

Mr Ben Dawson
Advisor
ASX Listings Compliance
Level 40, Central Park
152-158 St Georges Terrace
Perth WA 6000

May 15, 2023

Financial Condition Query

In reference to your letter of 10 May 2023 regarding your queries on the financial condition of the Company. The responses to your six queries are as follows:

1. Please provide further detail on the steps that NOR has taken to raise capital (if any)?

- On 4 May 2023 Balmain Resources Pty Ltd (a company wholly owned and controlled by director Dr John Tarrant) advised the company in writing of Balmain's intention to exercise 11,000,000 2.4 cent 31 December 2023 options (\$264,000) on or about 6 June 2023 and a further 4,000,000 options (\$96,000) proposed to be exercised prior to 30 June 2023. Accordingly, Norwood anticipates receiving \$360,000 from the exercise of these options prior to 30 June 2023.
- On 12 May 2023 the Company announced to the ASX that it had entered into a deed of variation to a loan agreement that provided access to a working capital facility of up to \$300,000 (ASX Announcement dated 28 February 2023, titled "Norwood secures new working capital facility of \$300k"). The loan was advanced by Balmain Resources Pty Ltd, a company that director, Dr John Tarrant controls. Under the deed of variation the repayment date has been varied from 30 June 2023 to 31 December 2023. All other terms and conditions of the Loan Agreement remain in full force and effect.
- On 12 May 2023 the Company lodged a Notice of Meeting for a shareholder meeting to be held on 13 June 2023. The meeting amongst other items of business will seek shareholder approval for the issue of 66,356,636 options (Option Placement) at an issue price of \$0.0025 to raise up to \$165,891 before costs, exercisable at \$0.08 each expiring 31 December 2024 (New Options). The New options to be issued under the Option Placement are replacement options being offered to Optionholders of the NORAO class which expired on 3 March 2023 without being exercised. The Option Placement will be underwritten by Balmain Resources Pty Ltd, a Company that Director Dr John Tarrant controls.
- On 12 May 2023 the Company also announced to the ASX that it is proceeding with a pro-rata non-renounceable entitlement issue of 1 New Option for every 10 Shares at an issue price of \$0.0025 per New Option. Based on the existing capital structure approximately 38,740,000 New Options will be issued under the entitlement offer to raise up to \$96,850 before costs (Option Entitlement Issue). The issue will also be underwritten by Balmain Resources Pty Ltd, a Company that Director Dr John Tarrant controls.
- The Company continues to operate its R&D facility with Radium Capital as disclosed in the Quarterly Activities/Appendix 4C Cash Flow Report" for quarter ending 31 March 2023 with an amount received at the end of April of \$123,939. Future funding is forecast at the end of July and October of similar amounts.

- Compared to the Company's gross operating expenditures in Q4 2022 and Q1 2023, Norwood anticipates that its gross operating costs in the upcoming two quarters will be in a similar range. The increase in gross expenditure from Q4 2022 to Q1 2023 was due to strategic investments to capitalise on business opportunities, reflecting the company's confidence in its future growth, as noted in the most recent quarterly 4C commentary. Looking ahead, however, Norwood expects a further moderation in quarterly net cash expenditure, underpinned by anticipated revenue from new and existing clients (see item 2 below).

2. Please provide the basis for NOR's view that it expects to be able to continue its operations and meet its business objectives given its Quarterly Activities / Cash Flow Report disclosed NOR's estimated quarters funded was 0.2 and in circumstances where NOR has disclosed:

- 2.1 **Cash receipts from customers of \$178,000 for the March 2023 quarter;**
- 2.2 **Cash and cash equivalents of \$96,000 at the end of the March 2023 quarter;**
- 2.3 **An anticipated cash inflow of \$120,000 from its R&D facility in the coming quarter; and**
- 2.4 **Operating cash outflows of \$585,000 during the March 2023 quarter.**
- 2.5 **The fully drawn down \$300,000 Working Capital Facility, (together with any accrued interest) is repayable in the coming quarter (repayment date is 30 June 2023).**

Yes, the Company expects to be able to continue its operations and meet its business objectives over the coming quarters, on the basis of the cash inflows detailed in item 1 above. Norwood anticipates above average quarterly income from its current and prospective clients in the next two quarters, in part aligning with seasonal revenue changes witnessed during similar periods in past operating years, and in part reflecting the current status of the Company's sales pipeline.

3. Does NOR's Appendix 4C for the March 2023 quarter contain at section 7 details of the Working Capital Facility?

Yes.

3.1 If the answer to question 3 is 'No', why does the Appendix 4C not contain the details of the Working Capital Facility at section 7?

Not Applicable.

4. Please provide any other information which NOR considers to be to be relevant to ASX's assessment of NOR's compliance with Listing Rule 12.2.

No further information is provided as Norwood is of the view that the matters are adequately addressed in items 1 and 2 above.

5. Please confirm that NOR is complying with the Listing Rules and, in particular, Listing Rule 3.1.

Yes, the Company confirms it is in compliance with ASX Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition in accordance with Listing Rule 3.1 that has not already been released to the market.

6. Please confirm that NOR's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of NOR with delegated authority from the board to respond to ASX on disclosure matters.

It is confirmed that the responses to the questions above have been authorised and approved by the board and I as an officer of the Company have the delegated authority from the board to respond to ASX on disclosure matters.

Please contact me if you would like to discuss any of the above matters.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Stuart Usher". The signature is fluid and cursive, with a period at the end.

STUART USHER
Company Secretary



10 May 2023

Reference: 73951

Mr Stuart Usher
Company Secretary
Norwood Systems Limited

By email: stuart.usher@genevapartners.com.au

Dear Mr Usher

Norwood Systems Limited ('NOR'): Financial condition query

ASX refers to the following:

- A. NOR's announcement titled "Quarterly Activities/Appendix 4C Cash Flow Report" for quarter ending 31 March 2023 lodged on the ASX Market Announcements Platform ('MAP') on 28 April 2023 ('Quarterly Activities / Cash Flow Report'), which disclosed amongst other things:
- i. At section 1 of the Appendix 4C, NOR's receipts from customers amounted to \$178,000 and net operating cash outflows for the quarter were \$585,000.
 - ii. At item 8.5, NOR's estimated quarters remaining was 0.2.
 - iii. Cash and cash equivalents at the end of the quarter of \$96,000.
 - iv. In response to item 8.6.1 regarding whether NOR anticipates maintaining its current level of net operating cash outflow, NOR responded, "Yes".
 - v. NOR had fully drawn down on a \$300,000 working capital facility advanced by Balmain Resources Pty Ltd, a company that director Dr John Tarrant controls ('Working Capital Facility');
 - vi. In response to item 8.6.2 regarding NOR's efforts to secure additional funds for its operations, NOR provided the following response:

"Yes, the company has taken steps to raise further cash to fund its operations. The company has sufficient cash flows forecast from customers to fund its operations. A further approx. \$120,000.00 is forecast to be received from the R&D loan facility in April 2023 for the period of January to March 2023 R&D work, which is accessible subsequent to the end of each quarterly period through Radium Capital, subject to certain criteria being met."
- B. Listing Rule 12.2, which states:

"An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing."

Request for information

Having regard to the above, ASX asks NOR to respond separately to each of the following questions and requests for information:

1. Please provide further detail on the steps that NOR has taken to raise capital (if any)?

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2. Please provide the basis for NOR's view that it expects to be able to continue its operations and meet its business objectives given its Quarterly Activities / Cash Flow Report disclosed NOR's estimated quarters funded was 0.2 and in circumstances where NOR has disclosed:
 - 2.1 Cash receipts from customers of \$178,000 for the March 2023 quarter;
 - 2.2 Cash and cash equivalents of \$96,000 at the end of the March 2023 quarter;
 - 2.3 An anticipated cash inflow of \$120,000 from its R&D facility in the coming quarter; and
 - 2.4 Operating cash outflows of \$585,000 during the March 2023 quarter.
 - 2.5 The fully drawn down \$300,000 Working Capital Facility, (together with any accrued interest) is repayable in the coming quarter (repayment date is 30 June 2023)
 3. Does NOR's Appendix 4C for the March 2023 quarter contain at section 7 details of the Working Capital Facility?
 - 3.1 If the answer to question 3 is 'No', why does the Appendix 4C not contain the details of the Working Capital Facility at section 7?
 4. Please provide any other information which NOR considers to be to be relevant to ASX's assessment of NOR's compliance with Listing Rule 12.2.
 5. Please confirm that NOR is complying with the Listing Rules and, in particular, Listing Rule 3.1.
 6. Please confirm that NOR's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of NOR with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **2 PM AWST Monday, 15 May 2023**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, NOR's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require NOR to request a trading halt immediately.

Your response should be sent to me by e-mail at **ListingsCompliancePerth@asx.com.au**. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in NOR's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and

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- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in NOR's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to NOR's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that NOR's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under listing rule 18.7A.

Questions

If you have any questions in relation to the above, please do not hesitate to contact me.

Yours sincerely

Ben Dawson
Adviser, Listings Compliance (Perth)