Norwood First Half Financial Report for FY20

Highlights

- Material purchase order from Spark NZ received in July, and secured an additional contract with Spark post HY1 FY20.
- Cash receipts from customers for the half year period reached $441,281, an increase of 59.89% compared to the prior corresponding period of $275,977.
- Released version 3 of World Voicemail for iOS in parallel to voicemail server platform upgrades.
- Completed a 10 for 1 consolidation of securities on issue.
- Raised $400,000 in capital by successfully completing two $200,000 share placements during the period. In addition, a further $200,000 placement was announced on 22 February 2020. The capital raising efforts complement R&D tax offset financing transactions entered into.

'Sharing Economy' telecommunications pioneer Norwood Systems Ltd (Norwood or the Group) (ASX: NOR) is pleased to provide the Group's interim financial report for the Half Year ended 31 December 2019.

The Group has achieved a significant improvement in operating cash flow for the December half, reducing its net operating cash flow loss by 58.0% to ($416,456), which was underpinned by the 59.89% growth in receipts from customers.

During the period, Norwood signed a purchase order with Spark, and in January 2020, an additional agreement to provide World Voicemail services.

Norwood released version 3 of World Voicemail for iOS, which is targeting the $1 billion telco voicemail market through direct sales and telco partnerships. The new update will address telco operators' requirements for system scalability and reliability.

The Group has continued to broaden its strategic partnerships to help market and promote its products and further the go-to-market strategy.

Norwood Managing Director, Paul Ostergaard, said:

"I'm very pleased with our progress this half and the continued enhancement of our relationship with a major customer," Mr Ostergaard said.

"The Company is extremely focused on targeting material opportunities that will increase our near term revenue, while at the same time ensuring our gross cash burn is tightly controlled.

"We have seen tangible positive results in that regard for the half year to December, with our net operating cash position improving significantly compared to the prior corresponding period.

"Our ongoing relationship with Spark continues to go from strength to strength, as we secured another order during the final six months of 2019 and we have continued this momentum into the current half with a new, additional contract from Spark NZ post-half end to deploy and operate on Spark's behalf a Spark-branded, hosted Visual Voicemail service for Spark's business customers.

"I would like to thank the shareholders for their continued support in us and look forward to updating the market on our commercialisation objectives over the coming financial periods."

Authorised for release by Paul Ostergaard, Managing Director of the Company.

<ENDS>

Company

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About Norwood Systems

Norwood Systems Ltd (ASX: NOR) is revolutionizing mobile voice, messaging, data and cyber security services through its pioneering award-winning virtual mobile services platform, Corona® and associated Apps.

The Company's breakthrough offerings deliver Over the Top (OTT) connectivity, knowledge and intelligence services. Norwood's products and services are targeted at a broad spectrum of prospective customers from individuals through to large enterprises and government agencies.

Norwood has delivered services to more than 6 million customers since launching its platform in mid-2014, servicing people in 200+ countries & territories and 5000+ cities worldwide and has achieved a 4+ App Store rating on all published Apps.

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

Appendix 4D

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

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Appendix 4D

SUMMARY OF RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2019

The following is a summary of the financial results for the six month period ended 31 December 2019 (previous corresponding period 31 December 2018). Unless otherwise stated all figures are provided in AUD.

Comparison to previous period	Increase/ (Decrease)	Six months ended 31 Dec 2019 $	Six months ended 31 Dec 2018 $
Revenue from continuing operations	6%	286,398	270,271
Loss from ordinary activities after tax attributable to members	(28%)	(918,851)	(1,280,695)
Net loss for the half year attributable to members	(28%)	(918,851)	(1,280,695)

Brief explanation of above figures

The net loss attributable to the members of the Group for the half year ended 31 December 2019 amounted to $918,851 representing an improvement of 28% compared to prior period. This is attributed to the improvement of revenue, with an increase of 6% and continued prudent cost management. Please refer to the Review of Operations on page 4 of the attached Half Yearly Report for the period ended 31 December 2019 for further detail.

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 2019 after providing for income tax was $918,851 (31 December 2018: $1,280,695).

Earnings Per Share (EPS)

	31 Dec 2019	31 Dec 2018
Basic loss per share (cents per share)	(0.43)	(0.96)
Weighted average number of ordinary shares used in the calculation of basic earnings per share (after shares consolidation)	211,997,230	133,873,117

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 2019	31 Dec 2018
Net tangible asset backing per share (cents per share)	(0.21)	(0.12)

Emphasis of Matter

Please refer to page 24 of the Half Yearly Report for the period ended 31 December 2019 for more information regarding an emphasis of matter on material uncertainty regarding going concern.

Mr Paul Ostergaard
Managing Director
28 February 2020

Half Yearly Report

For the half year ended 31 December 2019

ABN: 15 062 959 540

This half yearly 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 2019 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.

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Contents

Corporate Information

Directors:

Mr Paul Ostergaard
Managing Director

Mr Mike Edwards
Non-Executive Director

Mr Giles Everist
Non-Executive Director

Company Secretary:

Mr Steven Wood

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Perth, WA 6000

ASX Code:

NOR

Directors’ Report

For the six months ended 31 December 2019

The Directors of Norwood Systems Limited present the following report for the Half Year ended 31 December 2019.

Principal Activities

The principal activities during the period include:

- In July Norwood received a purchase order from Spark NZ, and secured a new, additional contract from Spark post-half end to deploy and operate on Spark’s behalf a Spark-branded, hosted Visual Voicemail service for Spark’s business customers
- Release 3 of World Voicemail for iOS issued in parallel to voicemail server platform upgrades to address telco operators’ requirements for system scalability and reliability
- Raised $400,000 in capital by successfully completing two $200,000 share placements
- Completed a 10 for 1 consolidation of securities on issue

Review of Operations

Sales and Commercialisation Activities

Spark NZ contract update

In July, 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. Norwood was pleased to announce post half end the signing of a further Agreement with Spark for the provision of additional Norwood World Voicemail services to Spark. Under the Agreement, Norwood will provide Spark with a Spark-branded version of Norwood’s existing hosted World Voicemail service and application, for use exclusively in New Zealand. Spark will promote its branded version – Spark Voicemail – to its business subscribers. The pre-existing agreement with Spark (refer ASX Announcement 1 February 2019) remains unchanged. This new Agreement, which came into effect immediately and is anticipated to continue until 30 June 2020, is required in order to encourage the adoption of advanced voicemail services to Spark users as an alternative to Spark’s internally hosted voicemail services, which Norwood is also contracted to deliver.

Telco Voicemail partnerships

Norwood confirms that it is currently developing go-to-market distribution partnerships for World Voicemail with several prospective telco vendors. Norwood previously advised that it anticipated the formalisation of such a partnership in the September 2019 quarter, and whilst an agreement has not yet been achieved Norwood advises that such discussions are continuing afoot and progressing well, an agreement is currently expected (based on discussions-in-progress) in the near future.

Product Development Activities

World Voicemail

During the period the Company announced Release 3 of its telco-scale World Voicemail platform. Key new World Voicemail end-user features include: Improved voicemail message transcription quality; new iOS 13 dark-mode appearance; automatic voicemail forwarding to email – "voicemail delegation"; ability to read or listen to voicemails directly from the iPhone lock-screen; and support for 16 new languages to support global distribution. Norwood is one of very few network telco vendors that focuses both on core network technologies as well as the critically important end-user customer experience (CX), mediated through Norwood's award-winning App development competencies. Norwood's end-to-end voicemail platform capabilities extend to "scoring" voicemail messages for potential spam or robocalling attributes using Norwood's machine learning software and passing such scores anonymously back to an operator in real-time without disclosing message contents. The upgraded platform capabilities mean that Norwood's telco-scale World Voicemail platform now has the full support of key features demanded by telco customers – including geographic redundancy, high-availability configurations and scalability beyond 100 million subscribers per telco.

Corporate

Capital Raising

During the period, Norwood successfully completed two Placements, raising a total of $400,000 before costs. The Board continues to manage the capital requirements of the Group to ensure the capital needs of the Group in the coming half will be met. Net proceeds from the Placements are geared towards pursuing material licensing deals and revenue generating contacts related to World Voicemail. The Company is seeing robust commercial interest in World Voicemail, and discussion remains on foot with a number of telcos and telco partners worldwide.

R&D Tax Rebate & Funding Arrangement

Norwood received a tax offset receipt of $712,997 as an R&D rebate from the ATO in relation to FY19 R&D activities. The funds were applied to the retirement of the R&D tax offset funding agreement noted in the Quarterly Activity report for the period ended 31 December 2019 (see ASX announcement 31 January 2020) with approximately $94,998 in remaining surplus from the rebate being applied to working capital purposes.

The R&D receipts have allowed the Group to sustain R&D momentum, which so far has included the delivery of a new visual voicemail service, World Voicemail, new sentiment analysis capabilities for World Phone and Corona, and regular product updates for World Phone, World Message and World Wi-Fi.

The Group has utilised the R&D tax offset funding arrangement in the period ended 31 December 2019 in relation to FY20 R&D activities. Based on September 2019 quarter R&D activities, the Group receiving funding of $138,830 in November 2019. Subsequent to period end, the Group received an additional $137,486 (before costs) based on December 2019 R&D activities.

Cost Reduction Initiative

During the period, Norwood conducted a thorough review of its cloud-based server infrastructure to identify further operational efficiencies and cost savings. This has led to a number of important adaptations, implementations currently underway, to how Norwood consumes third party cloud services. The Company is confident that these operational changes will deliver significant additional savings to its cloud infrastructure costs over the current and future periods.

Events Subsequent to Reporting Period

Subsequent to period end Norwood has worked on securing additional financing and working capital for the business.

Capital Raising

Norwood successfully completed a Placement in February 2020, issuing 5 million fully paid ordinary shares at $0.04 per share to existing shareholders and sophisticated investors and raised $200,000 before costs.

Research and Development Funding Facility

At 31 December 2019, the Group had utilised a loan facility which enables the Group to receive advance funding on its expected FY20 research and development (R&D) rebate. The first advance received in the period related to R&D activities in the September 2019 quarter. Subsequent to period end, Norwood has received a second advance totalling $137,486 in relation to its December 2019 R&D activities.

No other 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.

Results

The Group has made a positive gross underlying margin on product and services sales for the half year ended 31 December 2019. This gives the Group 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 announcement of the Spark NZ contract and upfront revenue received, the Group expects revenue to grow in the following reporting period.

The net loss attributable to members of the Group for the half year ended 31 December 2019 amounted to $918,851 representing the ongoing investment in developing the Group's suite of product offerings. This is in contrast to a net loss over the same period in 2018 that amounted to $1,280,695.

Included in the net loss incurred at 31 December 2019 was:

- Non-cash, share based payment expense of $139,172 in contrast to $178,768 at 31 December 2018. The expense relates to equity instruments issued to employees, directors and advisors of the Group as described in Note 10;
- Sales and marketing expenses of $76,605 in contrast to $277,593 at 31 December 2018. These expenses relate to overall Group promotion as well as marketing of the Group's products and customer acquisition costs; and
- Reduction of employee and director benefits expenses from $934,846 in the 6 months to 31 December 2018 to $914,844 in the current period reflecting the Group's focus on prudent cost management.

At 31 December 2019 Norwood holds $180,982 in cash, and the Directors remain confident in Norwood's ability to fund further growth.

Dividends

There were no dividends paid or declared during the period.

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 period 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.

Signed in accordance with a resolution of the Directors.
Mr Paul Ostergaard

Paul Ostergaard

Managing Director
28 February 2020

Financial Report

For the half year ended 31 December 2019

ABN: 15 062 959 540

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	Note	31 Dec 2019 $	31 Dec 2018 $
Revenue	5	286,398	270,271
Interest and other revenue	5	1,415	2,247
Government grant income	5	712,997	878,986
Sales and marketing expenses		(76,305)	(277,593)
Patent, research and development expenses		(124,193)	(37,993)
IT Infrastructure Cost		(158,208)	(368,199)
Employee and director benefits expense		(914,844)	(934,846)
Listing expense		(67,065)	(94,970)
Share based payment expense	10	(57,172)	(178,768)
Consultancy and subcontractor fees		(83,707)	(129,159)
Rent		(4,948)	(48,775)
Finance Cost		(37,748)	(25,564)
Accountancy, audit and legal expenses		(140,344)	(174,566)
Other expenses		(64,645)	(54,981)
Travel and entertainment		(67,154)	(45,969)
Administration expenses		(78,447)	(49,529)
Depreciation and amortisation		(44,881)	(11,287)
Loss before income tax		**(918,851)**	**(1,280,695)**
Income tax benefit		-	-
		-	-
Loss after tax for the period attributable to the members of Norwood Systems Ltd		**(918,851)**	**(1,280,695)**
Other comprehensive income		-	-
Total comprehensive loss for the period attributable to the members of Norwood Systems Ltd		**(918,851)**	**(1,280,695)**
Basic and diluted loss per share (cents per share)	6	(0.43)	(0.96)

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 2019

	Note	31 Dec 2019 $	30 June 2019 $
ASSETS			
Current Assets			
Cash and cash equivalents		180,982	407,082
Trade and other receivables		214,679	420,719
Contract assets		10,787	53,773
Total Current Assets		**406,448**	**881,574**
Non-Current Assets			
Plant and equipment		131,063	129,925
Right to use assets	7	143,649	-
Total Non-Current Assets		**274,712**	**129,925**
TOTAL ASSETS		**681,160**	**1,011,499**
LIABILITIES			
Current Liabilities			
Trade and other payables		452,307	323,888
Lease liabilities	7	39,090	-
Provisions		208,463	199,591
Loan payable	8	138,830	452,899
Contract liabilities		135,556	30,586
Total Current Liabilities		**974,246**	**1,006,964**
Non-Current Liabilities			
Provisions		53,384	44,955
Lease liabilities	7	107,739	-
Total Non-Current Liabilities		**161,123**	**44,955**
TOTAL LIABILITIES		**1,135,369**	**1,051,919**
NET LIABILITIES		**(454,209)**	**(40,420)**
EQUITY			
Issued capital	9	29,980,477	29,532,587
Reserves	10	8,992,872	8,935,700
Accumulated losses		(39,427,558)	(38,508,707)
TOTAL NET ASSET DEFICIENCY		**(454,209)**	**(40,420)**

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 2019

	Issued Capital $	Option Reserve $	Accumulated Losses $	Total $
Balance at 1 July 2019	**29,532,587**	**8,935,700**	**(38,508,707)**	**(40,420)**
Loss for the period	-	-	(918,851)	(918,851)
Total other comprehensive income	-	-	-	-
Total comprehensive loss for the period	**-**	**-**	**(918,851)**	**(918,851)**
Transaction with owners, directly recorded in equity				
Shares issued, net of transaction costs	383,890	-	-	383,890
Share based payment	64,000	57,172	-	121,172
Total transactions with owners	**447,890**	**57,172**	**-**	**505,062**
Balance at 31 December 2019	**29,980,477**	**8,992,872**	**(39,427,558)**	**(454,209)**

	Issued Capital $	Option Reserve $	Accumulated Losses $	Total $
Balance at 1 July 2018	**27,193,337**	**8,693,074**	**(35,476,343)**	**410,068**
Loss for the period	-	-	(1,280,695)	(1,280,695)
Total other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(1,280,695)	(1,280,695)
Transaction with owners, directly recorded in equity				
Shares issued, net of transaction costs	528,489	-	-	528,489
Share based payment	-	178,768	-	178,768
Total transactions with owners	**528,489**	**178,768**	**-**	**707,007**
Balance at 31 December 2018	**27,721,826**	**8,871,842**	**(36,757,038)**	**(163,370)**

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 2019

	Note	31 Dec 2019 $	31 Dec 2018 $
Cash flows from operating activities			
Receipts from customers		441,281	275,977
Government grants received		712,997	878,986
Interest received		526	796
Payments to suppliers and employees		(1,541,432)	(2,118,447)
Finance costs		(29,828)	(30,197)
Net cash flows used in operating activities		**(416,456)**	**(992,885)**
Cash flows from investing activities			
Purchase of plant & equipment		(11,680)	(3,482)
Net cash flows used in investing activities		**(11,680)**	**(3,482)**
Cash flows from financing activities			
Proceeds from issue of shares		600,000	545,201
Capital raising costs		(16,109)	-
Repayment of borrowings		(617,998)	(357,094)
Proceed from borrowings		274,100	147,230
Payments for the principal portion of lease liabilities		(37,956)	-
Net cash flows from financing activities		**202,037**	**335,339**
Net decrease in cash and cash equivalents		(226,100)	(661,028)
Cash and cash equivalents at the beginning of the period		407,082	1,079,855
Cash and cash equivalents at the end of the period		**180,982**	**418,827**

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 2019

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 2019 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 Group during the period 1 July 2019 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 2019 the Group recorded a loss of $918,851, had net cash outflows from operating activities of $416,456 and is in a net liability position of $454,209 at period end. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The ability of the entity to continue as a going concern is dependent on securing additional funding through capital raising activities and the securing of material revenue generating contracts to continue its operational and marketing activities.

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 Directors have assessed the cash flow requirements for the 12 month period from the date of approval of the financial statements and its impact on the Group and believe there will be sufficient funds to meet the Group's working capital requirements;
- The working capital deficiency contains amounts not currently owing but will be due and settled within the next 12 months. The Directors are satisfied additional funds will be available when these obligations are due;
- Creditors totalling $92,640 have provided confirmation they will extend payment terms until such time as the Group has the ability to settle invoices;
- The Group is in ongoing discussions with remaining creditors which will be settled upon funding through a debt or equity event. At the date of this report, the Group has not received any demands for payment from creditors;
- The completion of a Placement to professional and sophisticated investors in February 2020 to raise $200,000, and the Company has ASX listing rule placement capacity to utilise if required;
- Signing further agreement with Spark NZ as announced on 30 January 2020, with revenue expected to commence in the current quarter;
- Active cost management has continued;
- Securing and drawing down on part of an R&D tax offset funding agreement to the amount of $137,486 before costs subsequent to period end;
- Ability to draw down further R&D tax offset funding at the end of current quarter; and
- Cash on hand of $180,982 as at 31 December 2019.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

NOTE 1: BASIS OF PREPARATION (CON'T)

The Group continues to negotiate with a number of potential customers for its products. Should any of these negotiations be successful, based on its current modelling, the Group understands that due to the technology having already been developed, there will be minimal further capital required and the margins on any likely engagements will deliver surplus cash flows to the Group.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

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.

NOTE 2: BASIS OF ACCOUNTING

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.

NOTE 3: ADOPTION OF ACCOUNTING POLICIES

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 2019, with the exception of those disclosed in note 4 below.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

NOTE 4: ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

These consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2019, except for the impact of the new and amended standards and interpretations issued by the AASB. The adoption of the new and amended standards and interpretations, other than AASB 16, did not result in any significant changes to the Group's accounting policies.

AASB 16 Leases

The Group has adopted AASB 16 using the modified retrospective approach from 1 July 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provision in the standard.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which has previously been classified as "operating leases" under the principles of AASB 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate of 7.92% as of 1 July 2019. The reclassification and the adjustments from the new leasing standard were material to the Group with an adjustment recognised to the financial statements.

AASB 16 'Leases' had a significant impact on the current period. The current profit before income tax expense was reduced by $41,136. This included an increased depreciation and amortisation expense of $34,338 and increased finance costs of $6,798. As at 31 December 2019, net current assets were reduced by $39,090 (attributable to current lease liabilities) and net assets were reduced by $3,180 (attributable to right-of-use assets and lease liabilities).

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under -residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

AASB 16 Leases (Cont)

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Practical expedients applied

In applying AASB16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Reliance on previous assessment on whether leases are onerous;
- The accounting for operating leases with a remaining term of less than 12 months as at 1 July 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the leases term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB117 and IFRIC4 Determining whether an Arrangement contains a Lease.

NOTE 5: REVENUE AND OTHER INCOME

	31 Dec 19 $	31 Dec 2018 $
Revenue and other income		
Sales revenue		
World Phone revenue	88,668	63,490
World Voicemail revenue	139,092	127,962
Corona revenue	54,013	59,694
Other revenue	4,625	19,125
Total sales revenue	**286,398**	**270,271**
Other revenue		
Interest revenue	526	808
Total other revenue	**526**	**808**
Total revenue	**286,924**	**271,079**
Other income		
Miscellaneous income	889	1,439
Government grant income	712,997	878,986
Total other income	**713,886**	**880,425**

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

NOTE 6: 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 basic and diluted earnings per share computations:

	31 Dec 2019 $	31 Dec 2018 $
Loss used in the calculation of basic and diluted loss per share	918,851	1,280,695
Basic loss per share attributable to equity holders	(0.43)	(0.96)

	Number	Number
Weighted average number of ordinary shares outstanding during the half year used in calculation of basic and diluted loss per share (after shares consolidation)	211,997,230	133,873,117

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

NOTE 7: LEASE ASSETS AND LEASE LIABILITIES

The group have recognised the below balances in the current period in relation to AASB 16.

	31 Dec 2019 $
Right of Use Assets	
Right of use asset - Buildings	146,829
	146,829
Lease Liabilities	
Current	39,090
Non-current	107,739
	146,829

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

NOTE 8: LOAN PAYABLE

	31 December 2019 $	30 June 2019 $
Current:		
R&D Loan Facility Payable	134,667	429,713
Unexpired Interest	4,163	23,186
Total Loan Payable	**138,830**	**452,899**

During the period, the Company received advance funding on its expected FY2019 R&D rebate from Radium Capital. Refer to below for key terms of this funding.

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: 31 October 2020
  - 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 expenditure

NOTE 9: ISSUED CAPITAL

	31 Dec 2019 $	30 June 2019 $
223,270,063 (30 June 2019: 207,651,028) fully paid ordinary Shares (after shares consolidation)	29,980,477	29,532,587
Total	**29,980,477**	**29,532,587**

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

NOTE 9: ISSUED CAPITAL (Cont)

	No.	$
Opening balance – 1 July 2018	**1,327,430,485**	**27,193,337**
Dec 2018 – Issue of shares as consideration for professional services received	3,350,000	16,000
Dec 2018 – Conversion of ZEPOs	2,500,000	-
Dec 2018 – Shares issued under rights issue	109,040,259	545,201
March 2019 – Issue of shares as consideration for professional services received	2,200,000	9,000
March 2019 – Shares issued under placement	66,666,667	200,000
April 2019 - Shares issued under placement	87,526,019	262,578
May 2019 – Shares issued for conversion of a convertible note1	100,000,000	300,000
May 2019 - Shares issued under rights issue	121,553,782	364,662
May 2019 – Shares issued under rights issue	256,243,071	768,729
June 2019 – Shares to be issued as consideration for professional services received (a)	-	18,000
Closing balance – 30 June 2019	**2,076,510,283**	**29,532,587**

	No.	$
Opening balance – 1 July 2019		**1,327,430,485**
Sept 2019 - Shares to be issued as consideration for professional services received (a)	20,350,000	55,000
Oct 2019 – Shares issued under Placement	66,666,666	200,000
Dec 2019 - Shares issued under Placement and shares issued to advisors (b)	69,166,666	209,000
Dec 2019 – Shares consolidation (1:10) (c)	(2,009,423,552)	-
Closing balance – 31 December 2019	**223,270,063**	**29,980,477**

The following shares in Norwood Systems Limited were granted during the half- year ended 31 December 2019:

(a) 10,350,000 shares (pre-consolidation) in the Company were issued in satisfaction of outstanding invoices in relation to advisory services with a total value of $33,000. In addition 10,000,000 shares (pre-consolidation) in the Company were issued to the underwriter as capital raising cost with a total value of $40,000.

(b) 2,500,000 (pre-consolidation) shares in the Company were issued in satisfaction of outstanding invoices in relation to advisory services with a total value of $9,000.

(c) Norwood received shareholder approval at the Company's Annual General Meeting to consolidate its issued capital through the conversion of every 10 existing securities into 1 security. The consolidation of capital was applied to all listed and unlisted options at the time of the consolidation.

The Company has unlimited authorised capital. There are no restrictions on distributions of dividends or repayment of capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

NOTE 10: SHARE BASED PAYMENT RESERVE

	No.	$
Opening balance – 1 July 2019	**154,313,806**	**8,693,074**
Dec 2018 – Issue of free attaching Listed Options	109,040,259	-
Dec 2018 – Director options	8,000,000	21,699
Dec 2018 – Conversion of ZEPOs	(2,500,000)	-
Dec 2018 – Option expiry & cancellation	(111,413,806)	(33,751)
March 2019 – Listed Options to be issued to underwriter (i)	-	14,388
May 2019 - Issue of free attaching Listed Options	221,553,782	-
May 2019 - Issue of free attaching Listed Options	256,243,071	-
May 2019 – Listed Option to be issued to underwriter	-	12,912
June 2019 - Option expiry & cancellation	(8,750,000)	-
Share based payments – further vesting value of options	-	247,214
Closing balance – 30 June 2019	**626,487,112**	**8,935,700**
Share based payments – further vesting value of options	-	32,206
Sept 2019 – NOROA listed options (i), (ii), & (iii)	121,666,667	10,467
Sept 2019 – ZEPO options issued to KMP and consultant (iv)	12,000,000	14,499
Dec 2019 - Shares consolidation (1:10) (v)	(684,138,401)	-
Closing balance – 31 December 2019	**76,015,378**	**8,992,872**

(i) An additional 15,000,000 NOROA listed options (pre-consolidation) were issued to the underwriter with the same terms and conditions of the free attaching options (exercise price of $0.008 and expiry 31 October 2020), subject to shareholders approval (shareholder approval received subsequent to period end).

(ii) Included in total NOROA listed options issued was 66,666,667 NOROA listed options (pre-consolidation) issued to APSEC as free attaching options, an additional 15,000,000 NOROA listed options (pre-consolidation) issued to the underwriter (refer to point (ii), 20 million NOROA listed options (pre-consolidation) issued to the underwriter (refer to point (iii), 15,000,000 NOROA listed options (pre-consolidation) issued to KMPs and consultant, and 5,000,000 NOROA listed options (pre-consolidation) issued to an advisor. NOROA Listed Options have an exercise price of $0.008 and expire 31 October 2020.

(iii) Issue of unlisted ZEPO options to the KMPs and consultant. The ZEPO options have a nil exercise price and expire 20 September 2021 with 12 month vesting condition.

(iv) Norwood received shareholder approval at the Company's Annual General Meeting to consolidate its issued capital through the conversion of every 10 existing securities into 1 security. The consolidation of capital is also apply to all listed and unlisted options at the time of the consolidation.

Nature and Purpose of Reserve

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

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

NOTE 11: SHARE BASED PAYMENTS

Share based payments during the half year ended 31 December 2019 are summarised below.

(a) Recognised Share Based Payment Expense

	31 Dec 2019 $	31 Dec 2018 $
Expense arising from equity settled share based payment transactions through issue of share capital and options	57,172	178,768
Consulting expenses settled through issue of share capital and options	82,000	-
	139,172	**178,768**

(b) Shares Granted During the Half Year

The Group granted the following fully paid ordinary shares as share based payments during the half year to 31 December 2019:

(a) 10,350,000 shares (pre-consolidation) in the Company were issued in satisfaction of outstanding invoices in relation to advisory services with a total value of $33,000. In addition 10,000,000 shares (pre-consolidation) in the Company were issued to the underwriter as capital raising cost with a total value of $40,000.

(b) 2,500,000 shares (pre-consolidation) in the Company were issued in satisfaction of outstanding invoices in relation to advisory services with a total value of $9,000

(c) Options Granted During the Half Year

Options granted during the half year to 31 December 2019 as share based payments are as follows:

Number of Options	Class of Options	Grant Date	Exercise Price	Expiry Date	Vesting Date	Disposal Restriction
1,500,000*	NOROA[1]	27 Aug 2019	$0.08	13 months from date of issue	Immediately	None
1,200,000*	ZEPO[2]	27 Aug 2019	Nil	2 years from date of issue	As months from date of issue	None

***** *Number of options mentioned in the table above is post consolidation (1:10)*

1. In respect of the 1,500,000 NOROA listed options (pre-consolidation), 500,000 options (pre-consolidation) were issued to Mike Edwards (non-executive director), 500,000 options (pre-consolidation) were issued Giles Everist (non-executive director), and 500,000 (pre-consolidation) were issued to Steven Wood (company secretary).
2. In respect of the 1,200,000 ZEPO unlisted options (pre-consolidation), 400,000 options (pre-consolidation) were issued to Mike Edwards (non-executive director), 400,000 options (pre-consolidation) were issued to Giles Everist (non-executive director), and 400,000 options (pre-consolidation) were issued to Steven Wood (company secretary).

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

NOTE 11: SHARE BASED PAYMENTS (Cont)

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

Type of Options	Dividend yield	Expected volatility	Risk-free interest rate	Expected life of options (years)	Option exercise price	Share price at grant date	Fair value
NOROA	-	100%	1.95%	13 months	$0.08	$0.0035	$10,467
ZEPO	-	100%	1.95%	2 years	Nil	$0.0035	$42,000

NOTE 12: 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 Group operates in one segment, voice telecommunication services.

NOTE 13: EVENTS OCCURRING AFTER THE REPORTING PERIOD

Subsequent to period end Norwood has worked on securing additional financing and working capital for the business.

Capital Raising

Norwood successfully completed a Placement in February 2020, issuing 5 million fully paid ordinary shares at $0.04 per share to existing shareholders and sophisticated investors and raised $200,000 before costs. The shares had a one for one free attaching NOROA Listed Option that was also issued.

Research and Development Funding Facility

At 31 December 2019, the Group had utilised a loan facility which enables the Group to receive advance funding on its expected FY20 research and development (R&D) rebate. The first advance received in the period related to R&D activities in the September 2019 quarter. Subsequent to period end, Norwood has received a second advance totalling $137,486 in relation to its December 2019 R&D activities.

No other 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.

NOTE 14: CONTINGENT LIABILITIES

The Directors are not aware of any other contingent liabilities that may arise from the Group's operations as at 31 December 2019.

Director's Declaration

The directors of the Group declare that:

1) the financial statements comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and accompanying notes, are in accordance with the *Corporations Act 2001* and:
   a) comply with Accounting Standard AASB 134 Interim Financial Reporting, the Corporations Regulations 2001, and other mandatory professional reporting requirements; and
   b) give a true and fair view of the Group's financial position as at 31 December 2019 and of its performance of the half year ended on that date.
2) 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

Mr Paul Ostergaard
Managing Director
28 February 2020

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Norwood Systems Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Norwood Systems Limited (the Company) and its subsidiary (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, 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 then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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 the Group is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial 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 conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group 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.

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 Group's financial position as at 31 December 2019 and its financial 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 the Group, 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 the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO

Dean Just

Director

Perth, 28 February 2020

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DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF NORWOOD SYSTEMS LIMITED

As lead auditor for the review of Norwood Systems Limited for the half-year ended 31 December 2019, 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 entity it controlled during the period.

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 28 February 2020

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