ostergaard Condition.

<ENDS>

¹ See: <https://kubernetes.io>

² See: <http://cassandra.apache.org>

³ See: <http://www.etsi.org/technologies-clusters/technologies/nfv>

| | |
|---|---|
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|---|---|

Norwood is changing the way we globally connect

At Norwood Systems, we're passionate about revolutionising your telecommunications. To actualise this goal, we have developed amazing platforms that realise the world's largest federated telco network. By connecting your smartphone effortlessly and simply to local networks around the world via our award-winning Apps, you get high quality connections, clear and secure conversations for a fraction of international roaming costs.

About Norwood Systems

Norwood Systems provides highly scalable voice, messaging and data services to consumers, enterprises and carriers globally, leveraging its federated telecommunications services network 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.

Our [Enterprise Solutions](#) deliver powerful, yet simple corporate communications platform to make communications more cost effective, easier to manage, and regulatory compliant. This is all made possible by Corona® Cloud and Corona GTS, with its suite of mobility Apps.

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

Finally, our [Partner Solutions](#) are designed for the forward looking, customer driven Travel and Loyalty partner, providing an easy way to invigorate brand offerings with App based benefits.

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

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Name of entity

NORWOOD SYSTEMS LIMITED

ABN

15 062 959 540

Quarter ended ("current quarter")

30 June 2019

| Consolidated Statement of Cash Flows | Current Quarter \$A'000 | Year to Date (12 Months) \$A'000 |
|---|------------------------------------|---|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 120 | 445 |
| 1.2 Payments for | | |
| (a) research and development | (308) | (1262) |
| (b) product manufacturing and operating costs | (134) | (580) |
| (c) advertising and marketing | (20) | (65) |
| (d) leased assets | - | - |
| (e) staff and sales consultants costs | (257) | (1,113) |
| (f) administration and corporate costs | (370) | (1,105) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 1 | 4 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives | - | 895 |
| 1.8 Other (provide details if material) | - | - |
| 1.9 Net cash from / (used in) operating activities | (968) | (2,781) |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | - | - |
| (b) businesses (see item 10) | - | - |
| (c) investments | - | - |
| (d) intellectual property | - | - |
| (e) other non-current assets | - | - |

Appendix 4C
Quarterly report for entities subject to Listing Rule 4.7B

| Consolidated Statement of Cash Flows | | Current Quarter \$A'000 | Year to Date (12 Months) \$A'000 |
|---|---|------------------------------------|---|
| 2.2 | Proceeds from disposal of: | | |
| | (a) property, plant and equipment | - | - |
| | (b) businesses (see item 10) | - | - |
| | (c) investments | - | - |
| | (d) intellectual property | - | - |
| | (e) other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | - | - |
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other (provide details if material) | - | - |
| 2.6 | Net cash from / (used in) investing activities | - | - |

| | | | |
|-------------|---|--------------|--------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of shares | 1,076 | 1,821 |
| 3.2 | Proceeds from issue of convertible notes | - | 300 |
| 3.3 | Proceeds from exercise of share options | - | - |
| 3.4 | Transaction costs related to issues of shares, convertible notes or options | (31) | (51) |
| 3.5 | Proceeds from borrowings | 156 | 427 |
| 3.6 | Repayment of borrowings | - | (387) |
| 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 | 1,201 | 2,110 |

| | | | |
|-----------|--|-------|---------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of quarter/year to date | 174 | 1,078 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (968) | (2,781) |
| 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) | 1,201 | 2,110 |

| Consolidated Statement of Cash Flows | | Current Quarter \$A'000 | Year to Date (12 Months) \$A'000 |
|---|--|------------------------------------|---|
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of quarter | 407 | 407 |

| 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 | 357 | 124 |
| 5.2 | Call deposits | 50 | 50 |
| 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) | 407 | 174 |

| 6. | Payments to directors of the entity and their associates | Current quarter \$A'000 |
|-----------|--|------------------------------------|
| 6.1 | Aggregate amount of payments to these parties included in item 1.2 | 58 |
| 6.2 | Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |
| 6.3 | Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2 | |

- Managing Director's salary, Non-Executive Director's fees

| 7. | Payments to related entities of the entity and their associates | Current quarter \$A'000 |
|-----------|--|------------------------------------|
| 7.1 | Aggregate amount of payments to these parties included in item 1.2 | - |
| 7.2 | Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |
| 7.3 | Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2 | |

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

| 8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i> | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|--|---|--|
| 8.1 Loan facilities | 457 | 457 |
| 8.2 Credit standby arrangements | - | - |
| 8.3 Other (please specify) | - | - |
| 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well. | | |

Key Facility Terms:

- Counterparty: Innovation Structured Finance Co LLC facilitated by Radium Capital
- Amount: 80% of the expected R&D tax offset resulting from each period's eligible R&D expenditures, with principal and interest repaid from the actual tax offsets at the end of the financial year.
- Final Maturity Date: 30/9/2019
 - Norwood has the option to repay earlier without penalties.
- Interest Rate: 14% per annum
- Security: Secured against the R&D refund receivable from the ATO
- Conditions: R&D expenditure has to be reviewed by R&D Tax Consultants
- Purpose of Loan as per agreement: Wholly or predominantly for working capital or research and development expenditures.

| 9. Estimated cash outflows for next quarter | \$A'000 |
|--|----------------|
| 9.1 Research and development | (288) |
| 9.2 Product manufacturing and operating costs | (73) |
| 9.3 Advertising and marketing | (18) |
| 9.4 Leased assets | - |
| 9.5 Staff and Sales Consultants Cost | (220) |
| 9.6 Administration and corporate costs | (329) |
| 9.7 Total estimated cash outflows | (928) |

| 10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above) | Acquisitions | Disposals |
|--|---------------------|------------------|
| 10.1 Name of entity | - | - |
| 10.2 Place of incorporation or registration | - | - |
| 10.3 Consideration for acquisition or disposal | - | - |
| 10.4 Total net assets | - | - |
| 10.5 Nature of business | - | - |

+ See chapter 19 for defined terms.

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.

[lodged electronically without signature]

31 July 2019

Sign here: Date:
 (Director/Company secretary)

Steven Wood

Print name:

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.